

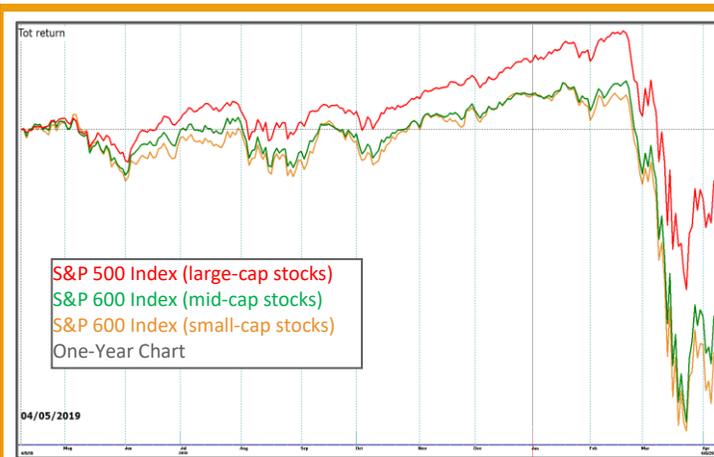


RGB Perspectives

April 6, 2020

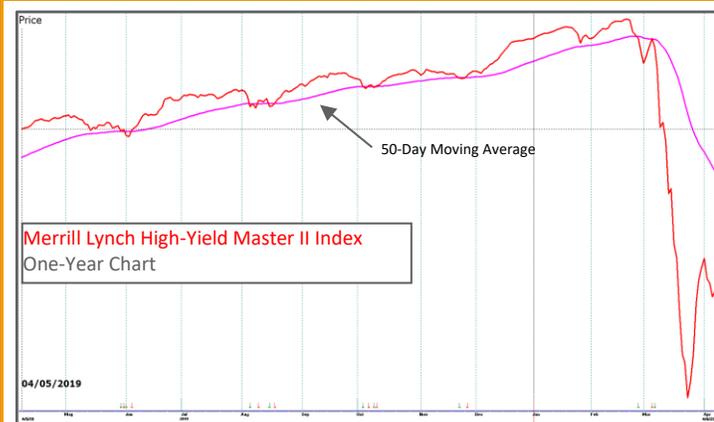
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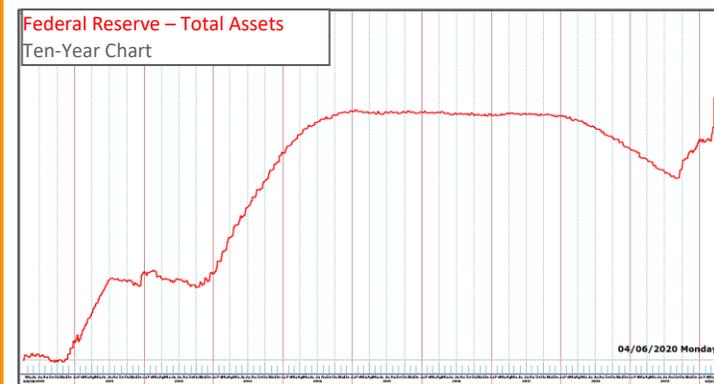


The stock market continues to display a potential bottoming pattern with stocks across the market-capitalization spectrum starting to trend up over the short-term. While the virus situation continues to seem bleak, this pattern of rising troughs is something that should be watched.

Large-cap stocks (**S&P 500 Index**) continue to outperform both mid-cap stocks (**S&P 400 Index**) and small-cap stocks (**S&P 600 Index**). That trend has persisted for over a year and accelerated over the last six weeks.



The potential improvement in the stock market is not yet confirmed by the **Merrill Lynch High-Yield Master II Index** (junk bond index). While junk bonds are off their recent lows, they still remain well below their 50-day moving average and did not bounce along with stocks today. Junk bonds tend to lag the stock market at significant turning points, so if the positive trend continues, I expect that junk bonds will trend up as well.



One reason for the improvement in the stock market is likely due to the actions of the Federal Reserve which is pouring trillions of dollars into the financial system. The **Federal Reserve - Total Assets** has increased by 40% since March 1 and now dramatically exceeds the amount held in the years following the Great Financial Crisis. When the Federal Reserve Total Assets grow, the money used to purchase those assets provides liquidity to the financial system.

In addition to the Federal Reserve supporting the financial system, the markets may also be reacting to positive news around the spread of the coronavirus with improvements in Europe and even some of the hardest hit areas in the US. Although it may not feel that we are making progress against the virus, the stock market, which is a forward-looking mechanism, may be seeing improvements down the road and the stock market is likely to bottom long before the coronavirus crisis has been brought under control.

The RGB Capital Group Core strategies remain very lightly invested with exposure to low volatility income funds. The Flex+ strategy maintains a reduced risk profile. I will continue to monitor the trends and attempt to align the portfolios to take advantage of any emerging trends. I hope all of you are healthy and safe during this unprecedented time.

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