Crown Royalties Investment Club

Market Report: 07/27-07/31

	Friday Close	Weekly % Δ	YTD % Δ
S&P 500	3,271.12	+1.73%	+1.25%
Nasdaq	10,745.27	+3.69%	+19.76%
DJIA	26,428.32	-0.16%	-7.39%
Russell 2000	1,480.43	+0.88%	-11.27%
S&P 400	1,863.91	+0.76%	-9.65%

	Friday Close	Weekly % Δ	YTD % Δ
CRIC Portfolio	$127,961	+0.68%	+3.35%

Market Summary: The U.S. housing market is posting record month-to-month growth after falling sharply in the spring as a result of the coronavirus pandemic. Sales of existing homes jumped 21% in June, compared with the previous month, according to the National Association of Realtors. That's the largest monthly increase since tracking of the data began in 1968. The yield of the 10-year U.S. Treasury bond fell on Thursday to the lowest level in three months, dropping to 0.58%. The recent decline in yields is a key reason why mortgage rates have been setting record lows, providing support for the housing market. Gold prices set a record high for the first time in nine years. Gold futures climbed to $1,900 per ounce on Friday, eclipsing a record set in 2011.

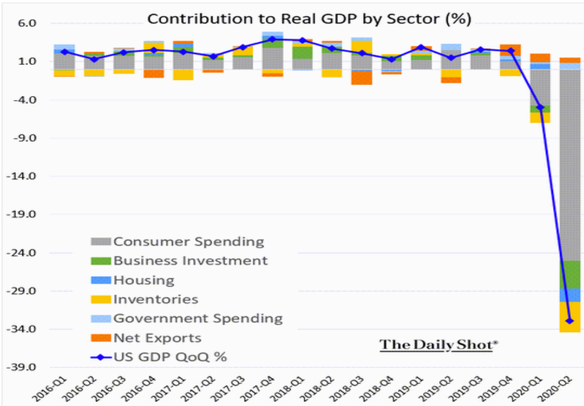
SARS-CoV-2 updates:

- According to the CDC, there is currently ~4,405,032 total cases in the U.S. with ~150,283 total deaths. **(Last updated July 30th)**
- The percentage of specimens testing positive for SARS-CoV-2 increased in six of ten HHS regions, but the percentages of visits for ILI and COVID-like-illnesses decreased or remained stable in nine of ten regions. (CDC)
- The overall cumulative COVID-19-associated hospitalization rate was 130.1 per 100,000; rates were highest in people 65 years of age and older (360.2 per 100,000) followed by people 50-64 years (196.3 per 100,000.) (CDC)

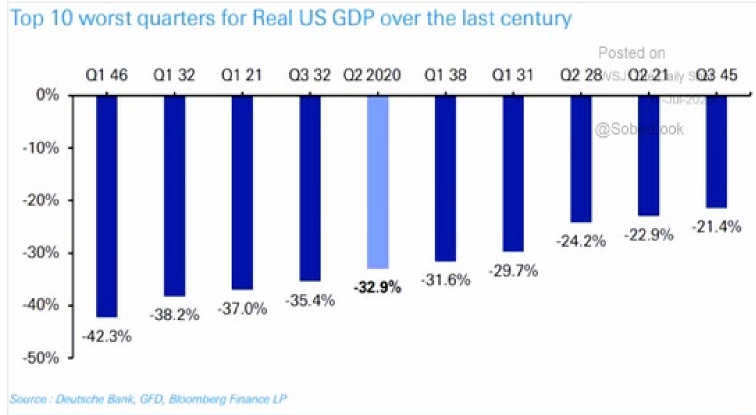
Notable headlines from this week:

- The FOMC met on July 28-29 citing a gloomy outlook for the U.S. Economy. The committee decided to maintain the FFR at 0-1/4 percent. FED
- Biden maintains a 9-point advantage in the national ballot, while Trump has tightened the lead in swing states Change Research
- Executives from Amazon, Alphabet, Apple, and Facebook testified virtually before the House Judiciary subcommittee on antitrust issues. Hill

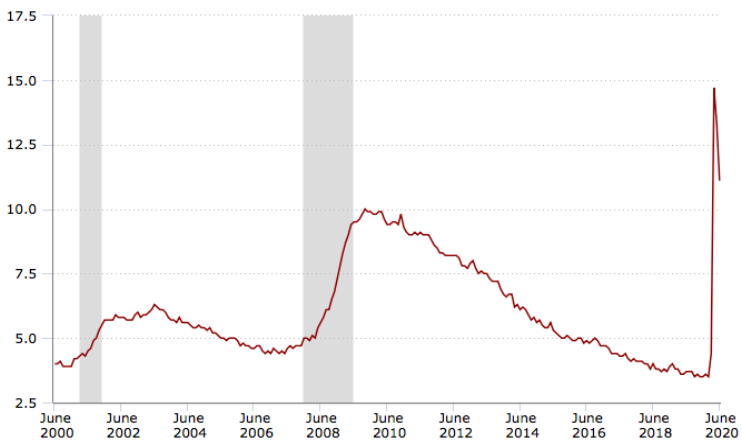
1. U.S. Real GDP decreased at an annual rate of 32.9% in Q2 2020. [BEA]



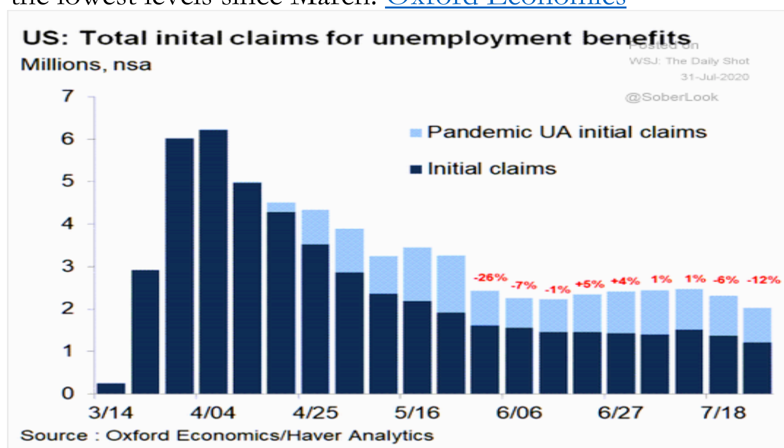
2. The U.S. Q2 Real GDP decline was one of the worst in the last decade. [Deutsche Bank Research]



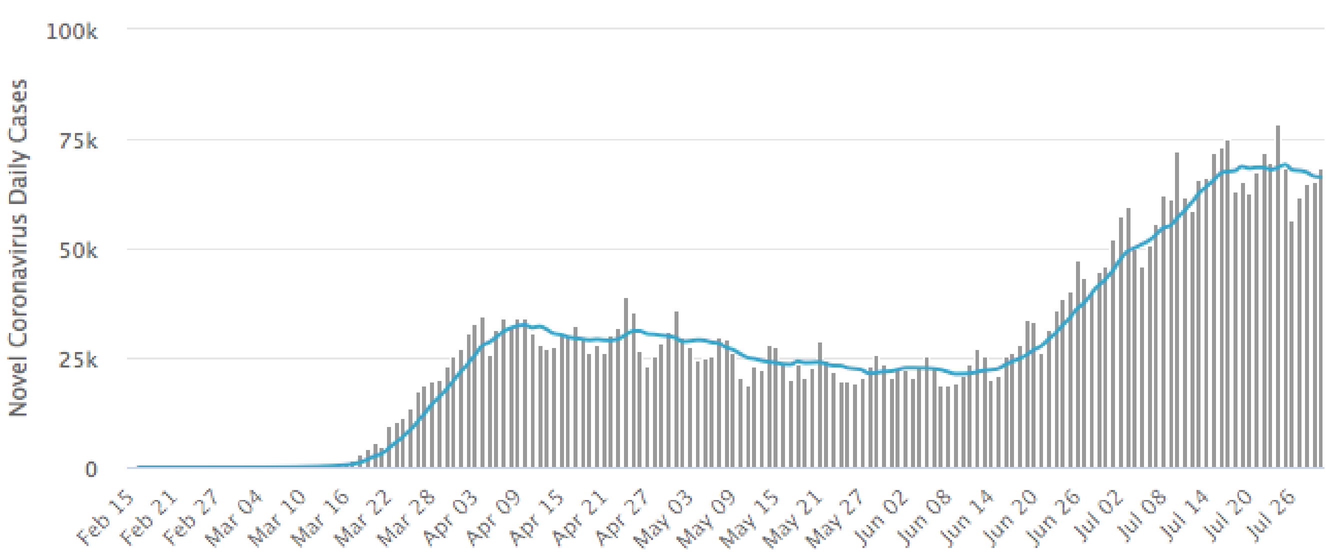
3. Current unemployment is 11.1% [BLS]



4. U.S. total initial jobless claims declined last week to the lowest levels since March. [Oxford Economics]



5. Daily U.S. COVID-19 cases. [CDC]



Opinion:

IBM Analysis: As part of our current strategy to invest in the trends of the post-COVID-19 economy, we purchased 20 shares of International Business Machines ("IBM"). COVID-19 has undoubtedly been one of the biggest disrupters to daily life with lasting effects on the economy. In a short period of time, the pandemic has transitioned millions of people to work from home which has been relatively smooth, a feat that would have been nearly impossible with infrastructure from 15 years ago. Video conferencing, remote project collaboration, online shopping, streaming services, and online learning have been made possible through cloud computing, and IBM is one of the players in this space.

The company underwent significant restructuring this decade, transitioning into consulting, cloud computing, artificial intelligence and quantum computing. In the second quarter, IBM partnered with SAP SE with the goal of providing data driven solutions to businesses particularly in important areas such as automated cognitive intelligence, customer and user experiences and industry-specific functionality. The partnership also aimed to help customers run SAP S/4HANA in hybrid cloud infrastructure through Red Hat's Open Shift platform. Furthermore, the South Korean credit card company, Lotte Card, whose customers include a wide network of retailers, including hypermarkets, department stores and cinemas, partnered with IBM to transition its entire enterprise system to a hybrid cloud environment. The card & payment industry is going through rapid innovation across the chain where customers are increasingly using payment options such as simple payment service. To move to this new environment, Lotte Card strategized to leverage IBM and Red Hat's hybrid cloud technology to provide digital solutions to their customers.

IBM has also furthered its strategy of discontinuing non-core lines of business with its recent decision to pull out of the facial recognition technology business, following the death of George Floyd and the national dialogue on police reform that it sparked. IBM cited concerns about selling technology that could be abused and used to discriminate against people and infringe on "basic human rights and freedoms". This move puts IBM's corporate strategy down a distinctly different path than that of Alphabet, which puts significant resources into its "other bets" and has continued developing facial recognition software. CRIC owns both Alphabet and IBM.

IBM reported adjusted earnings of $2.18 per share for the second quarter, beating analyst estimates of $2.06, according to FactSet Research. Revenue estimates of $17.4 billion were also surpassed, as the cloud and cognitive business' 30% increase in revenue to $6.3 billion helped IBM's total revenue reach $18.1 billion. IBM's cloud business saw a 19% year-on-year revenue growth to $5.4 billion in the first quarter of 2020. According to Synergy Research Group, IBM ranks fifth behind Amazon, Microsoft, Google, and Alibaba in the global cloud market. Amazon makes up 32% with Microsoft and Google making up 18% and 8% respectively. The cloud business contributes to almost 80% of its operating profit. According to Zacks equity research, 24.33% of analysts recommend "Strong Buys", 17.77% recommend a "Buy", 9.37% recommend a "hold" and 4.88% recommend a "sell." Zacks

Revisiting the Current Value Proposition of Insurers: 2020 has been a divisive year in the global insurance industry. Insurers involved in such lines as personal auto liability have enjoyed record profits, as drivers remain at home, while those bearing business interruption risk have angered many of their customers and fear irrelevancy.

The COVID pandemic has predominantly hit insurers balance sheets in two ways: COVID-related claims and a broad decrease in asset values. Canceled events, unpaid invoices and other pandemic-related claims have so far resulted in $7 billion in announced payouts. Investment assets, as credit ratings fall, have declined in value, which has also increased insurers' required capital reserves.

A third hit to insurers could come from claims associated with litigation. Already there have been at least 677 cases in the US brought against insurers regarding business interruption insurance alone. In the US these cases have favored insurers, but in France and Germany judges have sided with claimants. Some insurers could also be responsible for legal costs and payouts incurred by clients.

Total 2020 property & casualty ("P&C") losses are estimated to reach about $203 billion, compared with anticipated total written premiums of $1.6 trillion. Insurers' solvency ratios have fallen from an average of ~200% to ~150%-190%, and reinsurers' solvency ratios are still above 200%. As a whole since March, the industry raised over $100 billion in new debt and equity capital. Insurance industry participants' immediate financial stability looks sound.

The industry's longer-term outlook is murkier. Businesses which have lost court cases, lack coverage against intangible risks, and want protection from large-scale events like the COVID pandemic are questioning the current value proposition of insurers. Various public-private risk sharing systems have been proposed in an attempt to redistribute risk for future crises. Another result of this backlash against the insurance industry could be greater responsiveness to businesses' insurance needs and demand. Incumbent insurers or new players may further develop specialized policies for intangible risks such as supply chain snags or brand reputation. Those who do not adapt to the changing landscape will lose out to their more creative competitors. Economist

Value vs. Growth: As Investors, we are well-aware of the long-term debate over investing in growth stocks or value stocks. In layman's terms, the concept of a growth stock can be described as a security that is expected to grow in earnings or revenue faster than an average company within the same sector. Whereas a value stock tends to be classified as a security that is currently trading at a discount to its intrinsic value. Further, growth stocks are typically found in small and mid-cap indices while value stocks are usually larger, well-established companies.

In a historical context, value stocks tend to outperform its counterpart in the later stages of a recession into the early phases of an economic expansion. This phenomenon can be explained by the market placing a great emphasis on quality and underlying fundamentals, although this concept has not exactly followed historic patterns through this year's market correction. As COVID pushed markets into bear territory in February, growth stocks continued to outperform value stocks. The outperformance of growth stocks over the last decade can be partially explained by mega-cap tech stocks representing an increasing percentage of the broader market.

Fed Chairman, Jerome Powell, has given his stance on the interest rate environment moving forward, "**We're not even thinking about thinking about raising rates**." This does not bode well for value stocks. Financials are the largest part of value indices and tech stocks are the largest portion of growth indices. The low rate environment following the GFC and the Fed's aggressive rate reductions to combat COVID have caused financials, and value by extension, to struggle.

With this all said, we will be looking at several factors moving forward relating to growth vs value investments. If the low interest rate environment persists and the fundamentals of growth companies increase, then it would be logical to be overweight in growth stocks. On the other hand, if the pressure to regulate large tech companies persists and growth stocks continue to sell at premiums, it would make sense for us to be overweight in value stocks. Note that these scenarios are reactive, not predictive. We continue to position our portfolio in a predictive manner based on our expectations moving forward. COVID has accelerated many underlying trends in all sectors of economy, and we will be closely monitoring the performance of value vs. growth investment opportunities. JPM

What to look for heading into next week	Weekend Links
1.) Continue to monitor U.S.-China relations as purchases of U.S. goods remains well-below Phase 1 agreement 2.) Watch initial jobless claims which will be released Thursday, Aug. 6th at 8:30am ET 3.) Keep a close eye on national and battleground polls along with any news of Biden's VP candidate	1. JHU Covid-19 2. MSFT to acquire TikTok? 3. Twitter Hack 4. Gold on the Rise 5. Biden's VP? 6. China/U.S. Phase 1 7. Schools Reopening