

Memo to: MCJ Capital Partners

From: M. Carter Johnson

Re: 2020 Midpoint Recap

Date: 7/15/2020

Welcome to the second half of 2020. If it's anything like the first half... well, we will cross that bridge if it comes to it. In this month's memo I wanted to recap what all has happened in the first half of 2020 in addition to sharing a few performance and operational updates from MCJ Capital Partners.

2020 Midpoint Recap

If you recall, going into 2020 the biggest international story seemed to be the 48 million acres of wild fire burning across Australia. The US Unemployment rate sat at 3.6%, marking the lowest level since World War II and the markets were registering new highs going into the new year.

Let's take a look at what happened next:

- Late January, it became clear a virus known as COVID-19 would not be contained in China
- February 19, 2020, the S&P hit a record high
- February 24, 2020, the market began the most aggressive sell off in history
- February 25, 2020, CDC warns the American public to brace for a COVID-19 outbreak
- Late February, Central Banks across the globe began to aggressively cut interest rates and pledge monetary support to combat the economic fallout of COVID-19
- Early March, national governments across the globe began to rollout record fiscal stimulus efforts, surpassing previously levels set during the 2007/2008 housing crises
- March 8, 2020, Saudi Arabia initiated an oil price war with Russia
- March 12, 2020, Markets crash, suffering largest single day percentage loss since 1987
- Late March, States began lockdowns and shelter in place orders to combat the spread of COVID-19
- March 23, 2020, Markets hit low and begin reversal
- April 20, 2020, Price of oil goes negative for the first time in history
- Late April, US unemployment rate spikes to 14.7%, up from 4.4% just a month ago
- May 25, 2020, George Floyd was killed by police during arrest, fueling US and international protest
- Early June, COVID-19 cases in the US begin to reverse downward trend, further accelerating the spread of the virus

That's a lot that has happened in a span of six months.

What Happens Next

If there's anything you can take away from the timeline of events above it's that we never really know what's going to happen next. Going into 2020, Goldman Sachs stated the probability of a recession in the near term was close to 0%, and yet here we are. While the future remains unknown here are a few narratives that I anticipate could have an impact on the second half of 2020:

1. *Rising COVID-19 cases* - The efforts to bring a vaccine to market are beyond impressive, but it will still take time. As we wait, the US is setting daily records for new cases. High frequency leading economic indicators such as driving direction request from Apple maps are beginning to rollover. This may suggest consumers aren't as confident to venture out and spend as they were just a few weeks ago. In addition, Fall is around the

corner and with it in a typical year brings the start of school and spectator sports. In regards to if traditional activities resume as usual is unknown at this time. As the case count rises, so too does uncertainty.

2. *Turbulent Earnings Season* - We are heading into the most detrimental earnings season since 2008. The markets seem to be treating business performance of Q2 for 2020 as a total write off. Should underwhelming performance carry over to Q3 or Q4, one must wonder how many “mulligans” investors are willing to give.
3. *Expiration / Continuation of Fiscal Stimulus* - The additional disaster unemployment benefits for individuals will expire at the end of July. In addition, the eight weeks of cash flow injection via the Paycheck Protection Program is coming to an end for many companies. Student loan payments are coming back online, mortgage and utility forbearance is expiring. How consumers and businesses react will be interesting. How the government reacts to consumers and businesses will dictate if more stimulus is injected into the economy.
4. *Unresolved Trade Deal with China* - Phase II of the US China trade deal sits unresolved and the relationship between the two countries doesn't seem to be getting any better. Beijing's recent actions in Honk Kong haven't helped, and more western countries seem to be demanding accountability ramifications for China's handling of COVID-19. Should tensions further rise in the South China Sea, economic retaliation from both sides would likely be expected. This will certainly be a story to watch.
5. *2020 US Presidential Election* - In regards to if the market has already priced in the tax implications of a potential Biden win, I'm unsure. Should the results of the election be contested, and an unknown outcome lingers (surpassing Bush / Gore 2000), it could send heightened volatility throughout the markets.

In addition to the five items above, you of course have to juggle the unknown unknowns, and the completely unpredictable such as natural disasters. What's an investor to do? Our suggestion (and focus), keep looking for good businesses at fair prices.

Performance & Operations Recap

Through the first half of 2020, MCJ Capital Partners finished +11.12% compared to -3.76% for the S&P 500, -6.64% for the MSCI, and -9.31% for the DJI. Our performance can primarily be contributed to luck of timing. Our prudence and unwillingness to overreach for opportunities had us positioned defensively heading into the COVID-19 selloff. When rumblings of the spread of the virus started growing louder, we quickly became more defensive and leveraged our research of historic market sell offs and market pandemic reactions. Ultimately this led us in late February carrying out a “wait and see” approach.

	MCJ Capital Partners	S&P	MSCI World	Dow
1st Half 2020	+11.12%	-3.76%	-6.64%	-9.31%

On the operational front, leading into the summer we had a record 112 applicants apply for our analyst internship position. I ended up taking on two phenomenal individuals who I have thoroughly enjoyed working with, Morgan Yang and Christos Alexandrou.

Morgan attends Carnegie Mellon and is an active member of their Division I golf team. Originally from just outside of Sydney Australia, Morgan has been great at creating operating procedures for foreign due diligence filings as well as contributing value add analysis to a handful of our target international companies.

Christos attends the University of Warwick and just completed an internship with Lazard's Investment Banking division. Over the summer with MCJ Capital Partners, his efforts have been focused on further systemizing our qualitative analysis process while also contributing to hands on analysis for a handful of our targets.

One of the things I enjoy most is working on interesting and challenging things with great people. Morgan and Christos have made this summer an absolute blast.

It's worth stating, up to this point in the year, these memos have consisted largely of macro commentary. Going forward, my hopes are to share more direct analysis and transparency around our individual investments along with insight into our overall process... So stay tuned!

Request

I'll end this memo with a request. We continue to find good opportunities abroad. I am looking for a contact at a depository bank or custodial institution who handles Global Depository Receipts (GDRs) and / or American Depository Receipts (ADRs). If you know of anyone in the field who might be a part of this world, I would be extremely grateful for an introduction.

Until next month,



M. Carter Johnson

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