Trumbower Financial Advisors, LLC
1st Quarter 2020
Investment Market Commentary

Echoes of the Past – Or - The Beginning of the End?

October 2008 – we noted that Bears "mounted a ruthless attack … that has yet to be repressed. Terrified by sensationalist journalists and blinded by short sightedness, investors en masse dumped anything without a US Grade A stamp of approval." That comment aptly describes global financial market responses to the pandemic that has billions of people hunkered down in their homes.

Those who sold into the fray of the '08 Financial Crisis were, in fact, short-sighted. We don't know yet if the fearful investors who roared out of their dens in Q1 '20 are smarter than your average bear or shot themselves in the paw.

We all understand why the human tragedy inflicted by COVID-19 has arrested global economic activity in an unprecedented manner. There is no reliable blueprint for eradicating the virus or thawing frozen solid commerce. One day we were going about our business and the next day we found ourselves in a bad horror movie. This realization incited the fastest -30%+ stock market decline in history. $12 trillion of value in equities evaporated over the course of a month - $4.3 trillion during the week of March 16th.

Unaware of the virus propagating in China, investors carried 2019's momentum into early 2020 spurring equities to new heights. That came to a screeching halt in mid February when the personal distancing mandate began to distance us from our capital. Prices crumbled fast and furiously until stocks bumped into a floor around March 23rd. Make no mistake – we aren't calling it a bottom and markets will remain exceedingly volatile for some time.

The S&P 500 finished Q1 down -19.6%. Mid and Small Cap US stocks fell -29.7% and -30.6%. Developed Foreign and Emerging Markets sloughed off -23.4% and -23.6%. Quarter end results don't tell the whole ugly story. The S&P 500 was down -34% from 2/19 through its late March low. Major

Selected Benchmark and Category Average Returns

Large Cap Equity

*Benchmark Indx & Category Average**	1st Q 2020 (Total Return)	12 Mos.
S&P 500 Growth	-14.50	-2.47
Large Cap Gr Avg	-14.48	-2.67
S&P 500 Value	-25.34	-12.20
Large Cap Val Avg	-26.87	-17.75
S&P 500 Index	-19.60	-6.98
Large Cap Blnd Avg	-21.18	-10.16

Mid Cap Equity

*Benchmark Indx & Category Average**	1st Q 2020 (Total Return)	12 Mos.
S&P MC 400 Growth	-24.72	-17.30
Mid Cap Gr Avg	-19.57	-9.49
S&P MC 400 Value	-35.09	-28.23
Mid Cap Val Avg	-33.02	-25.56
S & P 400 Index	-29.70	-22.51
Mid Cap Blnd Avg	-27.72	-19.55

Small Cap Equity

*Benchmark Indx & Category Average**	1st Q 2020 (Total Return)	12 Mos.
Russell 2000 Growth	-25.76	-18.58
Small Cap Gr Avg	-24.30	-17.69
Russell 2000 Value	-35.66	-29.64
Small Cap Val Avg	-37.27	-31.71
Russell 2000	-30.61	-23.99
Small Cap Blnd Avg	-33.15	-26.96

International Equity

*Benchmark Indx & Category Average**	1st Q 2020 (Total Return)	12 Mos.
MSCI EAFE	-23.43	-16.84
Intl Equity Avg	-23.33	-15.12

* **Category average** calculated using *Morningstar Direct*. Fund universe screened to include funds that meet the following criteria:

A. M-Star Category consistent with designated asset class and management style.
B. M-Star Style Box consistent with designated management style.
C. Fund's Objective consistent with asset class.
D. Excludes Index Funds.

We have not independently verified *Morningstar* data.

1st Quarter Equity Market Results

	1st Qtr. % Chg.	12-mo. % Chg.
S&P 500	-19.60	-6.98
S&P 400	-29.70	-22.51
Nasdaq	-13.95	0.70
Russ 2000	-30.61	-23.99
MSCI EAFE	-23.43	-16.84
MSCI Emg Mkt	-23.60	-17.69

indices recouped from 17% to 32% from 3/23 through 4/10. Trillions sit on the sidelines waiting to re-enter before a recovery is firmly entrenched. That money gets energized by each positive sound bite. Sparks of hope are then doused by grim predictions about the impact on global prosperity. Uncertainty, fear and speculation can put massive amounts of capital on the move and contribute to ongoing instability. The waves are unpredictable and dangerous to play in.

Investing is a sum zero game – there is a winner for every loser. Orange juice took first place in Q1 '20 climbing up almost 24% followed by Treasuries: 20-year +21.7% and 7-10 year +10.2%. The dollar advanced 4.5% just ahead of that other traditional safe haven – gold. Nymex Crude was beaten down -66.4%. The price dropped -54% during March alone setting record declines for any quarter or month. US crude futures settled in at around $20 a barrel while the crude volatility index soared.

Reports indicate unsurpassed storage levels of oil and related products worldwide. Tanker owners doubled their charges in less than a week and their stockholders were rewarded with appreciation ranging from 46% to 93%. Vanishing demand and spot prices below production costs are pushing over-leveraged producers into bankruptcy as they struggle to sell assets. The silver lining for consumers is lower fuel prices – gas is under $1 a gallon in some parts of the country. Locked down, however, not many people are benefiting from the windfall by filling their tanks or taking cheap flights.

Fixed Income is such a misnomer. There is nothing Fixed about it. Prices of many types of debt securities fell when investors scrambled to convert to cash and Treasuries. Credit spreads, the yield earned by other bonds over a Treasury of comparable maturity, ballooned. This occurs as demand for Treasuries mushrooms at the same time nervous bond holders peddle everything else. Investment grade and high yield corporate spreads widened but stand below peaks attained during the Financial Crisis.

Reminiscent of the '08 Credit Crunch, liquidity in municipals and US Agency securities lacking explicit government guarantees evaporated for a few days before the Federal Reserve came to the rescue. Prime money market funds that invest in higher risk notes stumbled and at least two Wall Street firms were forced to inject liquidity to meet redemptions. The core Fidelity money market funds our clients use are different. They only own very high-quality debt and aim for shorter duration virtually guaranteeing Net Asset Values will not "break the buck". Naturally, yields have slumped and remain barely positive.

Bond funds dabbling in anything other than US government guaranteed debt finished Q1 lower. Only 4% of the universe outpaced the Aggregate Bond Index (representing both Treasuries and corporate debt). The vast majority dealt negative returns and 33% were down more than -2%. If the '08 experience is foretelling, Fixed Income funds will recover losses quickly– possibly before year-end. At this writing they are already well ahead of March lows. Much of the decline in bond prices that occurred a dozen years ago was also driven by the fear factor. Aside from the famous Lehman Brothers bankruptcy, other major issuers were either "rescued" or managed to stay afloat. Prices skyrocketed during 2009 when investors realized disaster had been averted.

Our experience tells us that global economies will revive when the pandemic subsides – assuming it stays under control. Many businesses have changed the way they operate and are able to do so profitably while distancing employees, but it is impossible for so many others. This is not an unexpected "snow day" for 3.3 million people who filed for unemployment around March 26th and another 6.6 million who joined the ranks April 2nd – and the numbers keep getting bigger. To put this in perspective, the previous weekly record for claims filed was 695,000 in December 1982.

Policy responses, both monetary and fiscal, have been swift and immense. In early March, the Fed cut interest rates by -0.5% in a rare inter-meeting move and ramped up repurchase facilities to pump in liquidity. At the March 15th meeting, they slashed rates -1% sending the Fed Funds target back down to 0% to 0.25%, where it sat from December of 2008 until the end of 2015. A flurry of programs with numerous acronyms have unfurled. The important takeaway is that the central bank is proactively pouring "Draino" into the money pipeline.

In the first quarter of 2008 the Fed acted to put breaks on a snowball threatening to wipe out our most hallowed financial institutions. This time they are launching the arsenal in advance, extending loans collateralized by everything from municipals to bank CDs to corporate bonds and even Fixed Income ETFs. The Fed's balance sheet has already put on a trillion dollars this year.

Fiscal stimulus, named after the dreaded bug, Coronavirus Aid, Relief and Economic Security Act (CARES) is set to infuse the economy with $2.2 trillion. Direct payments to individuals facing prolonged unemployment are paltry, but the bill allocates $350 billion for emergency SBA loans. Loans of up to $10 million or 2.5 times payroll are forgivable if used to cover wages, mortgage, rent, and utilities. The goal is to mitigate the domino effect when bills don't get paid.

CARES reloaded the US Treasury's Exchange Stabilization Fund with ~ $450 billion that can be leveraged to support the alphabet soup of Fed initiatives. The Act includes rescue financing for airlines, air cargo carriers and national security related firms, emergency unemployment insurance, state and local support, $100 billion for hospitals and public healthcare providers and deferral of Federally guaranteed mortgage and student loan payments. The Treasury Department was instructed to close gaps and get money into the hands of mid-sized businesses with new loan guarantee arrangements. More legislation may be in the works and Congress is also focusing on oversight, hopefully to avoid abuses that tarnished the 2008 TARP relief program.

Central banks and governments around the world have announced monetary and fiscal stimulus measures. For example, the European Central Bank expanded and loosened restrictions on its ongoing asset purchases. The Bank of England cut its policy rate to 0.1%, juiced up quantitative easing and set up new government loan guarantee deals. The Bank of Japan has followed suit with enhanced asset purchases as Prime Minister Abe develops stimulus plans worth ~20% of GDP.

Goldman Sachs estimates US GDP will contract in Q1 and Q2 by -9% and -34%. They expect unemployment will crest at 15% midyear. They also forecast a rapid rebound, 19% in Q3 and 12% in Q4 thanks to the government intervention. Fitch predicts the hit to global GDP will be similar to the damage inflicted during the '08 Crisis but compressed into a shorter time frame. They expect GDP will fall -3.3% in the US and -4.2% in the Eurozone while China may grow <2%.

China officially reported a March rebound in manufacturing, service and construction activity while admitting things are far from normal. The rest of the world is still on the mend and China's dependency on international demand for its goods may curb the pace of its recuperation. Goldman Sachs tracks 58 real-time demand data points and observed flattening of improvements achieved in February. Domestic tourist attraction visits remain at 10% of early 2019 numbers. SpaceKnow monitors China from the sky. Based on infrared signals and pollution levels they conclude that the Chinese economy is still contracting. The overall activity index they compiled with April data is at the lowest point since reports of the virus emerged.

Some may argue that our recovery from the Financial Crisis-induced recession took too long, but ultimately the US economy did rebound and without the feared after-effect of expansionary monetary policy – inflation. CARES carries a steep price tag at ~ 9% of GDP and could boost the deficit to ~ 14% of GDP. Treasury bonds will be issued to finance it – which doesn't feel like a problem when the world is clamoring for them. Will the surge in borrowing eventually ignite inflation? The market isn't worried about that now. Inflation expectations for the next 10-years plummeted to 0.87% from 1.77% at year-end.

Economists note that the deficit may be sobering but nowhere near the record 27% achieved in financing World War II. The difference? Government spending in the 1940's created jobs and income while rationing boosted savings. This time we are merely staving off bankruptcies. The Fed's printing press will foot the bill – an invitation to inflation in the past.

A deep, prolonged worldwide recession is not out of the question. On the other hand, prompt meaningful global government stimulus and progress toward ending the pandemic could spark a rapid rebound. One way or the other we expect this disruption in our lives and financial systems will end. Echoing our recent communication, we advise clients to maintain reserves sufficient to ride out severe stock market declines. You incurred an opportunity cost when equities were advancing for the luxury of doing nothing while others panic. Since we cannot accurately predict the bottom, we have found it most prudent to sit tight. No guarantees but we have to believe this is not the beginning of the end.