MARKET RECAP – Q1 2020

- In the span of just over a month, we've gone from record highs in the market to The Fed cutting rates to zero, open-ended Quantitative Easing ("QE"), and helicopter money. The main culprit, the novel coronavirus, has killed the longest-running bull market of all time. Couple this with demand destruction, potential solvency issues for consumers and businesses, and liquidity concerns within the commercial and bond market, the S&P 500 ended the quarter down -19.6%, pushing the market into an official bear market. Performance globally and also down the market cap spectrum fared much worse.

	March 2020	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	-12.35%	-19.60%	-6.98%	5.10%	6.73%	10.53%
NASDAQ	-10.12%	-14.18%	-0.28%	9.21%	9.46%	12.37%
Dow Jones Industrial Avg.	-13.62%	-22.73%	-14.47%	4.41%	6.94%	9.98%
Russell 2000	-21.73%	-30.61%	-23.99%	-4.64%	-0.25%	6.90%
MSCI EAFE	-13.35%	-22.83%	-14.38%	-1.82%	-0.62%	2.72%
MSCI Emerging Markets	-15.40%	-23.60%	-17.69%	-1.62%	-0.37%	0.68%
Barclays Agg. Bond	-0.59%	3.15%	8.93%	4.82%	3.36%	3.88%
Investment Grade Bonds	-6.31%	-2.97%	7.25%	5.05%	3.72%	5.38%
High Yield Bonds	-10.43%	-11.61%	-6.26%	0.81%	2.05%	4.73%

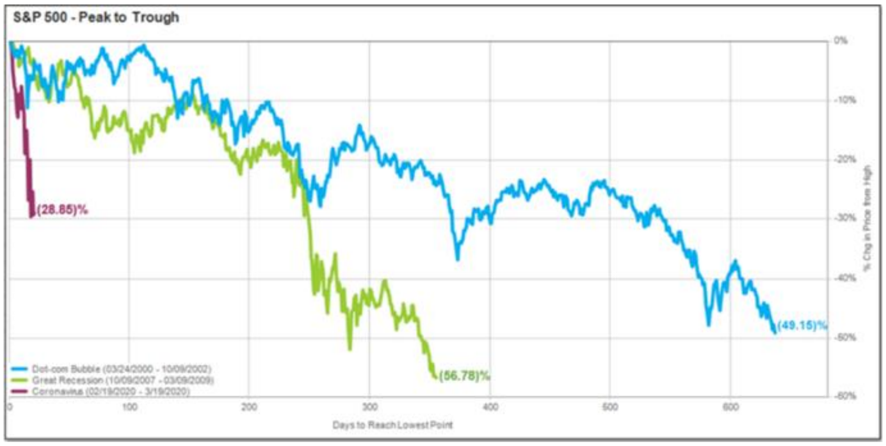
Source: Morningstar

- From February 19th to March 23rd, the U.S. stock market saw the quickest meltdown in history, a -35.2% loss on the S&P 500. Then, on the other end of the spectrum, to end the month, the last full week of March posted an 17.9% three-day rally in the US, and similar moves in many other global markets. This was the strongest comparable weekly return in the US since 1933 and in Europe on record.

	From 2020 Peak	%	From 2020 Low	%	Peak 2020	Low 2020	%	12/31/2019	YTD %
S&P 500	3,385	-23.6%	2,192	17.9%	3,385	2,192.00	-35.2%	3,231	-19.6%
NASDAQ	9,748	-21.0%	6,631	16.1%	9,748	6,631.00	-32.0%	8,973	-14.2%
Dow Jones Industrial Avg.	29,569	-25.9%	18,214	20.3%	29,569	18,214.00	-38.4%	28,538	-22.7%
Russell 2000	1,715	-32.8%	966	19.3%	1,715	966.00	-43.7%	1,668	-30.6%

Source: Oaktree Capital Management

- This bear market has been unusual, not because of the scale of the decline, but rather because of the speed and the volatility. The average bear market experiences a decline of around -35%. But the speed of the declines is what stands out as being exceptional. Its fall into bear market territory, which is considered a 20% decline from its peak, took place in record time, just 16 trading days, compared with 44 in 1929, the previous fastest fall. Both the Dot-com bubble and the Financial crisis took much longer to play out.



Source: Oaktree Capital Management

- During the 3-year bear market after the tech-bubble burst in the early 2000s, the S&P 500 bounced 10% on six different occasions on the way to falling 49.1%. During the financial crisis, when the S&P 500 lost more than 56%, stocks bounced more than 10% three different times, with a huge 27% rally in late 2008 eventually faltering. In other words, big bounces are quite normal, even during bear markets. There have been 9 bear markets that officially lost 20% or more since 1950, and the average maximum bear market bounce during those bear markets was 14.5%.

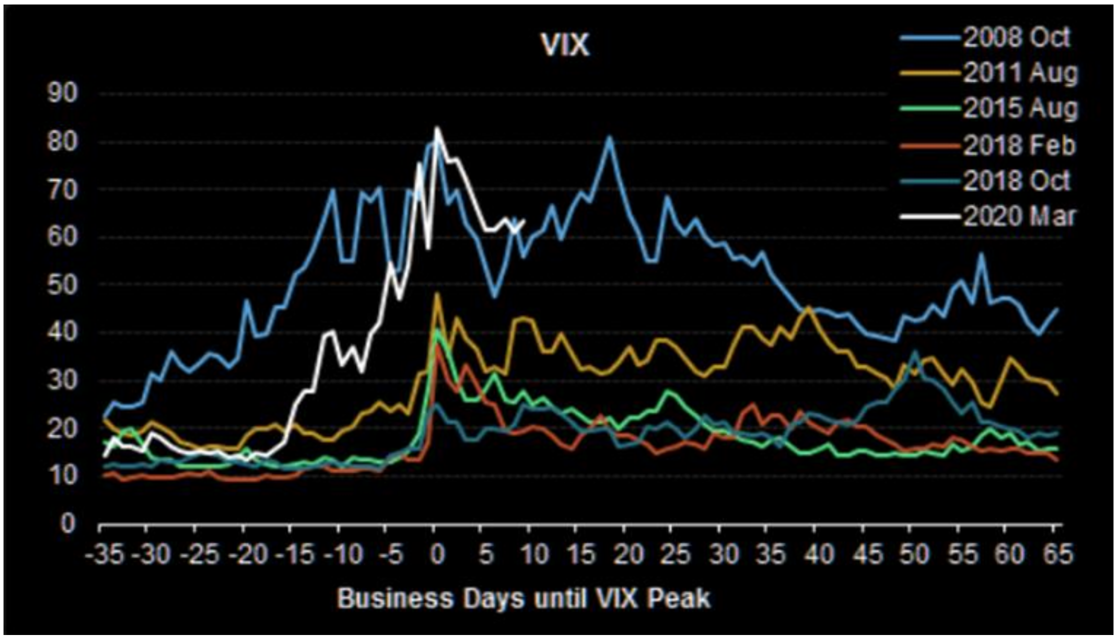
Large Bounces Are Normal During A Bear Market

S&P 500 Index Bear Market Bounces

Bull Market Peak	Bear Market Bottom	Months	S&P 500 Return	Max Bear Market Bounce
August-56	October-57	15	-21.6%	16.0%
December-61	June-62	7	-28.0%	7.4%
February-66	October-66	8	-22.2%	7.4%
November-68	May-70	18	-36.1%	9.9%
January-73	October-74	21	-48.2%	10.9%
November-80	August-82	21	-27.1%	12.0%
August-87	December-87	3	-33.5%	15.2%
March-00	October-02	31	-49.1%	24.6%
October-07	March-09	17	-56.8%	27.4%
Average		16	-35.8%	14.5%
Median		17	-33.5%	12.0%

Source: Strategas & LPL Advisors

- Volatility has been at record levels as March saw three consecutive days of moves of +/- 9% (the first such series since 1929). This past month's moves have been unrivaled in the stock market's history. The S&P 500 has swung an average of 5.2% every day, the highest on record and surpassing moves during the financial crisis, according to Dow Jones Market Data. Prior volatile months in 1929, 1932, 1987 and 2008 were all sub 4%.



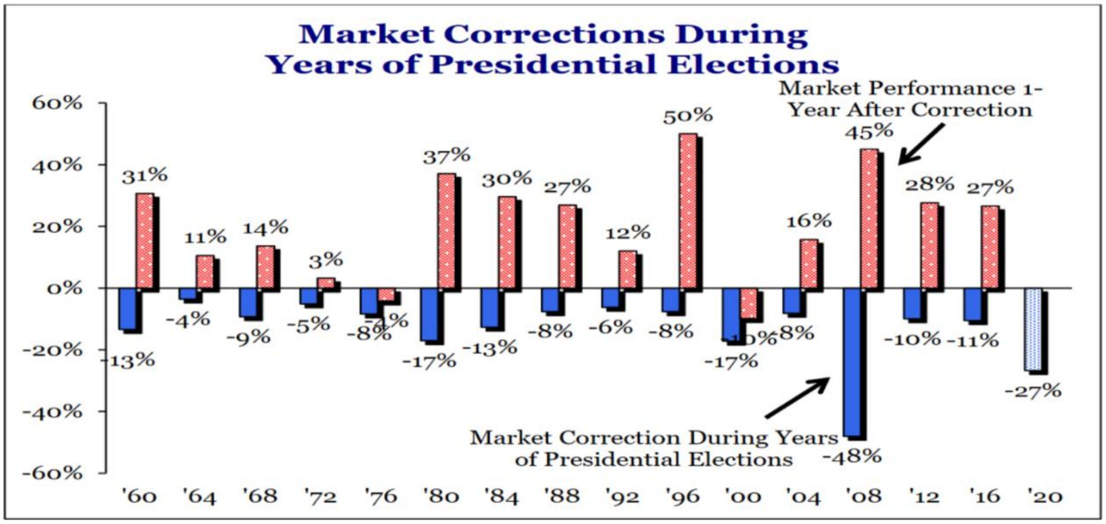
Source: Thompson Reuters

- When the S&P 500 has been down greater than 10% in Q1, the rest of the year has been up nearly 40% on average.

What Happens After Big Q1 Declines?			
Date	S&P 500	Quarterly Return	Rest Of Year
3/31/1933	5.85	-15.46%	70.43%
3/29/1935	8.45	-11.05%	58.93%
3/31/1938	8.50	-19.43%	54.59%
3/31/1939	10.98	-16.44%	13.48%
3/30/2001	1,160.33	-12.11%	(1.06%)
3/31/2009	797.87	-11.67%	39.76%
3/31/2020	2584.59	-20.00%	?
		Average	39.36%
		Median	47.17%
		Higher	5
		Count	6

Source: LPL Advisors

- This is the second largest equity market decline in a presidential election year since 1960. In the other four largest equity market declines (2008, 2000, 1980, and 1960), the opposition party won the presidency in each case.



Source: Strategas

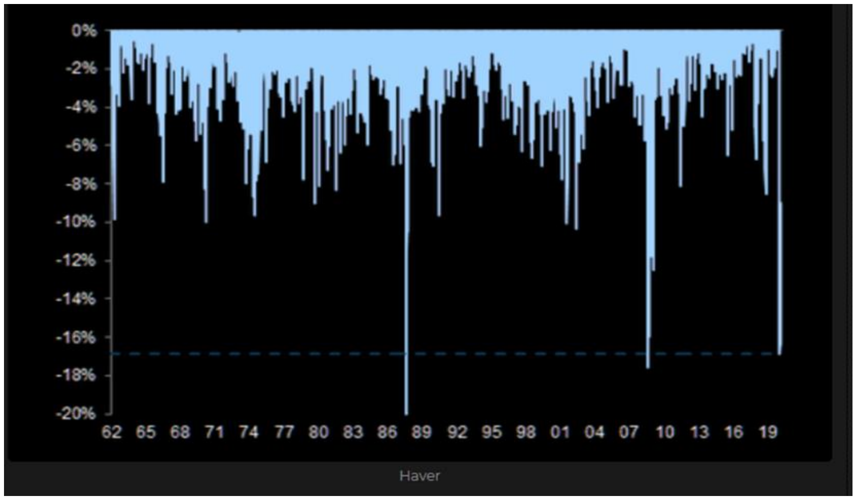
ASSET CLASSES

- As shown in the gray boxes, diversification generally puts you somewhere in the middle of the return spectrum. That's a *feature* not a bug, one we see as the first layer of portfolio protection. The idea that anyone is going to consistently own only next year's leading styles is crazy; building a structure that minimizes the drag of large losers is far more realistic. In some years that protection isn't necessary, but over a 20-30 year period all portfolios face periods of drawdown. A proactive plan to manage those periods can be the difference between meeting future spending needs or adjusting the

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	2005 - 2019 Ann.	2005 - 2019 Vol.
EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Fixed Income 3.2%	Large Cap 9.0%	REITs 22.2%
Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	Cash 0.5%	REITs 8.3%	EM Equity 22.1%
DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Asset Alloc. -14.5%	Small Cap 7.9%	Comdty. 18.6%
REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	High Yield -15.6%	EM Equity 7.8%	Small Cap 17.7%
Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	Large Cap -18.3%	High Yield 7.2%	DM Equity 17.3%
Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	REITs -21.7%	Asset Alloc. 6.6%	Large Cap 14.0%
Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	DM Equity -22.8%	DM Equity 5.3%	High Yield 10.9%
High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Comdty. -23.0%	Fixed Income 4.1%	Asset Alloc. 10.0%
Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	EM Equity -25.1%	Cash 1.3%	Fixed Income 3.4%
Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	Small Cap -30.3%	Comdty. -2.6%	Cash 1.0%

Source: J.P. Morgan Asset Management, Asset Allocation

- The average 60/40 portfolio saw its largest quarterly drawdown since the Financial Crisis, losing 20% of its value. This has only occurred 4 times in the last 75 years.



Source: Haver

SECTORS

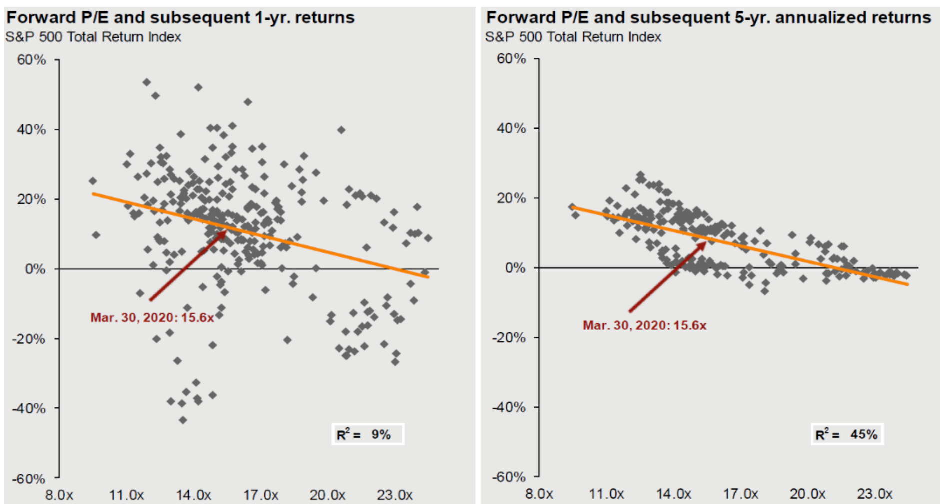
- Oil recorded its worst fall ever and reflecting that, Energy tumbled 51.3% for the quarter with 35.6% of that happening in March. Staples, Health Care, and Information Technology fell less than double digits in March, while Health Care and Information Technology are the "leaders" for the year, both *only* off -12.4% YTD.

	March			1Q2020			
GICS Sector	Absolute	Contribution	Relative	Absolute	Contribution	Relative	Wgt
Com Serv	-12.55	-1.24	0.67	-17.37	-1.71	2.85	10.3
Discretionary	-14.71	-1.36	-1.49	-19.78	-1.90	0.44	10.1
Staples	-5.73	-0.56	7.48	-13.19	-1.03	7.03	7.3
Energy	-35.63	-1.13	-22.42	-51.32	-1.93	-31.10	2.5
Financials	-22.30	-2.75	-9.09	-32.56	-4.23	-12.34	11.1
Health Care	-4.10	-0.75	9.11	-12.44	-1.77	7.78	15.3
Industrials	-19.54	-1.80	-6.32	-27.28	-2.58	-7.05	8.6
Info Tech	-9.31	-2.00	3.90	-12.46	-2.74	7.76	25.1
Materials	-14.70	-0.37	-1.48	-26.95	-0.70	-6.73	2.6
Real Estate	-18.27	-0.82	-5.05	-22.88	-1.03	-2.65	3.6
Utilities	-10.46	-0.44	2.76	-14.17	-0.59	6.05	3.5

Source: Jefferies

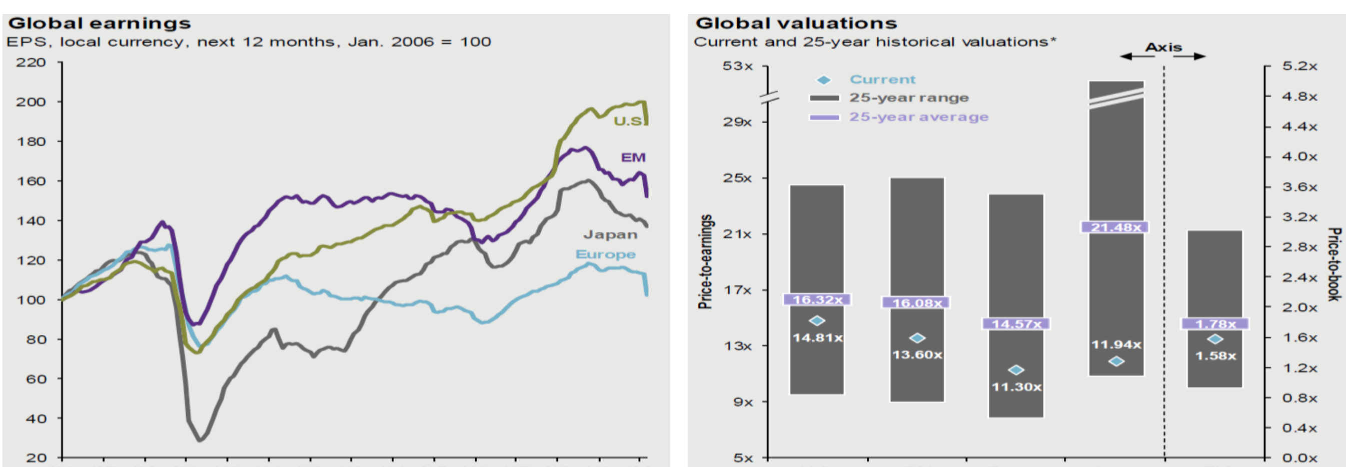
VALUATIONS

- This year saw new market highs, but more importantly, it saw near peak valuations, which have allowed for this bear market retreat to be quick and volatile. But there is a silver-lining – valuations have potentially reset. As we spoke about in our January Recap, high valuations lead to lower returns associated with higher risks (a bad combo) and low valuation leads to higher returns associated with lower risks (a good combo). We now see ourselves in the latter portion of the previous statement.



Source:JPMorgan Asset Management

- These valuations may change in the near future as the muddy waters of the current earnings landscape become less opaque. Analysts will be cutting single-stock numbers in the next few weeks (or months) will be massively lagging current estimates, which may alter valuations. Nonetheless, global valuations appear to be more attractive than where they stood to start the year.



Source: JPMorgan Asset Management

STYLE

- Much like 2019 (and since the previous market peak), Growth outperformed Value yet again in Q1, with the Russell 1000 Growth (-12.9%) "besting" the Value Index (-25.4%).

QTD

	Value	Blend	Growth
Large	-25.4%	-18.3%	-12.9%
Mid	-30.4%	-25.7%	-18.4%
Small	-35.5%	-30.3%	-25.3%

YTD

	Value	Blend	Growth
Large	-25.4%	-18.3%	-12.9%
Mid	-30.4%	-25.7%	-18.4%
Small	-35.5%	-30.3%	-25.3%

Since market peak (October 2007)

	Value	Blend	Growth
Large	58.0%	118.8%	193.0%
Mid	69.2%	97.5%	139.5%
Small	34.0%	63.1%	94.4%

Since market low (March 2009)

	Value	Blend	Growth
Large	293.9%	389.0%	497.6%
Mid	331.9%	376.5%	453.7%
Small	231.3%	293.2%	358.8%

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	12.4 / 13.6	15.6 / 15.5	20.3 / 18.9
Mid	11.7 / 14.2	14.7 / 16.1	21.8 / 20.6
Small	11.9 / 16.3	19.4 / 20.5	39.6 / 29.6

Current P/E as % of 20-year avg. P/E

	Value	Blend	Growth
Large	91.1%	101.1%	107.4%
Mid	82.9%	91.3%	105.9%
Small	72.6%	94.6%	133.7%

Source: J.P. Morgan Asset Management. Returns > 1 yr not annualized

- Taking the experience of the bear markets since the 1980s, including the collapse of the technology bubble in 2000-2002 and the GFC in 2008, we see a pattern of rebounds when the market reaches a trough. Historically, Small tends to outperform Large and Value outperforms Growth. When the bear heads back into hibernation, small has rallied almost 32% over the next six months and 43% over the full year. This compares to Large at 21.7% and 29.8%, respectively. Even more impressive is that over the last 10 recessions, Small has beaten Large 9 times.

Source: Jefferies

Chart 6 - Coming out of recessions, small is better...

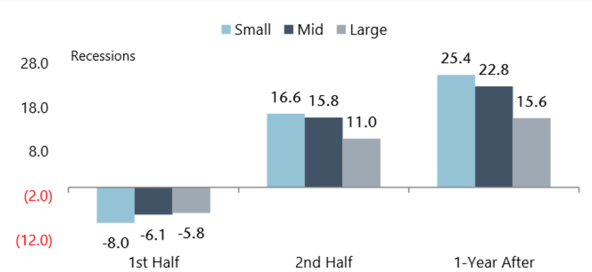
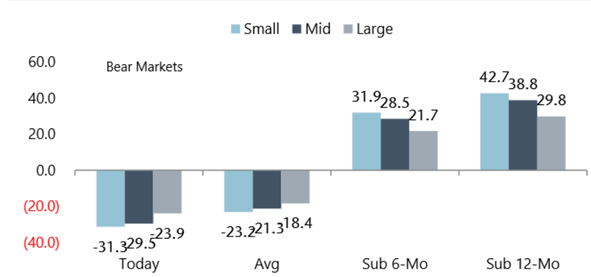


Chart 7 - ...And great performance once the bear hibernates



Source: Jefferies

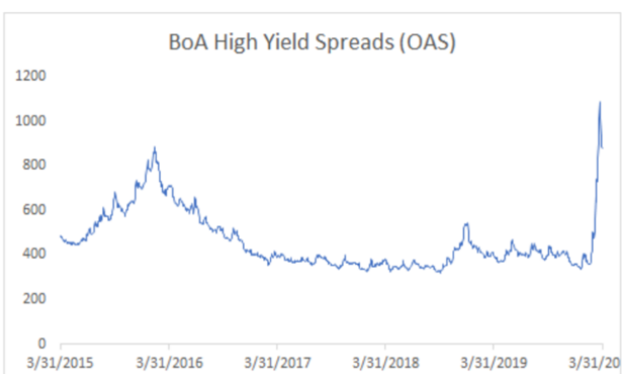
FIXED INCOME

- Over the course of the quarter, nearly all bonds had an incredible first month and a half as both interest rates declined, and credit spreads narrowed. As fear and over leverage became a reality after the coronavirus outbreak, the story was quite the opposite. You can see below the choppiness of returns over the quarter. For instance, at one point in March, Investment Grade Corporate Bonds were down nearly 20% for the year.

Fund Name	March 2020	YTD	1-YR	3-YR	5-YR	10-YR
Barclays Aggregate Bond Index	-0.59%	3.15%	8.93%	4.82%	3.36%	3.88%
Investment Grade Bonds	-6.31%	-2.97%	7.25%	5.05%	3.72%	5.38%
High-Yield Bonds	-10.43%	-11.61%	-6.26%	0.81%	2.05%	4.73%
Barclays Gov't 1-5YR	1.62%	3.76%	6.85%	3.27%	2.25%	1.99%
Barclays Intermediate Treasury	2.08%	5.25%	9.02%	4.15%	2.78%	2.86%
Barclays Long-Term US Treasury	6.05%	20.90%	32.64%	13.41%	7.33%	8.96%
Treasury TIPS	-1.76%	1.69%	6.85%	3.46%	2.67%	3.48%
U.S. MBS	1.06%	2.82%	7.03%	4.04%	2.94%	3.28%

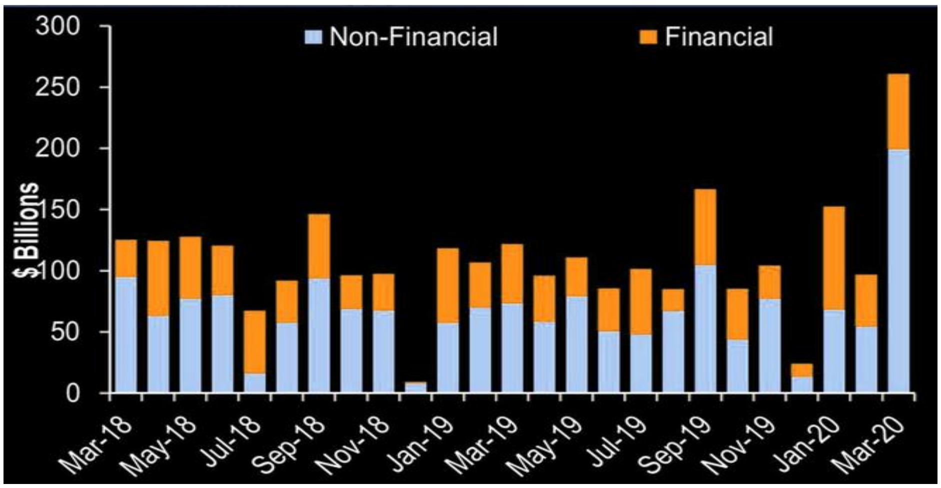
Source: Morningstar

- Following COVID-19 toll on the global economy, we've seen a massive repricing in credit which in turn has led to a shock wave of price dislocation and in some more speculative/leveraged products, fire sales. The Fed was forced into emergency interventions to boost funding in credit markets and ensure an adequate supply of U.S. dollars to calm the worst of the anxiety. But before this happened, we saw spreads substantially widen, as there was not enough liquidity in the markets, given the magnitude of selling.



Source: Factset

- Given this potential solvency crunch, companies took advantage of the gov't providing liquidity in the bond market to issue debt. From 3/9 to 3/20, issuing a new investment grade bond seemed inconceivable. Then, in the last week of March, the government's rescue package enabled 49 companies to issue $107B of investment-grade bonds. That made it the biggest week for issuance on record; part of the biggest month on record at $213B; and part of the biggest quarter on record at $473B, up 40% from Q1 2019.

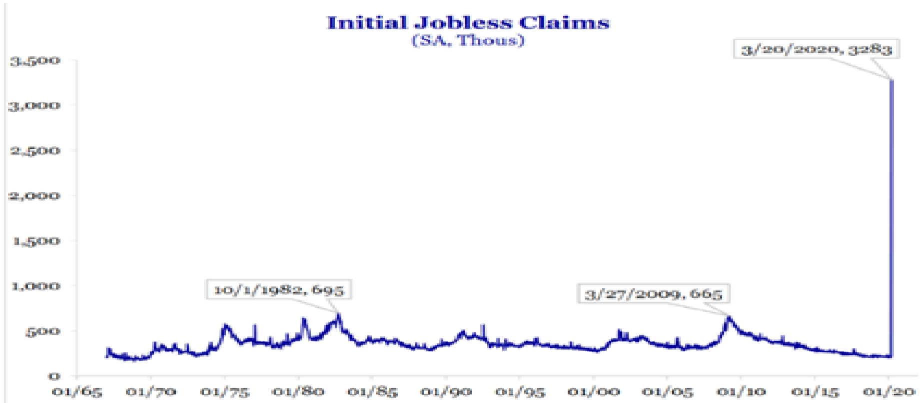


Source: Bank of America Merrill Lynch

ECONOMIC REVIEW

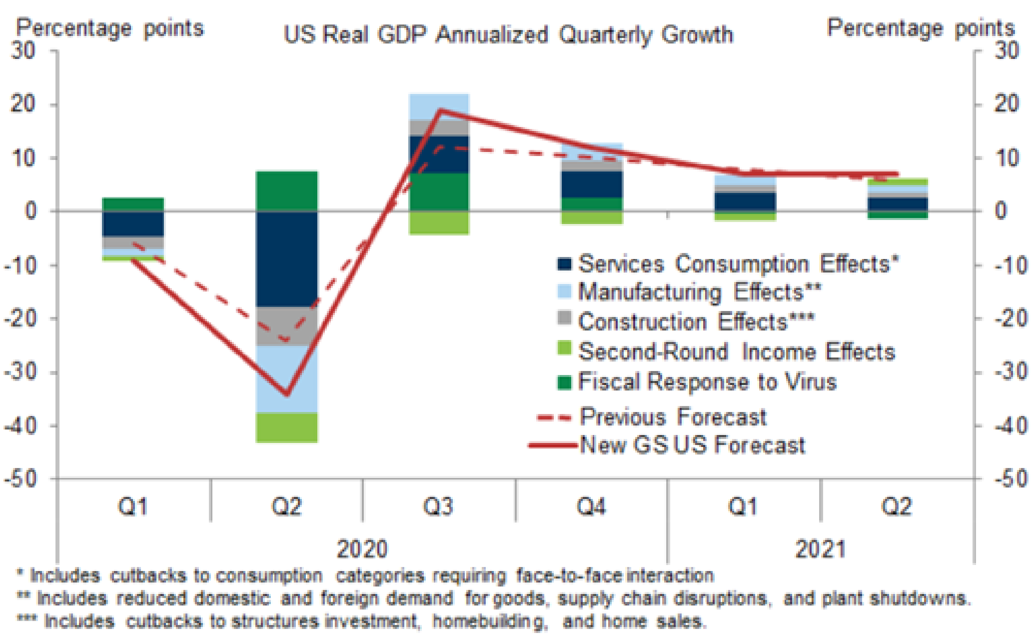
- Outside of the recent initial jobs report, the market has looked past almost all economic data. Why? Because most of it measured time periods before February 15th, thus not including the recent market volatility. Not to mention, the market expects these numbers to get significantly worse here in the near future. So, let's focus in on the initial jobless claims and the ever-changing GDP forecasts.

    - *Initial Jobless Claims:* Massive surges for weekly initial jobless claims show the economy coming to a standstill in many places. With 3.28 million jobless claims registered in the U.S. at the end of March (a 28 standard-deviation event), unemployment is set to rise dramatically – estimates as high at 15% by mid-year. The 700k drop in Non-Farm Payrolls only covered the back half of March; that alone took the unemployment rate from its cycle low of 3.5% to 4.1%. Given the initial claims, we can expect this number to rise dramatically through Q2.



Source: Strategas

- *U.S. GDP:* The US economic activity is expected to contract sharply throughout April as virus fears led consumers and businesses to continue to cut back on spending such as travel, entertainment, and restaurant meals. Emerging supply chain disruptions and the recent tightening in financial conditions will likely add to the growth hit. GDP estimates, which change almost daily, are currently expected to see a decline of (-9%) in Q1 and (-34%) in Q2 – finally rebounding in the 2H '20.



Source: Goldman Sachs

THE BACKDROP FOR THE REMAINDER OF 2020

The Good

- Support from both monetary policy and fiscal stimulus has been remarkable both in its size and swiftness. New initiatives have emerged at rapid speed to offset the worst impact of the downturn and to try to ensure a rapid and vigorous recovery. In effect, the Fed has taken more action than in the entire Global Financial Crisis (GFC) in just a few weeks.
- The earliest countries to contract the coronavirus have shown good progress regarding recovery.
- The banks are much less vulnerable than they were during the Financial Crisis, with only a third of the leverage. Thus, concerns for the health of the overall financial system are greatly reduced.

The Bad

- The Fed announced a simply historic set of measures designed to support the bond and credit markets, but this plan only supports liquidity in the market, and does not fix the underlying solvency problems for corporations.
- The good news for the VIX is that it is off of its recent highs. The bad news is that it hit levels not seen since '08/'09.

The Ugly

- The Unknown – The success of other countries in slowing the disease have been a function of widespread social distancing, testing, and temperature-taking to identify those who are infected. The U.S. is behind in all these regards.
- The economy will contract at a record pace, given that many millions of Americans will be unable to work and will be unable to patronize businesses. Many workers will miss paychecks and businesses will miss revenues.

[1] The “Asset Allocation” portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index.

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