Market Commentary

As of March 31, 2020

Economy & Market Review

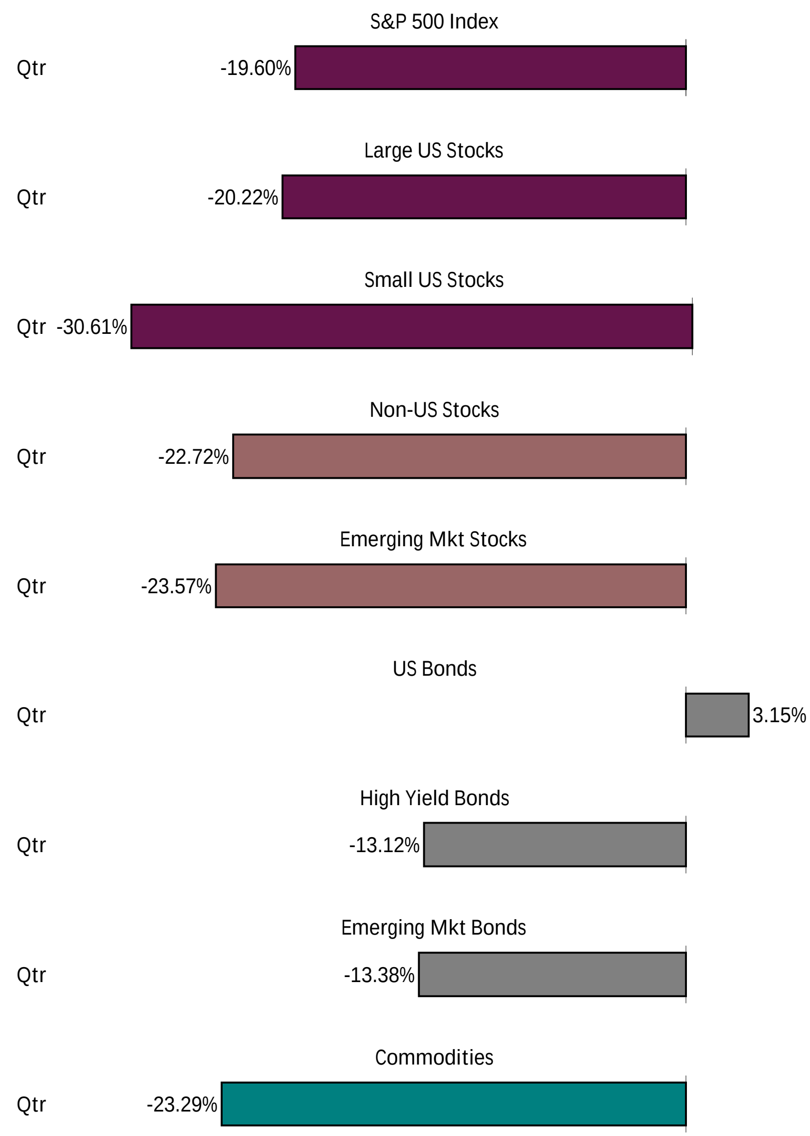
First Quarter 2020

What a Year! Oh wait, that was only the first quarter and what a quarter of change it was. Change can occur naturally or be self-induced. Many times it happens in small increments and therefore is not terribly noticeable. When change launches in a large instantaneous wave, it instills fear in many, but provides opportunity for others. What the world has experienced over the last few months is unprecedented in our lifetimes. We have changed our lifestyles, our interactions, our daily processes, and quite possibly our economic future. Unlike the “Great Financial Crisis”, the US and global economy has nearly shutdown. The big question economically is how and when to begin to restart business activity without inducing the same negative health impact we were trying to avoid originally. The health crisis and the closure of most business activity has obviously had negative impacts on the financial markets with every major asset class except the US Aggregate Bond index declining precipitously during the quarter.

With lives at stake, it's difficult to consider the economy, but the global shutdown has and will have a tremendous impact on even those not directly impacted from Covid-19. The job damage was sharp and rapid. Recently, 22 million people have filed for unemployment benefits. The worst two weeks so far have been 6.8 and 6.6 million unemployment applications. In comparison, the worst week during the '08-09 financial crisis was 665,000. As unemployment soars, respective monetary and fiscal policy bazookas have been leveled at the health and economic challenges. The Federal Reserve (Fed) not only cut rates to zero and initiated asset purchases (another round of quantitative easing) but it also helped with financial plumbing problems and provided liquidity to a broad spectrum of enterprises. Fiscally, Congress produced the CARES Act which provides a myriad of benefits helping both companies and individual workers.

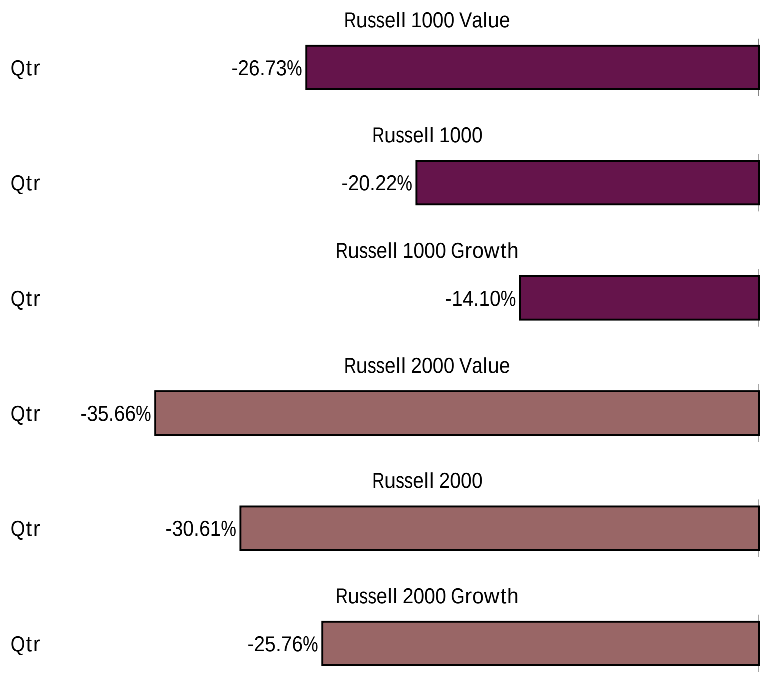
Over the coming months, an evolution in both economic revival and our economic future will take place. Many would like to reevaluate our supply chain. A move away from China as a major supplier from personal protective equipment to prescription drugs may change our manufacturing situation. These changes will present opportunities and also induce volatility.

Global Market Performance



U.S. Equity Markets

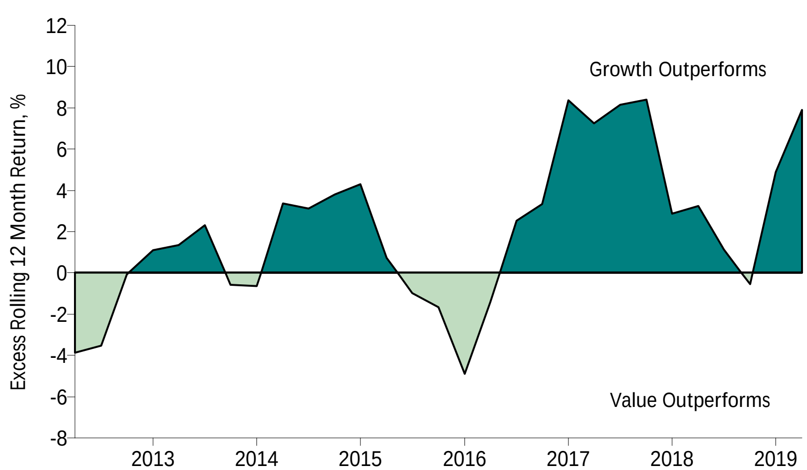
U.S. Equity Style Performance



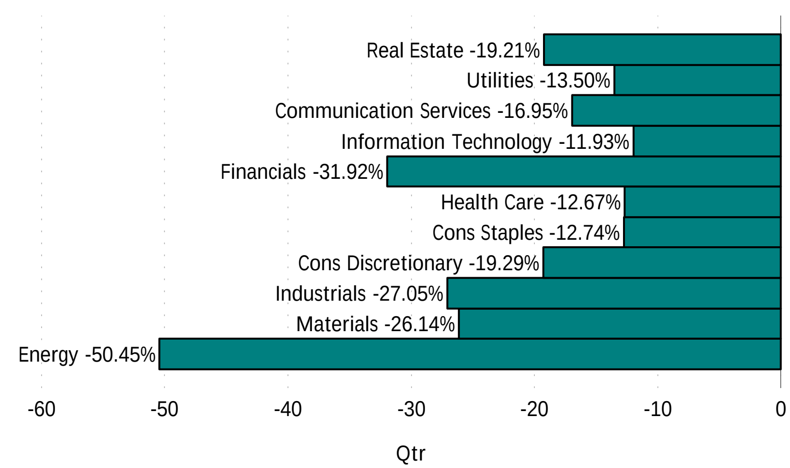
US investors definitely continue to favor growth companies over value companies. Large cap growth was down 14.1% while large cap value was down 26.7% during the quarter. Value was negatively impacted by larger positions in energy and financial holdings, two of the worst performing sectors. In general, smaller companies as represented by the Russell 2000 indices were even more severely impacted as many either don't have earnings, have weaker balance sheets, don't have access to capital, or all the above. With the huge jump in unemployment and consumer driven US GDP, negative growth is a certainty and future consumer demand will continue to be quite vulnerable in the near-term.

The S&P 500 appears to be more reasonably priced, but forward earnings in this environment are anybody's guess. Even though the S&P 500 dropped 34% peak to trough, it did manage a strong bounce at the end of the quarter into early April. With rates at all-time lows, equities appear to be a better value on a longer term basis. From a sector perspective, all US equity sectors were down at least 11%. Cyclical sectors such as Energy, Financials, and Industrials performed the worst. Energy was additionally impacted by an Organization of Petroleum Exporting Countries (OPEC) fight that increased supply just as demand fell due to the global shutdown. As people try to stay connected, identify a vaccine producer for Covid-19, and buy enough toilet paper - Technology, Health Care, and Consumer Staples performed the best.

Growth Relative to Value (Russell 1000)

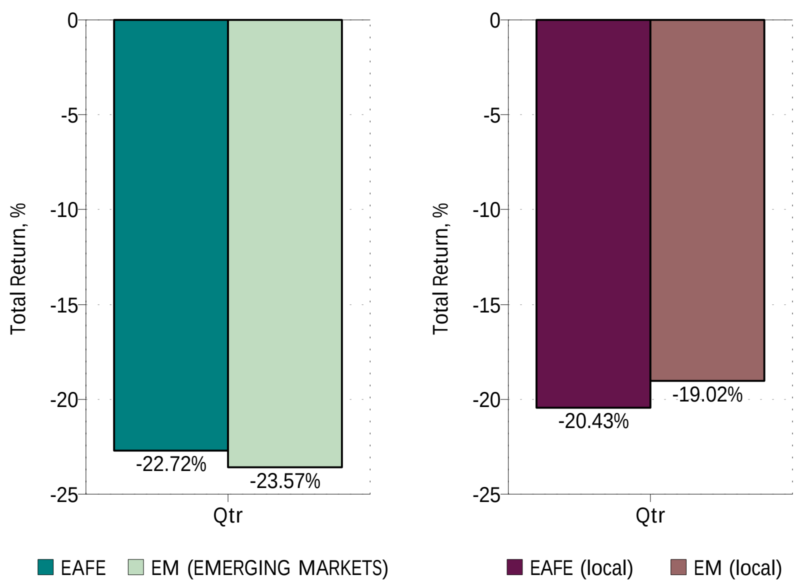


U.S. Equity Sector Performance (S&P 500)



International Equity Markets

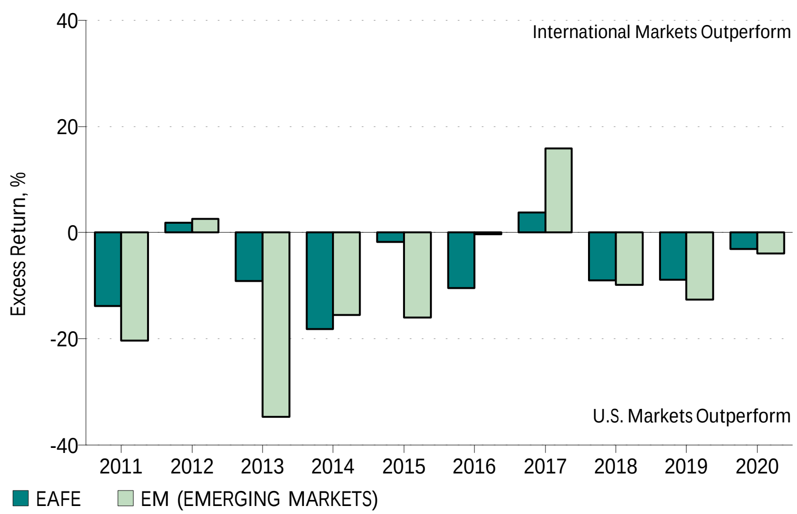
Non-U.S. Equity Performance



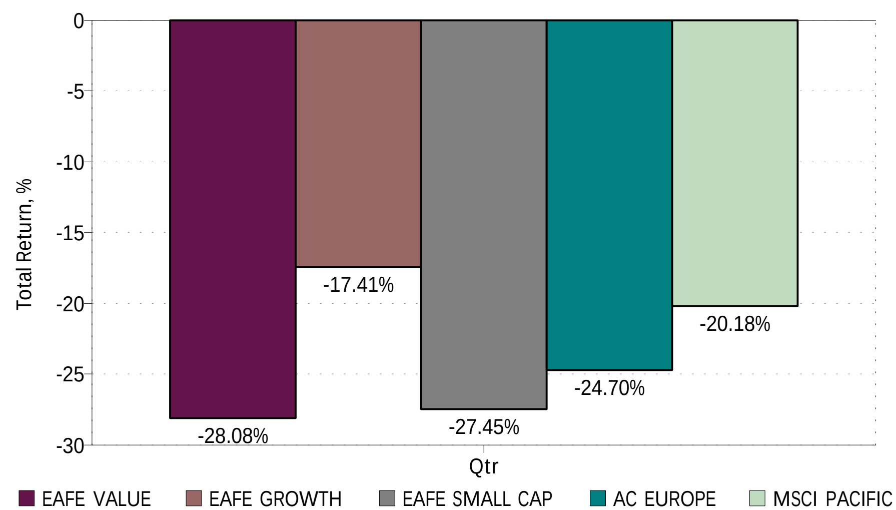
International equities generally lagged similar US markets. The MSCI EAFE Index, a proxy for the developed equity market, decreased 22.7% for the quarter. Quite a divergence occurred between local currency returns and US dollar returns. As the world's reserve currency, the US dollar strengthened due to high demand creating a challenge for international companies that convert back to US dollars. From a style perspective, quarterly performance followed a similar approach as the US with small-cap underperforming large and growth easily outperforming value. As many European countries also struggle with coronavirus, these developed markets face the same trials of reopening their economies after the shutdown.

Globalization that has occurred for decades may have peaked. During the Covid-19 pandemic, countries quickly identified the difficulties of not controlling production of some goods that quickly became scarce. Emerging markets (EM), particularly China, may feel the brunt of any changes to sourcing goods. Even though the Covid-19 virus originated in China, China has also been the first to restart their economy. From a performance standpoint, the broad MSCI Emerging Market Index was down 23.6% in the quarter, just slightly lagging foreign developed markets.

Non-U.S. Equity Returns Relative to U.S. (S&P 500)

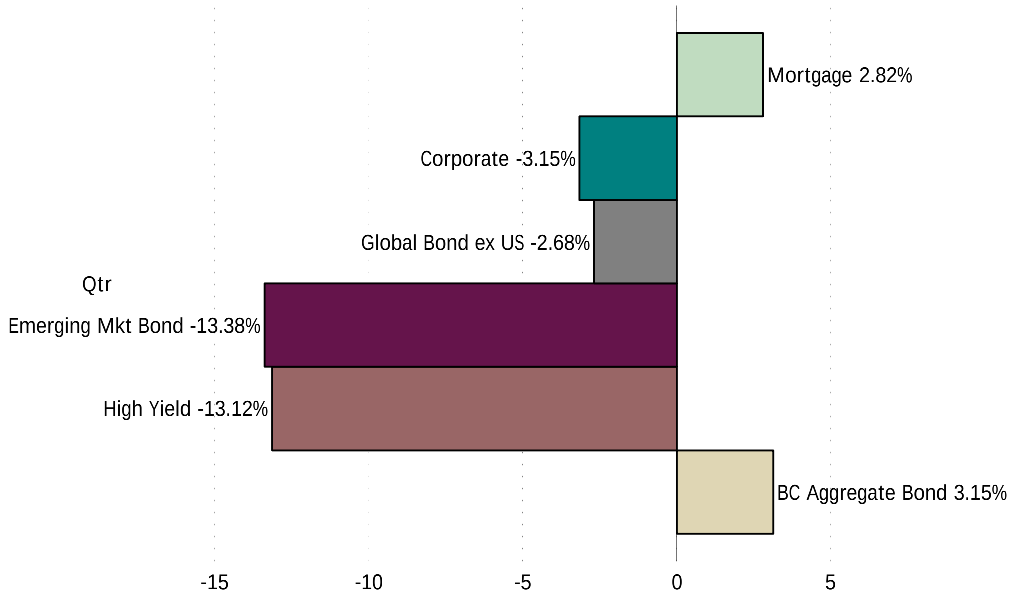


Style and Regional Non-U.S. Equity Performance



Fixed-Income Markets

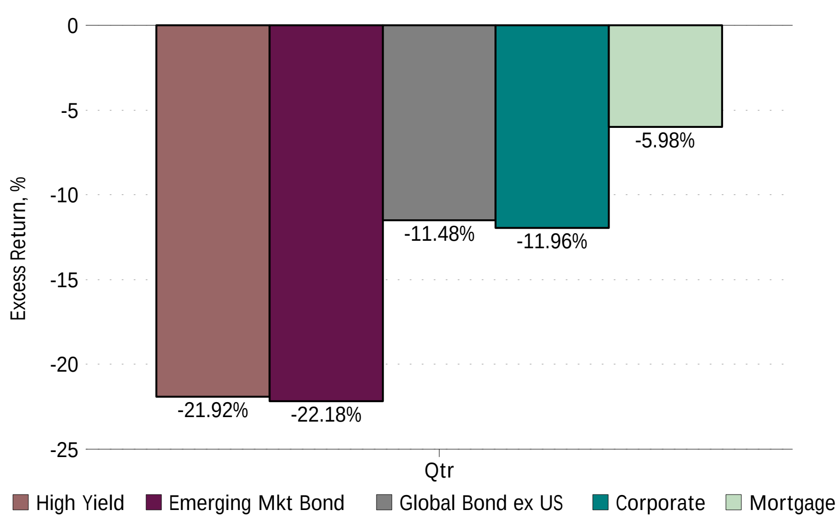
Fixed Income Performance



As with most everything right now, the fixed income market is difficult to value. The Fed has stepped in to buy numerous fixed income assets with loans via Special Purpose Vehicles (SPV). This incentivizes investors to buy debt that is lower in quality than they may normally invest because of the central bank backing. Therefore, this tends to replace actual price discovery. Fixed income valuations that seemed expensive before, seem even less appealing now. The US had considerable deficit spending before the health crisis. The CARES Act alone adds at minimum $2.3 trillion more in debt or about 11% of GDP. The Bloomberg Barclays US Aggregate Bond Index, a broad measure of the bond market, increased by 3.1% for the quarter benefiting as rates plunged and from high percentages of treasury holdings. Riskier fixed income segments such as high yield and emerging market bonds were the worst performers and could have been much worse had the Fed not given its support recently.

The yield curve actually steepened as the front-end of the curve plummeted with the Fed's cut to zero. The ten-year US Treasury yield fell from 1.88% at the beginning of the year and hit an all-time low of 0.62% in early April. Since current yields are a reasonable proxy for future fixed income returns, high quality fixed income seems more than fully valued. Riskier fixed income spreads have increased, but if allowed to trade on fundamentals may risk an investor's return of principal over a longer time frame.

Excess Performance to Treasuries



Yield Curve

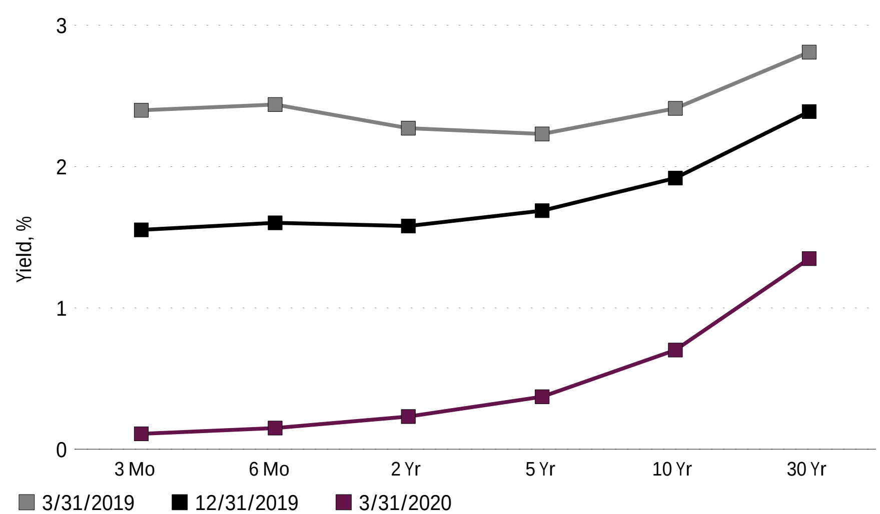
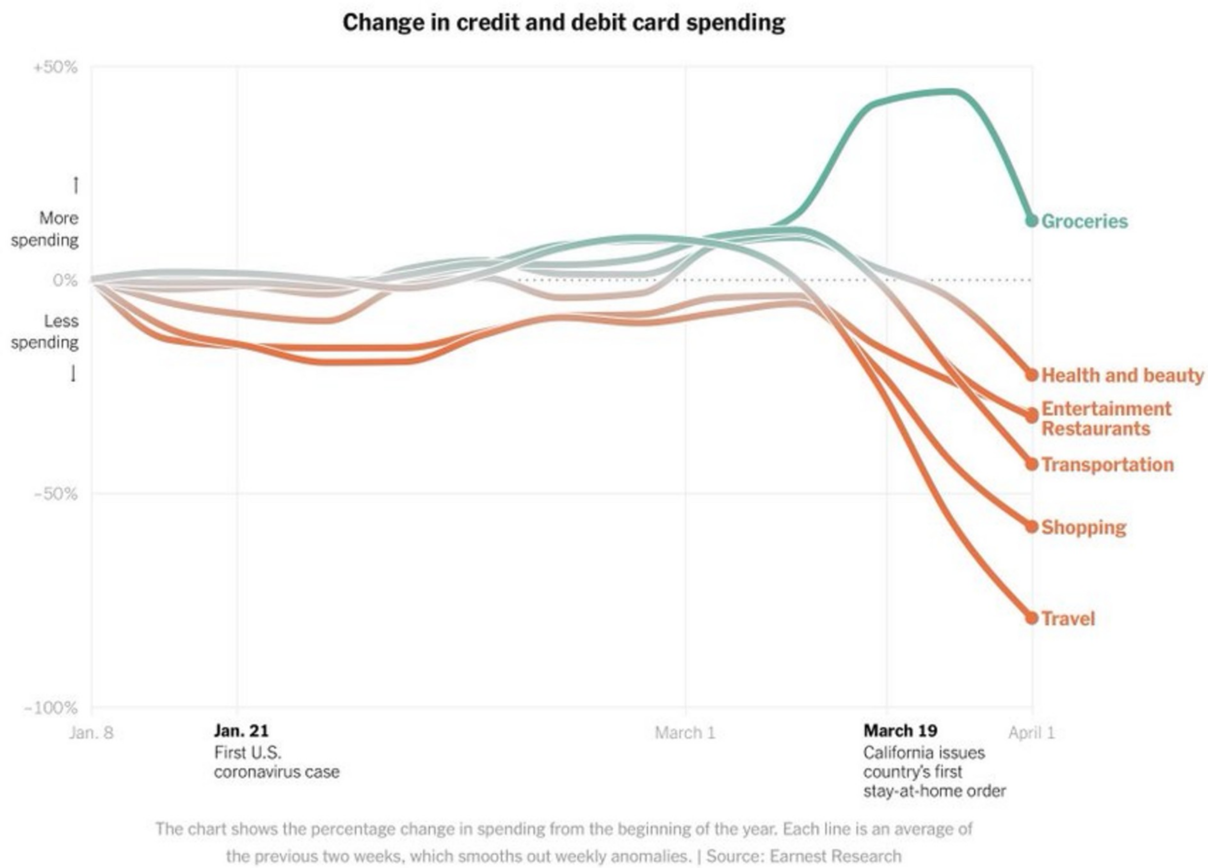


Chart of the Quarter



A snapshot of recent spending shows the vulnerability of many service sectors. As a consumer driven economy, the US is highly susceptible to an extended absence of spending. From the graph, the rapid decline in spending only recently started in earnest around March 19th. Many companies can weather the storm in the short-term, but the reappearance of spending in many areas may take longer than expected or won't be as swift as predicted. Health and beauty along with transportation may come back pretty quickly, but travel, shopping, and entertainment may take longer than expected. The companies that survive will likely be rewarded as competition will be less robust longer term.

Gold 29.24%						Small Cap Stocks 21.31%	Emerging Mkt Stocks 37.75%		Large Cap Stocks 31.43%		
Small Cap Stocks 26.85%		Emerging Mkt Stocks 18.63%				High Yield 17.49%	International Stocks 27.77%		Small Cap Stocks 25.52%		
Emerging Mkt Stocks 19.20%		International Stocks 17.39%				Large Cap Stocks 12.05%	Large Cap Stocks 21.69%		International Stocks 22.13%		
Commodities 16.83%		Large Cap Stocks 16.42%		Large Cap Stocks 13.24%		Commodities 11.77%	Small Cap Stocks 14.65%		Emerging Mkt Stocks 18.90%		
Real Estate 16.36%	Real Estate 15.99%	Small Cap Stocks 16.35%		Real Estate 12.49%		Emerging Mkt Stocks 11.60%	Gold 12.66%		Gold 18.43%		
Large Cap Stocks 16.10%	Gold 8.93%	High Yield 15.58%	Small Cap Stocks 38.82%	US Bonds 5.97%		Real Estate 8.76%	60/40 Blended Index 12.07%		60/40 Blended Index 16.50%		
High Yield 15.19%	US Bonds 7.84%	60/40 Blended Index 11.09%	Large Cap Stocks 33.11%	60/40 Blended Index 5.51%		Gold 8.10%	Intl/EM Bonds 10.41%		High Yield 14.41%		
60/40 Blended Index 12.84%	Intl/EM Bonds 5.88%	Real Estate 10.94%	International Stocks 15.78%	Small Cap Stocks 4.89%	Real Estate 15.01%	60/40 Blended Index 7.85%	Real Estate 7.62%		Intl/EM Bonds 9.98%		Annualized Return
International Stocks 11.60%	High Yield 4.38%	Intl/EM Bonds 10.60%	60/40 Blended Index 14.85%	High Yield 2.50%	Large Cap Stocks 0.92%	Intl/EM Bonds 5.77%	High Yield 7.48%		US Bonds 8.72%	Gold 6.22%	3.90
Intl/EM Bonds 8.60%	Large Cap Stocks 1.5%	Gold 8.26%	Real Estate 13.94%	Intl/EM Bonds 2.08%	US Bonds 0.55%	International Stocks 5.01%	US Bonds 3.54%	Real Estate 8.35%	Commodities 7.69%	US Bonds 3.15%	3.97
US Bonds 6.54%	60/40 Blended Index 0.49%	US Bonds 4.22%	High Yield 7.42%	Gold 0.12%	60/40 Blended Index 0.11%	US Bonds 2.65%	Commodities 1.70%	3-month T-Bills 1.87%	Real Estate 5.35%	Real Estate 0.97%	11.23
3-month T-Bills 0.13%	3-month T-Bills 0.1%	3-month T-Bills 0.11%	3-month T-Bills 0.07%	3-month T-Bills 0.03%	3-month T-Bills 0.05%	3-month T-Bills 0.33%	3-month T-Bills 0.86%	US Bonds 0.01%	3-month T-Bills 2.28%	3-month T-Bills 0.57%	0.62
2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	
	Small Cap Stocks (4.18)%	Commodities (1.06)%	US Bonds (2.02)%	Emerging Mkt Stocks (1.82)%	Intl/EM Bonds (2.42)%			Gold (0.93)%		Intl/EM Bonds (8.03)%	3.26
	Commodities (13.32)%		Emerging Mkt Stocks (2.27)%	International Stocks (3.44)%	Small Cap Stocks (4.41)%			High Yield (2.26)%		60/40 Blended Index (11.65)%	6.07
	International Stocks (13.33)%		Intl/EM Bonds (4.13)%	Commodities (17.01)%	High Yield (4.64)%			Intl/EM Bonds (3.17)%		High Yield (13.12)%	5.85
	Emerging Mkt Stocks (18.17)%		Commodities (9.52)%		International Stocks (5.25)%			60/40 Blended Index (3.71)%		Large Cap Stocks (20.22)%	10.72
			Gold (27.33)%		Gold (12.11)%			Large Cap Stocks (4.78)%		International Stocks (23.26)%	2.63
					Emerging Mkt Stocks (14.60)%			Small Cap Stocks (11.01)%		Commodities (23.29)%	-7.05
					Commodities (24.66)%			Commodities (11.25)%		Emerging Mkt Stocks (23.57)%	1.25
								International Stocks (13.78)%		Small Cap Stocks (30.61)%	7.62
								Emerging Mkt Stocks (14.25)%			