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MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

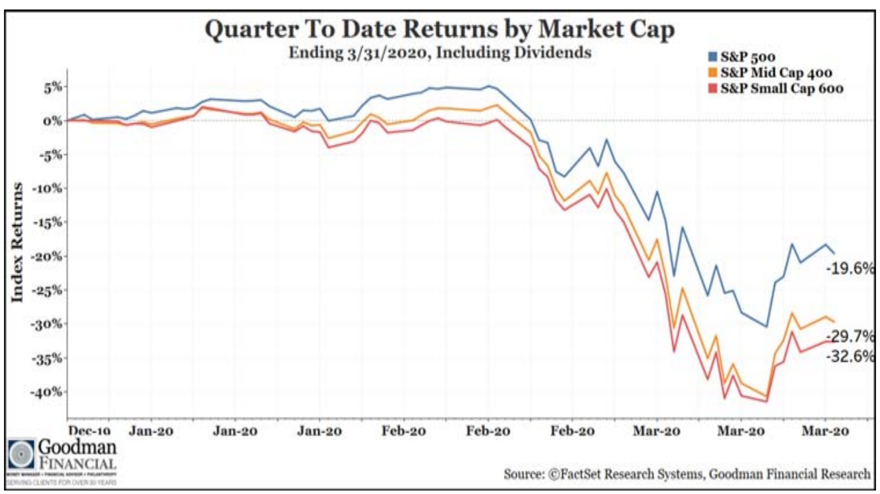
Q1 2020
MARKET & ECONOMIC REVIEW

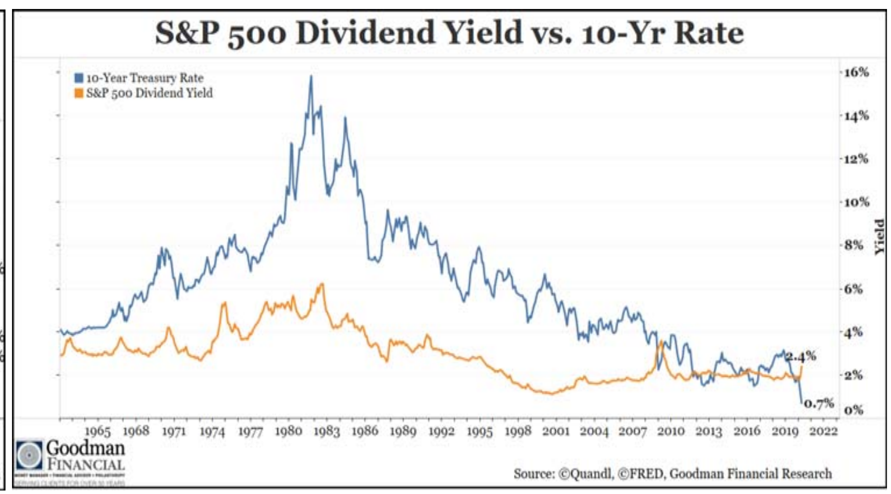
INDEX	DESCRIPTION	12/31/19	LOW CLOSE	HIGH CLOSE	3/31/20	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	3,231	2,237	3,386	2,585	-20.0%
DJIA	Dow Jones Industrial Average or "The Dow"; A price weighted average of 30 major U.S. companies.	28,538	18,592	29,551	21,917	-23.2%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	8,973	6,861	9,817	7,700	-14.2%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,668	991	1,705	1,153	-30.9%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	23,657	16,553	24,041	18,917	-20.0%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,115	758	1,147	849	-23.9%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	416	280	434	320	-23.0%

*** Excludes effects of dividends** **Source: FactSet**

Major Equity Market Indexes & Commentary

- Stock indices worldwide posted significant losses and entered Bear Market territory (down >20%) for the first time since the Great Financial Crisis. In fact, it was the worst first quarter in the history of the Dow Jones Industrial Average.
- As seen in the chart below (left), small-cap and mid-cap stocks significantly underperformed large-caps in Q1, by more than 10%. In fact, it was the worst quarter in the history of the small-cap Russell 2000 index. Might the worst of a long period of small and mid-cap underperformance finally be over? According to research by Jefferies Group, small and mid-cap stocks have historically outperformed large-cap stocks coming out of recessions. Perhaps there is hope on the horizon for small and mid-cap stocks.
- With stocks down significantly and the 10-year treasury yield hitting all time lows, S&P 500 stocks are now yielding significantly more than treasuries, as seen below (right). By itself, this is an unusual condition, having occurred only a couple of times in the past 50 years, but the current 1.7% yield differential dwarfs those previous occasions. This is a bullish indicator for stocks as they are now an ultra-competitive investment in what is once again a yield-starved world.





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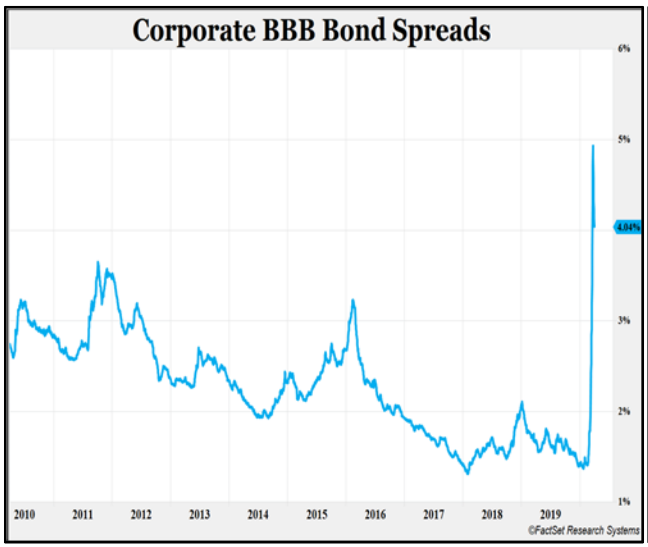
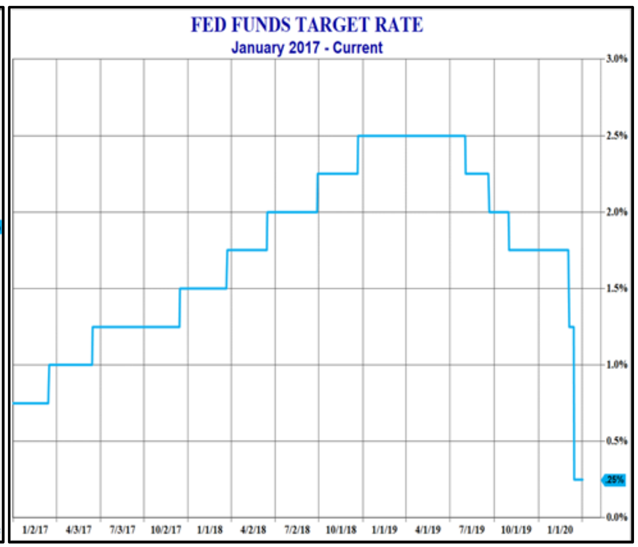
DESCRIPTION	12/31/19	3/31/20	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	12/31/19	3/31/20	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	1.50%-1.75%	0.00%-0.25%	↓ -150	15 Yr. Mortgage Rate	3.19%	2.92%	↓ -27
90 Day Treasury Bill	1.55%	0.11%	↓ -144	30 Yr. Mortgage Rate	3.74%	3.50%	↓ -24
2 Yr. Treasury Note	1.58%	0.23%	↓ -135	Prime Rate (U.S.)	4.75%	3.25%	↓ -150
10 Yr. Treasury Note	1.92%	0.68%	↓ -124	LIBOR (3 Month)	1.91%	1.45%	↓ -46
30 Yr. Treasury Bond	2.39%	1.35%	↓ -104	5-Year CD	1.73%	1.49%	↓ -24

***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury





Fixed Income Rates & Commentary

- U.S. treasuries posted gains in Q1 as yields fell precipitously during the quarter. Unfortunately, almost every other bond that wasn't a U.S. treasury security declined in price as their yields ***rose*** to account for the increase in perceived risk, along with the lack of a liquid trading market for many of these bonds. We have recently bemoaned about the low level of corporate bond yield relative to U.S. treasuries ("spread"). But, be careful of what you wish for! As seen in the chart below (left), BBB corporate bond spreads increased almost overnight to the highest levels seen in the past 10 years. While painful to the prices of some bonds we currently hold, it has created the best bond buying opportunity we have seen in years, albeit requiring painstaking research to avoid potential risky holdings.
- The "Federal Open Market Committee" (FOMC) of the U.S. Federal Reserve (the Fed) voted twice in March (outside of any regularly scheduled meeting) to lower the Fed Funds to a target rate of 0.25%, a level not seen since late 2015. Economists currently predict a scant chance they will increase the rate for the rest of 2020. This will serve to lower rates earned on cash sweep accounts, money market funds and short-term CD's to near zero. It will also be a nice tailwind for many corporations whose borrowing costs are ultimately tied to the Fed Funds rate.
- In an unusual development, home mortgage rates barely budged in the quarter (down by only 0.27%) while the benchmark 10-year U.S. treasury yield fell by 1.24%. The rush by many homeowners to refinance caused mortgage lenders to become overwhelmed and accordingly, to charge higher rates than would otherwise be anticipated in order to slow down the refinance pipeline to a more manageable level. With time, mortgage rates will likely drop, assuming treasury rates stay at their current low levels.

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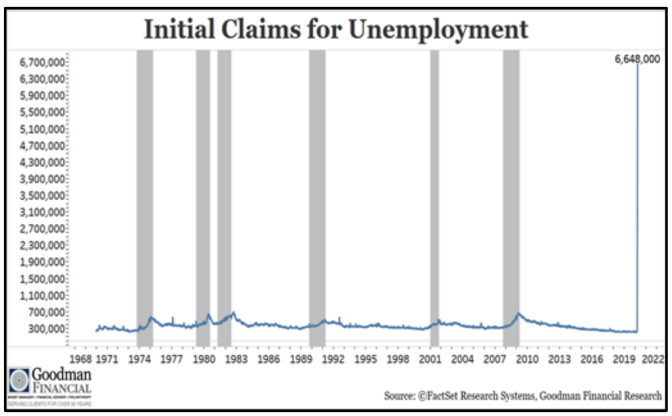
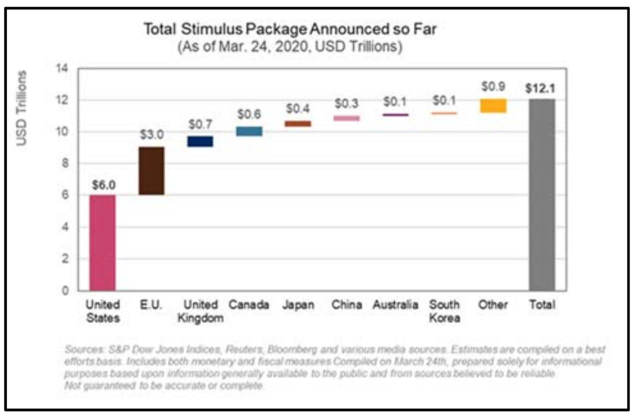
U.S. Economic Commentary

INDICATOR	DESCRIPTION	12/31/19	3/31/20	QTD CHANGE
Average Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **Claims skyrocketed to a record number following nationwide orders to shelter in place and keep only essential businesses open.**	222	3,283	↑ +1,500%
Unemployment Rate*	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The February rate was at historic lows, but the rate is set to increase dramatically in the coming months.**	3.5%	3.5%	→ 0 bps
Average Weekly Earnings*	The average weekly salary earned by private, nonfarm employees. **Wages rose during the quarter as a result of a tightening labor market. Avg. wages are likely to decline in the months ahead.**	$973	$981	↑ 0.8%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Consumer confidence fell in the quarter as the lockdown commenced. It is likely to fall further in the months ahead.**	99.3	89.1	↓ -10.3%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **While there was a slight uptick in Q1, the PMI number will definitely be coming down in the second quarter.**	48.1	49.1	↑ +2.1%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes and condominiums. **Home sales showed continued strength through February but will now be under pressure until the lockdown ends.**	5.35	5.78	↑ +8.0%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization declined modestly but will be falling rapidly in the next quarter.**	75.7%	75.6%	↓ -10 bps

***These items are as of 02/28/20, the date of the most recently published statistics**
Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management





- No sooner had the current U.S. economic expansion claimed the record for the longest one since World War II, then the Covid-19 pandemic hit. There is no doubt that the economy will suffer tremendously in Q2, the question is only how bad? According to FactSet, economists are predicting an annualized 13.6% GDP decline in Q2 the highest quarterly decline since World War II. There are some estimates that the decline may be as high as 30%. The good news is that the economic impact will likely be short-lived, and the following recovery could be quick and sharp as well, once businesses are allowed to reopen.
- Initial unemployment claims for the week of March 21st were 3.3 million, one for the record books - only to be doubled in the week following. As seen in the chart below (left), claims spiked to levels far exceeding anything seen in the last 50 years. We will likely see a few more weeks like this and unemployment levels may rise to more than 10%, coming off 50-year lows of 3.5% prior to Covid-19. There is hope that the CARES act passed by Congress on March 27 might work to mitigate further claims by incenting companies through a loan forgiveness program to keep employees on the payroll throughout the shutdown.
- The extent and swiftness of this unfolding recession is breathtaking. The good news is that the extent and swiftness of the fiscal and monetary response to the problem is just as breathtaking. As seen below (right), so far worldwide, there has been a combined ***$12 trillion*** of economic stimulus, half of which is from the U.S. alone – with additional stimulus still being discussed. While all this stimulus won't solve all the problems that the shutdown has created, it will serve to mitigate the immediate impact and bridge our economy to the other side of this pandemic. The longer-term impact of this costly stimulus is unknown and is certainly a story for another day.