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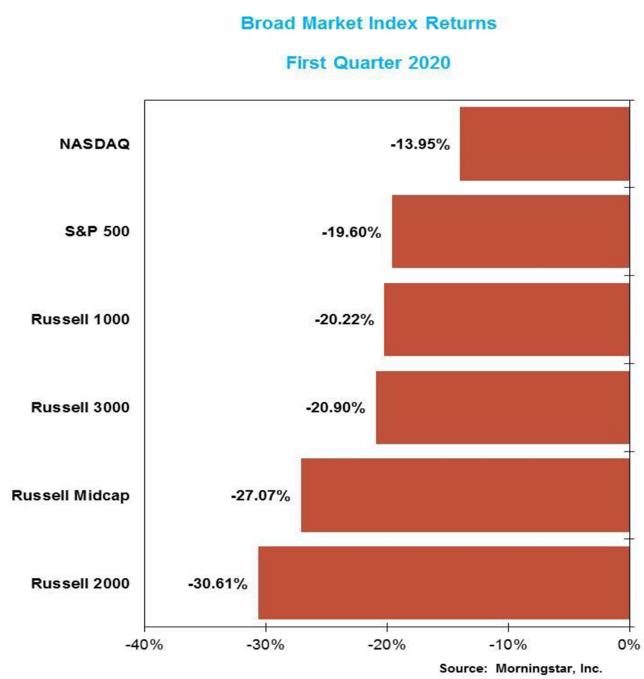
We hope you are well and staying home. Obviously the last six weeks have been very hard on so many people with the COVID-19 virus. Jobs lost, a stock market crash and the disruption of everyone's normal way of life. Often when the market crashes, some clients prefer not to look at their investment statements for a while. If you would prefer to stop reading at this point and skip this quarter's report, we completely understand. (We would suggest you go to the quote at the end though!) However, if you want to dig into some of the details, we wanted to make sure we provided them to you. Either way, it is important to remember that we will all get through this and eventually the economy and markets will recover. They have recovered from many difficult times in the past and they will recover from this as well.

The Economy

The US economy is presently engulfed in an economic tidal wave created by the COVID-19 virus. A significant portion of the economy is shut down, as non-essential businesses in many states have been ordered to close as per government order. A shutdown of this magnitude is unprecedented, and while the US economy had been in the midst of the longest expansion on record, the economy is undoubtedly now in recession. While the economic effects of the COVID-19 coronavirus are just beginning to appear in the data, the US economy's growth remained steady in the fourth quarter of 2019 (the latest quarter reported). The Bureau of Economic Analysis reported its third estimate of fourth quarter 2019 gross domestic product (GDP) of 2.1%, in line with both the prior estimate, as well as the third quarter's reading. Likewise, COVID-19's adverse impact on the employment situation has recently begun to filter through the data.



However, the latest monthly unemployment data is from February, and that report showed an average of approximately 243,000 jobs added each month of the quarter, and that the unemployment rate remained at 3.5%. The Federal Open Market Committee (FOMC) has taken aggressive action in response to the crisis, lowering the federal funds rate target to a range of 0% to 0.25%. Additionally, the FOMC launched another round of quantitative easing of at least $700 billion.

The global economic environment is now in a serious downturn, with no region spared. Significant portions of the U.S., European and Asian economies are effectively shut down. Central banks around the world have taken aggressive action, but are now limited in any additional response as interest rates have now hit zero percent as the lower bound. In the US, Congress passed a $2 trillion stimulus package providing substantial financial support to hard-pressed households and businesses. Other governments around the world will likely follow suit, and the extent of the economic damage COVID-19 ultimately inflicts will depend both on how governments respond and the path the virus takes.

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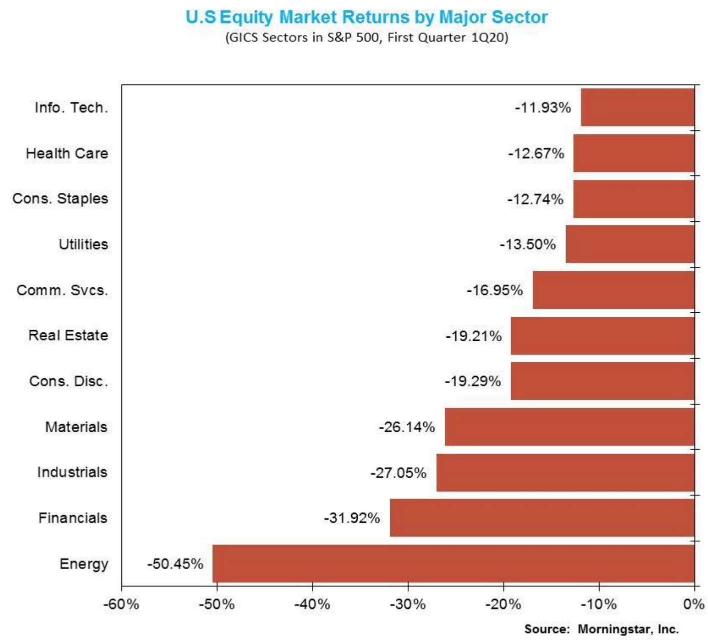
Highlights

GROSS DOMESTIC PRODUCT (GDP)

In the latest data available, which is backward-looking and does not include the effects of COVID-19, the Bureau of Economic Analysis released the third estimate of the fourth quarter 2019 real GDP, a seasonally adjusted annualized rate of 2.1%, in line with both the third quarter's growth, as well as the prior estimate. Consumer spending and residential investment were primary contributors to growth. In addition, trade also contributed positively, as imports declined and exports rose modestly. Corporate profits rose by 6.2% (not annualized) during the quarter. In addition to the effects of the virus, economists expect the shutdown of Boeing's 737 MAX production to contribute a 0.3% contraction in real GDP.



HOUSING

Prior to the onset of the virus outbreak, the housing market had been resurgent. Existing-home sales for February (the latest monthly data available) surged to an annualized rate of 5.8 million units, 6.5% higher than the results from January, and up about 7.2% from year-ago levels. The inventory of existing homes was about three months of supply, lower than levels of the prior year. Existing-home prices in February increased 8.0% from February 2019. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at 72, modestly lower than the prior month's reading but higher than year-ago levels. The data indicate that, at least immediately prior to the virus outbreak, homebuilders remained very positive on the outlook for the housing market.

EMPLOYMENT

Prior to the onset of the COVID-19 outbreak, the employment situation surprised to the upside in February. Employers added 273,000 jobs during the month, above the consensus expectations of 175,000 new jobs, and in line with the prior month's revised gain of 273,000. Low mortgage interest rates were a primary driver of the gains, but the negative wealth effect that will assuredly result from the virus-induced economic downturn are likely to cause a reversal in activity. The unemployment rate in February remained steady at 3.5%, and the labor force participation rate inched up to 63.4%, its cyclical high. Average hourly earnings increased by 3% from the year-ago level.

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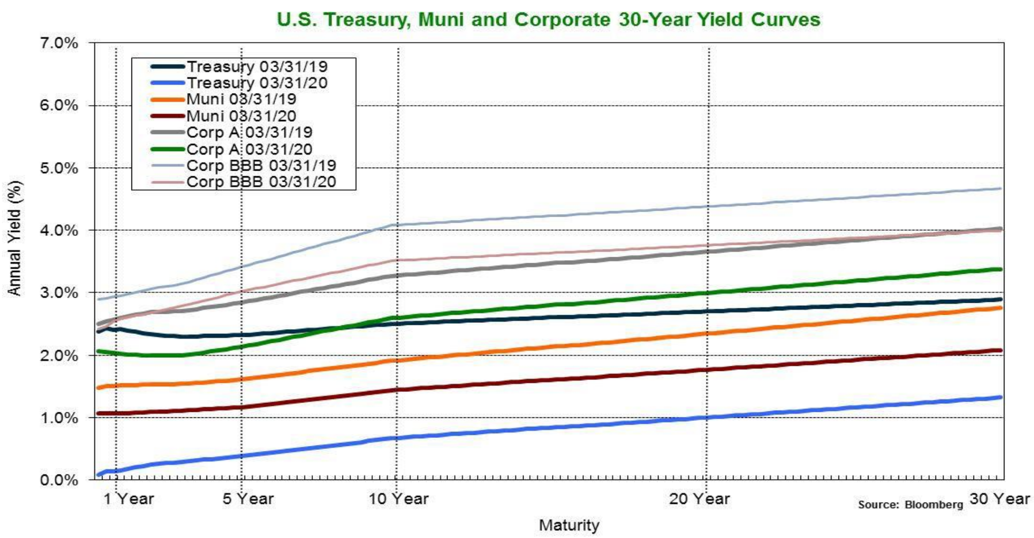
FEDERAL RESERVE POLICY

The FOMC was aggressive in taking action in providing a policy response to the outbreak of the COVID-19 virus. The committee lowered the federal funds rate target to a range of 0% to 0.25% from 1.00% to 1.25%. The FOMC is doing everything it can from a monetary policy perspective, but is now limited in any further steps it can take. In addition to slashing the federal funds rate, the FOMC also launched another round of quantitative easing, totaling $700 billion. As part of this program, the Fed will purchase $500 billion in US Treasury securities and $200 billion in mortgage-backed securities. In its statement accompanying the lowering of the federal funds target, the FOMC said rates would remain extremely low until the committee is confident the economy has “weathered recent events.”

Interest Rates

Fixed income securities’ prices and yields were of course impacted by both policymakers’ actions and investor behavior resulting from the COVID-19 outbreak. Demand for US Treasury obligations was high in the risk-off environment that defined financial markets throughout the month of March. High volatility defined not only equity markets, but fixed income markets as well during the month. As mentioned above, the FOMC was quick to step in with aggressive action in an attempt to ensure sufficient market liquidity and to mitigate the potential economic impact from a monetary policy perspective. As such, the FOMC slashed interest rates, bringing the target federal funds rate range to 0% to 0.25%.



The Treasury yield curve steepened during the first quarter, with yields on the shortest-term maturities declining relative to yields in the intermediate- and long-term segments of the curve. Overall, the Treasury curve fell significantly from the prior quarter, primarily due to investor the FOMC’s lowering of interest rates, as well as investor demand for perceived safe-haven assets.

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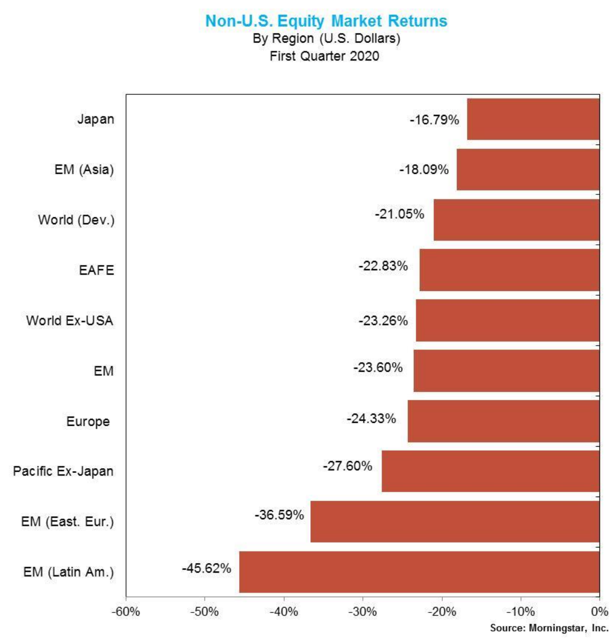
Total returns on fixed income securities were mixed, with generally positive returns in the Treasury securities segments, and negative returns in the credit portions of the market. The Bloomberg Barclays Treasury 5-7 Yr. Index rose by +7.6% for the quarter. The Bloomberg Barclays US Corporate 5-10 Yr. Index sank -4.3% during the three months. High yield securities, which often follow the performance of equities, plunged, posting a return of -12.7%. Municipals also declined, as the Bloomberg Barclays Municipal Bond Index edged lower by - 0.6% during the quarter. Prices of non-US fixed income securities were lower in the quarter, as the Bloomberg Barclays Global Aggregate ex- US Index shed -2.7%. Emerging markets bonds posted significant declines, with the JPM EMBI Global Index falling -11.8%.

Equity Markets

From the perspective of stock prices, it was a tale of two markets in the first quarter. Strong economic data through the fourth quarter of 2019 had led to positive gains in most broad market indexes through January and much of February. Indeed, some stock indexes set all-time highs on February 19, before the full extent of the spread of COVID-19 was known. From that point forward for the rest of the month, stocks went into a tailspin, with the S&P 500 Index declining more than 30% over the ensuing 24 trading days. The bull market that had begun 11 years earlier was now over, and the market was in correction territory. Volatility also spiked to all-time highs, and remained elevated for many days. Stock prices steadied in the last week of the quarter, as investors digested the potential longer-term economic effects of the virus. When the quarter ended, the S&P 500 Index had plunged -19.6%.

Performance of the eleven primary economic sectors was negative during the quarter. Information Technology, Health Care and Consumer Staples were the strongest performers on a relative basis, generating returns of -11.9%, -12.7%, and -12.7%, respectively. The Energy, Financials and Industrials sectors were the poorest relative performers, posting returns of -50.5%, -31.9%, and -27.1%, respectively.



The Russell 1000 Index of large capitalization stocks generated a - 20.2% total return. Within the large cap segment, growth stocks significantly outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, underperformed large caps, and finished the quarter with a total return of -30.6%. Small cap growth outperformed small cap value. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a decline of -14.0%. The Dow Jones Industrial Average of 30 large industrial companies fell by -22.7%.

Real Estate Investment Trusts (REITs) were not immune to the decline during the quarter, with the DJ US Select REIT Index down -28.5%. Commodities were lower, with the Bloomberg Commodity Index shedding -23.3% for the quarter.

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International stocks also experienced drastic declines during the quarter, and generally performed in line with US equities. No region of the world was immune to the effects of the pandemic. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, plunged by -23.3%. The MSCI EAFE Index of developed markets stocks declined by -22.8%. Regional performance was negative across the board for the quarter. Ironically, China was the strongest performer on a relative basis, with a return of -10.2%. Latin America was the poorest relative performer, shedding -45.6%. Emerging markets performance was also weak, as the MSCI Emerging Markets Index was lower by -23.6%.

Looking Forward

Without question, the outbreak of the COVID-19 virus has quickly wreaked havoc on a US economy that had been in the midst of its longest expansion on record. Economists are of the consensus that the economy has fallen into a recession, with the only questions being how deep the downturn will be and for how long. Some analysts believe that there could potentially end up being three phases in which the virus impacts the US economy: The first is the current environment of shutdowns and related layoffs. Weekly unemployment claims have surged to all-time highs. A material portion of the recently passed $2 trillion stimulus bill is designed to help mitigate these issues by incentivizing businesses to retain employees through the shutdown period.

Analysts believe the second phase will take place when the negative impacts of the wealth effects are realized. The essentially forced shutdown of a large portion of the economy has meant significant losses of wealth for households, as the stock market has shed an estimated $10 trillion. As a result, consumers will naturally pull in the reins on spending.

A potential third phase would be a contraction in business investment. Collapsing oil prices resulting from the production war waged by Saudi Arabia and Russia has resulted in a pullback in investment in the energy industry, and if the shutdown persists for any length of time a contraction in other industries will likely follow. What most economists and market analysts seem to be in agreement on is that the extent to which the virus will adversely impact the economy will be determined by how quickly the trajectory of the virus is slowed, and the magnitude of the policy response.

All we can do at this point (other than stay home) is to be patient. Eventually things will begin to open up, but how long until that occurs and how that process will unfold are unknown.

As we all go through this, we are happy to talk with you at any time. As always, please be sure to contact us if you have any concerns regarding your portfolio or allocation or if you have any upcoming cash needs that we are not aware of.

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