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FIRST QUARTER 2020 MARKET RECAP

When Will (We and) the Economy Recover? How Soon Will "Economic Suspended Animation" End?

Higher Volatility Created More Anxiety

We experienced two very large emotional shocks during the first quarter. The coronavirus (COVID-19) was the first as it expanded to infect and kill people across the globe. The second was the financial shock of heightened daily volatility in the financial markets as they tried to absorb the economic impact of the COVID-19 pandemic.

We have spent the past four weeks completing our regular quarterly due diligence process that includes speaking with portfolio managers and strategists from many of the largest asset management companies in the world. In addition to our own research, normally we try to learn what sectors these experts think might be expected to do well going forward and those that could fall in value in the future. This process informs our tactical asset allocation overlay adjustment we consider each calendar quarter for clients. We then make our individual customized client portfolio recommendations based on your specific goals and tolerance for risk, while considering other factors that include whether you are withdrawing money from your portfolio.

This past month we have also been trying to learn the impact that the "economic suspended animation" we are now experiencing will have on the U.S. and global financial markets. We continue to focus on trying to understand how best to respond to this event driven decline in the financial markets and the way we can best serve our clients.

Below we have included both technical information as well as our "big picture" thoughts regarding what has happened and may be ahead. Most importantly, we are keen to discover how best we can make adjustments to help benefit our clients' investment portfolios.

If you prefer the "Reader's Digest" version of this lengthy report, you may want to scroll down to the "What Should You Do?" and "What Are We Doing?" sections near the end.

US Stock Market Recap

The Standard & Poor's 500 Index ("S&P 500"), which measures the performance of the 500 largest publicly traded companies in the US, dropped 19.6% during first quarter 2020 in response to the health and economic fallout from the coronavirus ("COVID-19") pandemic. Not only was this the worst decline in the S&P 500 since 1938, but the first quarter also included the fastest 30% sell-off ever, exceeding the pace of declines during the Great Depression (source: Bank of America Securities). After reaching an all-time high on February 19, the S&P 500 fell 35.3% through March 23 before recovering 11.6% by quarter-end in response to unprecedented monetary and fiscal stimulus programs put into effect by the Federal Reserve ("Fed") and the U.S. government (discussed in more detail below).

Within the S&P 500, technology (-11.9%), healthcare (-12.7%), and consumer staples (-12.7%) were the best sectors in the first quarter while energy (-50.5%), financials (-31.9%), and industrials (-27.1%) were the sectors with the poorest results. During 1Q 2020, value stocks, or shares of defensively oriented companies that generally have slower growth and higher dividend payouts, declined 25.3% while growth stocks, or shares of companies growing sales and profits faster than the broader market, fell 14.5%. The Russell 2500 Index, a measure of domestic small and mid-capitalization stocks (US companies with a market capitalization lower than $10 billion) dropped 29.7% in 1Q 2020.

International ("Foreign") Stocks Recap

Foreign stocks, both international developed markets and emerging markets, fared worse than U.S. stocks during 1Q 2020. The MSCI EAFE Index ("Europe, Australia-Asia, and Far East"), which measures the US dollar-denominated return of medium-to-large company stocks in developed markets outside of the US and Canada, fell 22.8% during the first quarter. Developed market stocks officially entered a bear market during the quarter after dropping 35.1% between January 17 and March 18 in the face of sharply rising COVID-19 cases, especially in Italy and Spain where case fatality rates were among the highest in the world (source: CEBM). (The U.S. Securities and Exchange Commission defines a bear market as any drop of 20% or more lasting at least two months. A bear market marks the end of a bull market, or an extended period of rising prices of 20% or greater, and typically occurs prior to or during a recession.)

Developed international small-to-mid ("smid") capitalization ("cap") stocks, as measured by the MSCI EAFE SMID Cap (US dollar) Index, declined 27.5% in 1Q 2020. Like their U.S. counterparts, developed international smid cap stocks experienced a sharper decline versus large cap stocks due to their higher perceived risk. While smid cap companies offer higher growth potential over the long run, they tend to have lower financial flexibility and more concentrated revenue and cash flow streams relative to larger companies. This makes them more vulnerable during economic downturns.

Emerging markets stocks (countries with less than a $25,000 per capita income), as measured by the MSCI Emerging Markets USD Index, fell 23.6% (on a US dollar-denominated basis) in 1Q 2020. Emerging market stocks also entered a bear market after dropping 35.0% between January 15 and March 23. Emerging market stocks outside of China were disproportionately hit harder due to their reliance on China as a major import destination and on Chinese tourists. According to Bloomberg, provinces accounting for almost 69% of Chinese gross domestic product ("GDP"), a key measure of economic activity, were on literal lockdown for most of first quarter. Stocks in oil producing emerging markets were also hit by the abrupt 65.6% decline in the benchmark "Brent Crude" oil prices during first quarter 2020.

Chinese stocks, which account for 33% of the value of the MSCI Emerging Markets USD Index, experienced much lower declines during the second quarter, dropping 10.2%. The Chinese stock market also fell into bear market territory during the quarter, declining 26.9% between January 13 and March 19. This drawdown, however, was not as sharp as what was experienced in the U.S. and international developed markets. This is somewhat counterintuitive, considering the COVID-19 pandemic originated in China, but after a shameful initial localized response to the virus, China moved decisively to impose extreme quarantining/social distancing measures that have resulted in a high level of containment. Toward the end of first quarter, it was broadly estimated that 85-86% of Chinese companies are fully operational with few significant Chinese supply chain issues (source: VanEck).

Real Assets and Alternatives Recap

The S&P Real Asset Index, which measures the results of physical assets including those that can produce relatively stable income streams, such as real estate and infrastructure assets, declined 20.5% in first quarter 2020. Inflation-sensitive real asset prices, namely commodities and natural resources, were especially impacted by the sharp decline in crude oil prices during the quarter as a result of the Saudi Arabia and Russia production dispute. Specifically, both countries failed to agree on additional production cuts to offset falling demand as a result of the COVID-19 pandemic, leading to Saudi Arabia's decision to increase production. The experts we consult with believe the Saudis were willing to use its cache of foreign currency reserves to subsidize its economy from lost oil revenues to take market share from the Russians to essentially make them pay for not agreeing to cut production. The unintended (or likely intended) consequences of this decision was to drive oil prices down to levels that would further damage Iran's economy, which was already under the strain of U.S. sanctions, and force U.S. energy producers to cut production.

Tangible, income-generating, fixed assets (namely global real estate and global infrastructure) generated mixed results relative to global stocks. The Dow Jones Global World Real Estate Index and the MSCI World Core Infrastructure Index dropped 25.9% and 19.0%, respectively, during the first quarter while the MSCI All Country World Index, a measure of global large cap stock performance, fell 21.4% in U.S. dollar

("USD") terms over the same period. Investors were more discerning regarding the durability income streams associated with these assets as COVID-19 spread across the globe. Income generated from infrastructure assets, such as regulated electricity assets, water treatment facilities, and communication towers, were deemed more desirable to the rental/lease income derived from real estate.

Unlike other infrastructure categories, the U.S. midstream energy sector was acutely impacted by cratering energy prices in the first quarter. The Alerian US Midstream Energy Index, which measures the results of U.S. companies that gather, process, transport, and store oil and gas, declined 54.1% during 1Q 2020. The abrupt collapse of Brent Crude oil prices to a low of $21.51 on March 22 increased concerns that the U.S. exploration and production ("E&P") sector (i.e. oil drillers) would set off a spike in bankruptcies should Brent Crude remain below the average breakeven price of $50 per barrel for an extended period of time (source: Dallas Federal Energy Survey). The last time the E&P sector experienced a massive wave of bankruptcies was in 2015/2016, when Brent Crude dropped to $26, the yield on the Alerian US Midstream Energy Index rose to a historical high of 10.4%. Even though the potential number of E&P Chapter 11 filings are expected to nearly match the number of bankruptcies during 2015/2016 (source: Haynes and Boone), the yield on the Alerian US Midstream Energy Index nearly doubled its prior peak, rising to 18.9% on March 18 (source: Tortoise).

U.S. midstream energy companies are in a much stronger financial condition today than they were back in 2015/2016, when 114 E&P companies filed for bankruptcy compared to only 13 midstream companies (WSJ Oil Bankruptcy Tracker). Since 2015/2016, there has been an industry-wide push towards simpler operating structures, lower leverage (borrowing), self-funding of the equity portion of capital expenditure programs, and more disciplined deployment of capital. An emphasis on the generation of free cash flow yields comparable to other S&P500 sectors has also emerged, achieved through the sale of non-core assets and the reduction of growth capital expenditures. Today, the U.S. midstream sector has much healthier distribution coverage ratios and more sustainable yields, and the risk of widespread defaults within this sector remains low.

The Credit Suisse Liquid Alternatives Index, which measures the returns of investment assets/strategies that have very low correlation (i.e. relationship) to traditional stocks and bonds (i.e. "alternatives"), declined 5.8% in 1Q 2020. Alternative assets continue to provide an effective means by which to diversify risk, especially during periods of financial market turbulence. On average, alternatives have outperformed the S&P 500 by 27% in bear markets since 1990 (source: Goldman Sachs).

U.S. Fixed Income (Bond Market) Recap

The Bloomberg Barclays US Aggregate Bond Index ("Barclays Agg"), a measure of high-quality U.S. bonds of all types (i.e. "core bonds"), rose 3.2 in 1Q 2020. U.S. Treasury bonds and agency mortgage-backed securities ("MBS") drove performance during the quarter while investment grade corporate bonds declined in value. The

Bloomberg Barclays Aggregate Treasury Index and the Bank of America Merrill Lynch U.S. MBS Index rose 8.2% and 2.8%, respectively, during the first quarter as investors sought shelter in government bonds in the wake of the COVID-19 induced market sell-off. The Bank of America Merrill Lynch U.S. Corporate Bond Index dropped 4.1% in the first quarter due to their relatively high correlation (relationship) to stocks. During the quarter, investment grade corporate bond spreads (i.e. the yield differential between a non-Treasury bond and a Treasury bond of similar maturity) widened to levels that inferred an average 1-year default rate of over 5.0% (source: PIMCO. To put this into perspective, the highest ever actual, one-year, default rate for investment grade corporate bonds was 0.5%, which occurred during the 2008 global financial crisis or "GFC" (source: CFI).

While their returns do not show it, U.S. investment grade bond prices experienced a wild ride during the first quarter, declining 11.5% between March 9 and March 19 before recovering 8.0% to end the quarter. Investment grade bonds were not spared from the "liquidity crunch" that occurred during the middle of March as investors of all types sought to raise cash by indiscriminately selling bonds, regardless of their perceived safety. The rush for cash was triggered by a sharp widening of credit spreads, which forced leveraged investors (e.g. private hedge funds, real estate investment trusts, and closed end funds) to sell assets to cover redemptions and to maintain required loan-to-asset ratios. Forced asset sales to meet redemptions from investors needing cash occurred among a handful of more aggressive, yield-seeking, mid-tier bond mutual funds as well as from corporations and other institutions needing cash to build reserves to cover near-term expenses. This perpetuated the negative liquidity situation. Ultimately, fear begot more fear and the combination of falling bond prices and heightened anxiety over the economic and health consequences of COVID-19 compelled many types of investors to hide out in cash.

The S&P National Municipal Bond Index, which is designed to measure the returns of the investment grade, tax-exempt bond market, declined 0.4% in the 1Q 2020. Despite robust credit fundamentals, municipal ("Muni") bond spreads also reached record highs during the quarter. Concerns over the credit worthiness of revenue-backed bond issuers and individual investor panic selling of anything liquid to raise cash caused investment grade muni bond prices to drop 15.3% between March 9 and March 19.

International Fixed Income (Bond) Recap

Outside of the US, the Bloomberg Barclays International Aggregate Bond USD Index, a measure of international developed markets investment grade bonds of all types, fell (in US dollar terms) 2.7% in 1Q 2020. Developed markets corporate bonds, as measured by the S&P International Corporate Bond Index, were especially hard hit declining 9.8% during the quarter while developed international government bonds dropped 2.0%, as measured by the S&P International Corporate Bond (USD) Index. A flight to relatively safe assets and a ramping up of monetary policy action by most major international central banks to offset the economic consequences of mandatory COVID-19 lockdowns

supported roughly flat (local) returns for developed international government bonds. Developed international corporate bonds fell victim to the same factors impacting U.S. investment grade corporate bonds, namely a high correlation to developed market equities and sharply widening credit spreads.

The Bloomberg Barclays Emerging Markets Aggregate Bond Index, which measures the results of USD-denominated debt of emerging markets government and corporate issuers, dropped 9.5% in the first quarter 2020. The uncertainty surrounding the spread and economic impact of COVID-19 and the abrupt crash in oil prices led to a rush of capital out of emerging markets. Emerging market bonds were especially impacted by the fear-driven rush for liquidity, which drove the price of USD-denominated emerging market bonds down 27.5% between February 21 and March 18. Emerging market bonds recovered a portion of this drawdown towards the end of the quarter in response to multiple central bank rate cuts and quantitative easing (“QE”) announcements and the resumption of economic activity in China.

Unprecedented Fed Monetary Policy Action

Investment grade bond prices ultimately recovered most of what was lost during 1Q 2020 due to unprecedented actions by the Federal Reserve (“Fed”) to backstop most of the bond market and to facilitate the flow of capital throughout the financial system. Between March 15 and March 31, the Fed dropped its target for short-term lending rates by 75bps (100 basis points is 1.00%) to a range of 0.00% to 0.25%, which was in addition to a 50bp rate cut on March 3, and restarted QE. The Fed pledged to buy an unlimited amount of Treasuries and agency MBS to stabilize these markets. The Fed also expanded this new QE program to include, for the first time, purchases of commercial MBS, short-term municipal bonds, new corporate bond issues, and corporate bonds on the secondary market (via the purchase of highly liquid corporate bond exchange traded funds should the price of these assets fall below their net asset value per share). The Fed also restarted its highly successful Term Asset-Backed Securities Loan Facility (TALF) that was used during the 2008 GFC to enable the issuances of asset backed securities (“ABS”) backed by student loans, credit card loans, and loans guaranteed by the small business administration (SBA). The Fed’s unprecedented monetary policy actions also included the elimination of bank reserve requirements and the introduction of seven new funding and credit facilities to support the flow of credit and the availability of capital to households, banks, businesses, municipalities, and foreign governments.

Perhaps the most significant new measure announced by the Fed will be its Main Street Business Lending program to support lending to eligible small-and-medium sized businesses (firms with between 500-10,000 employees and $10 million to $2.0 billion in revenue). While the Fed has yet to release specific details on this program, other than it will complement TALF, Joe Brusuelas, Chief Economist at RSM, expects the program will get at least $100 billion of federal funding to support as much as $1 trillion in new loans for mid-sized companies. Brusuelas expects the loans to come with “bargain

basement" interest rates of 2.0% to 2.5% and have a 5-year repayment window. This program will an important backstop to the economy considering there are approximately 200,000 midsized companies in the U.S. (source: Inc.).

One could argue the Fed may have been responsible for stoking the "liquidity crunch" that occurred in March by making a rare Sunday (March 15) announcement of its emergency measures just two days before a regularly scheduled policy meeting. Doing so may have conveyed a sense of urgency that undoubtedly heightened investors' fears of an imminent liquidity crisis. Nonetheless, the 2008 GFC taught the Fed that it needed to act swiftly and decisively to support the financial system. The scale of the Fed's response also dwarfs the entirety of monetary policy measures implemented during the 2008 GFC. The steps taken by the Fed will help to ensure adequate liquidity, smooth functioning of the short-term funding markets, and access to credit. Most importantly, recent Fed actions have firmly reestablished the "Fed Put," which will help to prop up sentiment within most bond sectors. (The "Fed Put" is a concept arising during the 2008 GFC that essentially means the Fed provides downside protection during volatile markets thereby stabilizing market conditions.)

The U.S. economy has come to a literal standstill as a result of stringent COVID-19 shelter-in-place measures and social distancing policies that have been implemented across the country. Citizens have been encouraged to work from home, schools have been cancelled, and most retail stores and restaurants/bars have closed in many major metropolitan cities. While the Fed monetary policy programs discussed above will primarily help medium-to-large sized companies, it does very little to support the 30.2 million small businesses that comprise 47.5% of U.S. employment (source: SBA). (A small business is loosely defined as firms with 500 or fewer employees and annual revenues under $10 million). In order to address this issue, the U.S. government put together a massive fiscal response aimed at limiting the economic damage to individuals and businesses (both large and small).

An Equally Unprecedented Fiscal Response

In a rare show of bipartisanship, congress approved, and the president signed into law three fiscal rescue packages over the course of March. The measures taken together amount to over $3.0 trillion of stimulus to temporarily help individuals, companies, and state and local governments. The largest of these packages, the $2.3 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, which became law on March 27, equates to roughly 11% of U.S. 2018 GDP and doubles the amount of stimulus that was employed during the 2008 GFC (source: Bloomberg).

Key provisions of the CARES Act include $560 billion for individuals (e.g. one-time stimulus checks, enhancements to unemployment insurance), $340 billion for state and local governments, $180 billion for public health (on top of $8.3 billion previously provided for vaccine development and state containment measures), and $377 billion directed towards small businesses to support the Paycheck Protection Program (forgivable loans for spending on payroll, rent, and utilities). The CARES Act also

includes $500 billion of support for big corporations, including $25 billion of loans to passenger air carriers, $4 billion of loans to cargo air carriers, and $17 billion of loans for businesses deemed critical to national security. Importantly, any company that takes out a loan must not engage in stock buybacks for the duration of the loan plus one year and must retain at least 90% of its employment level as of March 24. These loans also come with terms limiting executive compensation and severance pay.

The Trump Administration and House Democrats appear to be coalescing behind a New Deal-style jobs program as part of the next phase of federal COVID-19 response. It is speculated that this program will be a $2 trillion infrastructure package that will include funding for broadband, water systems, roads, and public transit. Republicans and Democrats have clashed for years over how to structure such a plan, but as COVID-19 ravages the economy, the prospects of a bipartisan bill have increased. The infrastructure issue is also expected to become a centerpiece for both President Trump's re-election campaign and the Democratic fight to retain control of the House and possibly take the Senate.

A "Checkmark-Shaped" Economic Recovery

The U.S. economy was on solid footing entering 2020 with the headwinds dissipating from the U.S.-China trade war and the global manufacturing contraction. However, within a matter of weeks the COVID-19 epidemic in China became a global pandemic. Strict efforts to contain the virus have effectively brought the U.S. economy to a standstill while also ending an 11-year economic expansion, the longest on record. The industries most acutely impacted by the abrupt deterioration in demand include consumer services (hotels, restaurants, and leisure), bricks-and-mortar retailing, and transportation.

Small businesses have also been tremendously hard hit as a large portion of these companies operate in these industries. Many small companies also do not have the financial flexibility to withstand a substantial deterioration in revenues for an extended time period. It is estimated that the median small business has less than a month worth of cash on hand (source: First Trust). This means at least half of all small business will need to eliminate as many costs as possible to remain in operation before government assistance is provided to keep them on life support. Initial claims for jobless benefits for the weeks ending March 21 and March 28 reflect this culling of costs with 3.3 million and 6.6 million people, respectively, filing for unemployment insurance for the first time. To put this into perspective, the long-term average for weekly new filings was 354,000 and the peak value reached during the 2008 GFC was 661,000 (source: Y Charts). According to Fidelity, these levels of weekly jobless claims should push the overall U.S. unemployment to a peak rate of approximately 15-20%, which will inevitably lead to comparisons to the Great Depression. There is an import caveat, however, during the Great Depression the unemployment rate not only spiked to 24.9%, but it remained in double-digits for a decade. Unlike the immediate and massive Fed policy and fiscal stimulus injections discussed above, Franklin Delano Roosevelt's New Deal was not launched until several years after the 1929 stock market crash.

The economists we track expect the U.S. economy will enter a relatively short but deep recession during the first half of 2020 followed by a rebound in economic activity sometime in the third quarter. (A recession is defined as two sequential quarters of negative annualized, quarter-over-quarter GDP growth.) It is important to note that this recession is different from other financial downturns. The current recession represents the first time the U.S. has voluntarily shutdown a healthy economy to stop a medical problem. Most U.S. recessions have been triggered by normal late-cycle dynamics (e.g. rising interest rates increasing borrowing costs and slowing economic growth) or by a structural problem within the economy (e.g. the near collapse of the U.S. banking system due the bursting of the real estate bubble during the 2008 GFC).

We expect a fairly quick rebound in economic activity as this crisis abates given the relative strength of the U.S. economy prior to the COVID-19 pandemic, the voluntary shutdown of an otherwise robust economy, the lack of a traditional trigger for the current recession, and the unprecedented scale and speed of the government's response. The key question, however, is what will be the trajectory of the recovery? Rather than a "V-shaped" recovery, which infers a sharp economic decline followed by an equally sharp full recovery of lost GDP, we anticipate more of a "checkmark-shaped" recovery. A checkmark recovery simply means we expect it will take 12-18 months for U.S. GPD to get back to pre-COVID-19 levels.

The factors that will determine the actual slope (or steepness) of the right side of the checkmark will be determined by disease progression, the effective execution of fiscal stimulus, how shelter-in-place restrictions are lifted, an infrastructure stimulus bill, and ultimately, a Federal Drug Administration ("FDA") approval of a COVID-19 vaccine. On a positive note, an influential epidemiological model used to track COVID-19, the University of Washington's Institute for Health Metrics and Evaluation, projects the virus will peak in the U.S. during the middle of April. As evidenced in China and South Korea, the decline in the number of new infections and deaths provided the impetus for governments to begin considering reducing restrictions on movement.

The key to a more rapid lifting of restrictions, however, will be dependent upon the number of COVID-19 tests administered each day as well as the need for broad serological ("blood") testing. Unfortunately, the current pace of test results per day of 129,000 to 155,000 (source: calculatedriskblog.com), would need to double to provide the opportunity for a more "V-shaped" recovery (source: Fidelity). The government also has not disclosed plans to conduct large scale serological testing. Such testing would not only provide the opportunity to more broadly administer passive immunity (the transfer of antibodies from recovered patients to severe patients), but it provides an effective means by which to quickly assimilate individuals back into society.

The trajectory of the economic recovery will also be determined by the timely execution of fiscal stimulus. The longer it takes economic support to reach individuals and small businesses the greater the likelihood for lost demand and a slower recovery. Anecdotal

evidence thus far on execution of the Payroll Protection Program ("PPP") is not encouraging. Banks appear overwhelmed and understaffed, or they are not yet setup up to facilitate PPP loan applications. The businesses we are aware of that have filed for a PPP loan, have been made to wait in a queue with no indication of when their application will be reviewed let alone approved. We anticipate another stimulus injection will be needed to support the PPP given the significant demand for this program, especially if the lifting of containment measures progresses on a slower path than what is occurring in other countries.

An Infrastructure Spending Bill and a COVID-19 Vaccine Could Accelerate the U.S. Economy's Move Out of Suspended Animation or Hibernation

The CARES Act is intended to keep the economy in "suspended animation" for the next 5 to 6 weeks until the spread of COVID-19 declines and restrictions are lifted. The approval of an infrastructure stimulus bill will provide a significant boost to the economy that will have much longer lasting implications. Such a bill will positively affect the trajectory of the next recovery, as it will provide jobs for unemployed individuals and opportunities for businesses that were permanently impaired by the COVID-19 crisis.

Ultimately, the availability of a COVID-19 vaccine will ensure the U.S. economy remains on a robust path to recovery. Moderna Inc.'s novel messenger RNA vaccine appears to be the furthest along in development. Immunogenicity data (i.e. study results that show the extent of an immune response) in healthy patients is expected to become available by the middle of June. If there are no significant side effects associated with this drug, it could be made available to frontline healthcare workers and first responders by the end of this year. Data from a large phase 3 trial is expected by the middle of next year. If positive, the drug is anticipated to become available to the general public during the second half of 2021.

Outlook for U.S. Stocks

As discussed in prior commentaries, we view the abrupt decline in U.S. stock prices to be the result of an exogenous shock attributed to COVID-19 containment measures. Such event-driven selloffs tend to have the shortest bear markets and have the fastest recovery periods. We have also maintained that equity markets would see more stabilization (i.e. lower absolute levels of daily price fluctuations) upon more definitive signs of a slowdown in the trend of new COVID-19 infections. We anticipate U.S. stocks will roughly follow historical patterns and enter into a new bull market cycle 3 to 6 months prior to the start of a new expansionary phase of U.S. economic (GDP) growth (source: First Trust). The economists we follow expect U.S. GDP growth to recover sometime in the third quarter of this year, which means the start of a new bull market in U.S. stocks could potentially occur sometime between April and July.

We are modestly increasing exposure to large U.S. stocks for many clients given the sell-off experienced in 1Q 2020 and ahead of a new potential bull market cycle in the coming months. We are cognizant, however, that the worst is yet to come in terms of

rising COVID-19-related deaths and very bad economic data. There is also the risk of unforeseen economic shocks that may arise from an economy kept on an extended period of hibernation. As such, we are not reducing our tactical target exposures to fixed income (bonds) but rather shifting the underlying mix of many client equity positions to include more large company stocks. We are doing this by tactically reducing weightings to global small company stocks. Orienting our clients' equity holdings towards higher quality large cap companies with more durable cash flows and stronger business models will lower overall portfolio volatility during potential market corrections while still allowing participation in a sustained equity rally.

Outlook for Foreign Stocks

We continue to prefer foreign stocks relative to U.S. equities due to significantly lower overall valuations and better growth prospects. The forward price-to-earnings ratio (i.e. "P/E" or current stock price divided by estimated earnings per share over the next 12 months) for the MSCI All Country World (ACWI) ex-US Index, which measures the performance of international developed markets and emerging markets stocks is currently 25% lower than the forward P/E ratio for the S&P 500 (source: FactSet). Historically (over the past 20 years), the forward P/E multiple for foreign stocks is 12% lower than the forward P/E multiple for US stocks. This means foreign stocks have the potential to rise 17% just by reverting back to historical valuations levels. This potential benefit excludes the upside gains associated with the narrowing of the valuation gap to U.S. stocks. A greater appreciation for the relative growth prospects of foreign markets, especially when U.S. dollar strength begins to abate post the COVID-19 crisis, would provide the impetus for this narrowing.

Prior to the COVID-19 global outbreak, foreign stocks were poised to outperform U.S. stocks due to the recovery in global manufacturing trends (after an extended period of reducing excessive inventory levels) and the improvement in global trade due to de-escalation of the U.S.-China trade war. The improvement in global industrial activity and trade disproportionately benefits foreign economies considering the average share of exports as a percentage of GDP for Japan, UK, Euro Area, and Canada is more than 2.4 times that of the US (20% versus 8%) (source: J.P. Morgan).

As part of our strategy to maintain overall tactical stock weightings while lowering near-term volatility within client portfolios, we are also increasing exposure to international developed market large company stocks. We intend to do this by diverting a portion of reinvestment into sectors especially hit hard during the 1Q 2020 market selloff (namely U.S. midstream energy stocks and emerging market stocks) and tactically reducing exposure to global small company stocks. The fund managers we use to gain exposure to international developed market stocks have the flexibility to hold up to 30% of fund assets in emerging market stocks. These managers have a proven ability to consistently outperform their benchmarks, while quickly adjusting their emerging market exposures based on perceived price dislocations. We will consider shifting a portion of client assets out of large company stocks and back into global small company stocks and emerging

market stocks when we have more confidence in the growth outlook for both the U.S. and global economies.

Outlook for Real Assets, Tactical Opportunities, and Alternative Investments

We continue to maintain our favorable outlook for the U.S. midstream energy sector, but we recognize the potential for these assets to remain under pressure over the coming months due to negative sentiment associated with the Saudi-Russian production dispute. Even if both countries were to reach an agreement on production cuts to stabilize oil prices, we still expect the recovery in U.S. midstream energy sector valuations will remain subdued until the E&P sectors works through a wave of bankruptcies set to occur over the coming months. We are comfortable with the underlying holdings owned in the funds we use to invest in the U.S. midstream energy sector. The manager we use to invest in this sector applied a rigorous stress test based on extremely bearish assumptions for oil prices and production. The results show that over the next four years distribution coverage, a measure of the margin of safety in a company's current dividend, remains healthy and cuts to distributions and dividends are not required for these companies to cover these payouts with cash flow. They also found that a key measure of leverage (i.e. the amount of income available to pay down debt) will not be elevated and will remain at levels considered to be worthy of investment grade ratings.

Once sentiment recovers, we expect significant appreciation in U.S. midstream valuations akin to what occurred after the 2015/2016 energy sector downturn when U.S. midstream energy stock prices rose 75% on average (source: Tortoise). In addition to offering one of the highest yields in the financial markets, there has been a significant increase in insider buying activity (i.e. personal purchases of company stock by various company executives) within the U.S. midstream sector, which typically is a leading indicator for positive results over the next 12 to 18 months (source: Invesco). There has also been a fundamental change within the midstream energy industry toward more shareholder-friendly capital deployment (debt reduction, sustainable yields and distribution growth, stock buybacks), a trend that should accelerate given the decline in drilling activity. Historically, this has been a key headwind to investor sentiment given the perception that U.S. midstream energy companies were only interested in using their capital to buildout their transfer/storage capabilities with little regard to indebtedness and stability of distributions.

For many clients, we are generally replacing a real asset fund that provides exposure to global real estate and global infrastructure with another fund that provides broader exposure to real assets. In addition to global real estate and global infrastructure, the new fund manager also invests in natural resource-related equities, commodities, and Treasury Inflation-Protected Securities (TIPS). Broadening the universe of real asset categories will enhance the long-term return potential of these assets, especially if the U.S. passes an infrastructure-spending package given the heightened demand for

commodities and natural resources. Broader exposure to real assets also enhances portfolio diversification and provides a more responsive hedge to inflation, via the fund's investments in commodities and TIPS. Inflation expectations were well contained during the prior economic cycle given the low growth environment in the U.S. and a strong U.S. dollar relative to other major currencies. We anticipate inflation pressures will be much higher during the next economic growth cycle primarily due to a structural weakening of the U.S. dollar over the intermediate-to-long term. The significant amount of economic stimulus provided by the government and the Fed is estimated to increase U.S. federal net debt (i.e. accumulated deficits) from 79.2% of GDP in 2019 to 110.8% by 2030 (source: JPMorgan). Historically, there is a high negative correlation between growing budget deficits and the U.S. dollar (source: Fidelity). This relationship becomes even stronger with growing "twin" deficits or when the U.S. has both a growing budget deficit and growing trade deficit.

We generally maintain our tactical emphasis on consumer staples, healthcare, and technology/communication sector stock investments within client portfolios where appropriate. We also maintain our tactical investment in Asia-Pacific stocks. We expect the "V-shaped" recovery occurring in China to provide a boost to valuations, especially since China/Hong Kong-domiciled stocks represent roughly half of the exposure in the fund we use to invest in this region. However, this boost may be somewhat muted over the near-term as India, which represents roughly 15% of fund assets, is in an earlier phase of its COVID-19 crisis. Ultimately, we expect COVID-19 to provide the impetus for a significant pickup in fiscal stimulus, particularly on infrastructure spending. This will help to improve sentiment since investors have been calling for India's government to increase its "fiscal impulse" to offset the slowdown in economic growth in 2018 to 2019 due to the contraction in global manufacturing activity.

We are not generally recommending adjustment of our clients' investments in alternative assets. The combination of managers/funds we use for clients that invest in this asset class have held up relatively well compared to global stocks. We will consider downward adjustment of the weightings to these assets, in favor or increasing weightings to traditional stocks, when we have greater confidence the equity markets have entered a new bull market cycle.

Outlook for Fixed Income (Bonds)

Bond market conditions have significantly improved as the Fed's massive policy initiatives have filtered through the financial system. The highest quality bonds, namely Treasury bonds and agency MBS, have regained what was lost during the mid-March liquidity crunch, and spreads on credit sensitive bonds continue to recover (from levels not witnessed since the 2008 GFC or even the Great Depression). With Fed monetary policy essentially backstopping the entire investment grade market, we expect bonds to act like bonds again (i.e. provide a ballast to portfolio returns during turbulent equity market environments).

Generally, we are lowering clients' investments in non-agency MBS (namely ABS backed by credit cards, home equity loans, auto loans, and student debt) due to an increased risk of consumer credit defaults, especially if the recession in the U.S. lasts longer than we currently anticipate. We are usually shifting proceeds from the sale of these bonds into an investment grade "core bond plus" fund that has the flexibility allocate capital among core investment grade sectors (Treasuries, agency-MBS, and investment grade corporate bonds) while also opportunistically investing up to 20% of fund assets in non-investment grade bonds. The unprecedented blowout in credit spreads has created a significant opportunity for this seasoned manager to identify mispriced securities within the corporate bond segment thereby enhancing the return potential of clients' bond holdings.

We are not generally recommending any adjustments to client municipal bond investments. Many portions of the investment grade municipal market have sold off despite their credit fundamentals remaining intact. The Fed's support of the municipal bond market will continue to tighten spreads, and there is the potential for municipal bonds to get a further boost should the Fed begin to buy municipal bonds with maturities of over 12 months.

We continue to recommend complementing clients' core bond holdings with US dollar-hedged, international developed markets investment grade bonds. The addition of these bonds lowers risk by diversifying U.S. duration (interest rate) and credit risks among multiple global markets. We maintain our positive outlook for emerging markets bonds even though these assets experienced significant price declines during 1Q 2020. This asset class remains one of the few areas within fixed income to offer attractive long-term, risk-adjusted, return opportunities supported by robust secular tailwinds. Over the coming quarters we will look for opportunities to boost exposure to these assets.

What Should You Do?

The most important thing to remember is that your investment portfolio contains fixed income (bonds) that can and will sustain portfolio withdrawals should you need them. We will not have to sell stocks during this market disruption to support clients needing cash distributions. The second most important item to consider is that the future will improve. Life will be better. We will go outdoors, return to our workplaces and be able to socialize with our family and friends. After this dark period in world history caused by COVID-19 ends, the future will be brighter. Companies will deliver products and services that consumers need. These companies will do so efficiently and profitably, rewarding owners of their stocks.

Lastly, while we do not know when the shelter-in-place directives will ease, we need to employ patience to keep ourselves and our society healthy and safe. Please try to be patient now, during this period of uncertainty. Patience is the best action you can take to help you succeed and to stay both physically and financially safe. You will benefit from

your patience by owning a diversified investment portfolio that we will adjust periodically so it can help you attain your financial goals and your life goals.

What Are We Doing?

We are communicating with our clients to listen to your concerns and respond appropriately to them. We know many of you are anxious. Adele, Judy, Jack, Charlie, Diane, Ann, and Chris are joining me in responding to your questions. They are also assisting in the preparation of helpful information for you. We are continuing to learn what might be different this time (other than this is a pandemic) from previous "event driven" recessions. We are continuously searching for helpful information that can assist us in better serving you, our clients. Our regular process of employing the research we analyze from recognized sources is being augmented by extra interviews with specialized experts to make sure we are able to learn as much as possible to help us recommend appropriate responses to benefit our clients. We are striving to learn and know as much as we can to better support you in attaining your goals.

We are employing social distancing for our staff. Most are working from home using our secure multi-factor authentication technology system (thanks to Advantage Microsystems, our Information Technology services partner for more than two decades, for providing the technology capabilities for our team to work remotely!). We do have team members answering the phones and processing mail and documents to continue to make certain we respond to any of your immediate needs.

We Want to Help You Attain Your Financial and Personal Goals!

The general information in this report is not intended to reflect our specific recommendations for any client portfolio. Please contact us with any questions to discuss your personal goals and your investment portfolio.

We invite you to visit our new website at www.ginsburgadvisors.com. Here you will learn more about our services, value proposition, and our team. The site also has a useful "Resources" section where you can access our previous market commentaries, watch informative videos, download our latest staff contact list, and access useful financial calculators and web links. Please be sure to check our website periodically, as we will be updating the functionality of the site to include a client portal and other useful applications.

We welcome the opportunity to discuss your goals and the most appropriate strategy to attain them. We are also honored to speak to any of your friends, associates, or relatives should they have an interest in our financial planning or investment management services.

Please stay healthy and safe!

This information was compiled by Ginsburg Financial Advisors.

Unless otherwise noted, financial data are as of March 31, 2020

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All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

Index descriptions:

-The MSCI EAFE SMID Cap Index captures mid and small cap representation across Developed Markets countries around the world, excluding the US and Canada. With 2,865 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country*

-The Dow Jones Global World Real Estate Index is designed to measure the performance of publicly traded real estate securities, including globally traded real estate investment trusts (REITs) and real estate operating companies (REOCs).

-The MSCI World Core Infrastructure Index captures large and mid-cap securities across the 23 Developed Markets (DM) countries. The Index is designed to represent the performance of listed companies within the developed markets that are engaged in core industrial infrastructure activities.

-The Russell 2500 Index is a broad index, featuring 2,500 stocks that cover the small- and mid-cap market capitalizations.

-The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada.

-The MSCI Emerging Markets Index stands for Morgan Stanley Capital International (MSCI), and is an index used to measure equity market performance in global emerging markets.

-MSCI ALL CHINA INDEX (USD) MSCI ALL CHINA INDEX. The MSCI All China Index captures large and mid-cap representation across all China securities listed in China and Hong Kong as well as in the US and Singapore.

-Standard & Poor's 500 (S&P 500). A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the US stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied.

-The S&P National AMT-Free Municipal Bond Index is a broad, comprehensive, market value-weighted index designed to measure the performance of the investment-grade tax-exempt U.S. municipal bond market. Bonds issued by U.S. territories, including Puerto Rico, are excluded from this index.

-The S&P Real Assets Index is the first index of its kind designed to measure global property, infrastructure, commodities, and inflation-linked bonds using liquid and investable component indices that track public equities, fixed income, and futures.

-Alerian Midstream Energy Index. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMNA) and on a total-return basis (AMNAX).

-The Wilshire Focused Liquid Alternative IndexSM measures the performance of a focused basket of mutual funds that provides risk adjusted exposure to equity hedge, global macro, relative value, and event driven alternative investment strategies.

-BofA Merrill Lynch US Corporate Index: Tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the US domestic market.

-BofA Merrill Lynch Constrained Duration US Mortgage Backed Securities Index - ETF Tracker. The index tracks the performance of US dollar denominated 30-year, 20-year and 15-year fixed rate residential mortgage pass-through securities publicly issued by US agencies in the US domestic market.

-The S&P National AMT-Free Municipal Bond Index is a broad, comprehensive, market value-weighted index designed to measure the performance of the investment-grade tax-exempt U.S. municipal bond market. Bonds issued by U.S. territories, including Puerto Rico, are excluded from this index.

-The Bloomberg Barclays US Aggregate Bond Index, or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

-JPMorgan EMBI Global Diversified Index - ETF Tracker. The index is an unmanaged, market-capitalization weighted, total-return index tracking the traded market for U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

-The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

-The MSCI ACWI is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets