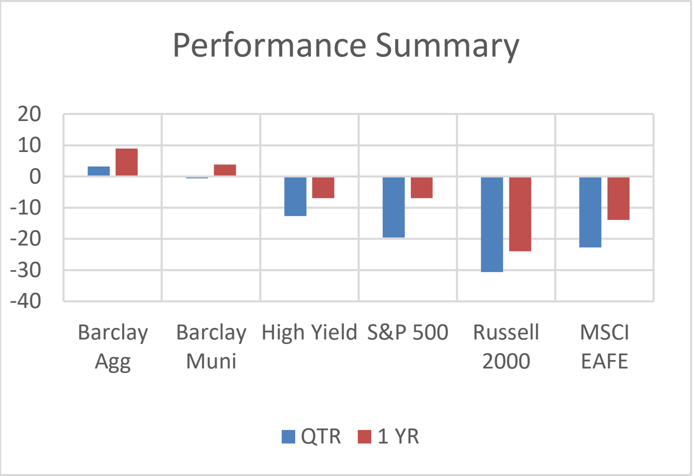
The first quarter of 2020 has proven to be unprecedented for financial markets. US stocks fell into a 20% bear market in the shortest time ever. They continued to drop and declined 30% in a record 30 days. Volatility, as measured by the VIX, reached its all-time high on March 16. Oil's 25% drop on March 9 was its biggest one-day drop since the 1991 Gulf War. Finally, 10-year and 30-year Treasury bond yields fell to all-time lows of 0.54% and 0.99%, respectively.



For the quarter, US large-cap stocks were down 20%, after bouncing from their historic drop. Small-cap stocks did even worse, falling 31%. Foreign stocks suffered big drawdowns, with developed market stocks down 23% and emerging market stocks down 24%.

In the fixed income markets, core bonds were up 3.2% and once again demonstrated their value as portfolio diversifiers. In contrast, riskier bond strategies such as high-yield and floating-rate bonds suffered sharp losses, with both down more than 12%.

As we enter the second quarter the US economy is probably already in recession, and it's likely to be a severe one. **The economy is facing both a sharp contraction in GDP and an unprecedented jump in unemployment. Estimates for GDP declines in the second quarter are ranging as high as 30%. The depth and duration of the recession, and the strength of the ensuing recovery, will likely depend on two key variables.**

1. **The effectiveness of our medical response and social policy efforts in flattening the infection curve**
2. **The speed and effectiveness of our fiscal, monetary and regulatory policy response**

A key lesson from the 2008 financial crisis is the policy response needs to be implemented quickly and be significant in magnitude to be effective. As we write, the Federal Reserve and other major central banks seem to have gone "all-in" to support the fluid functioning of credit, lending, and financial markets, and their critical role as the "plumbing" of the real economy. Congress and the Trump administration seem to be on the same page that massive action needs to be taken. On March 27, Congress passed, and the president signed into law, a $2 trillion stimulus package, with more stimulus likely to come. The economy faces significant challenges in the quarters ahead, and these actions won't solve all the issues, and more action is likely needed, but it's a good start. Below we touch on a few topics we think are important to investors and some concluding thoughts.

Bear Market Rallies:

This bear market has been unusual, not because of the size of the decline but rather its speed and volatility. It's hard to believe the US market was at record highs just 5 weeks ago. The decline into bear market territory (down 20%) happened in record time, just 16 days, which is the fastest drop since 1929. Then in the last full week of March, the market preceded to rally 18% in just 3 days, the strongest move since the 1930s. This whipsaw action leaves investors wondering if the worst of the market decline is behind us and a new bull market may be starting. The reality is nobody knows, the circumstances of the current pandemic are unprecedented, and its long-term economic impact is still unclear. **In times of uncertainty, looking to history can provide helpful guidance. Not because the fact pattern of this bear market is the same previous ones, but rather because bear markets tend to be driven by investor behavior, which does repeat itself!**

It's important to remember that bear market rallies, like we experienced in late March, are not unusual and should be kept in perspective. For example, between September and December 2008, the S&P 500 experienced six distinct bounces of 9% or more, occurring between one and six trading days. Despite those bear market rallies the market low did not actually occur until March of 2009, when the pace of economic decline began to slow. The table below is a summary of global bear market rallies experienced since the 1980s. It highlights the number of "rallies" that occurred during each bear market, how long they lasted, the magnitude of their returns, and other measures. The takeaway being, it is not usual to see multiple rallies before the ultimate bottom is reached, and we are not convinced the market low is in. **As a reminder, here are some of the preconditions we will look for to have confidence we are close to the bottom of this bear market: 1- cheap valuations; 2- coordinated monetary & fiscal policy; 3- a slowing in virus transmissions; 4- improving breadth (technical conditions) in the market.**

Dividends:

Looking forward we believe dividends will be a large component of future returns and an area where investors should focus their attention. However, we caution that investors need to be selective in the dividend securities they choose. As analysts are projecting S&P 500 dividends will decline by as much as 25% in 2020. To capitalize on the opportunity in dividends, and limit the risk of dividend cuts, we suggest investors focus on the following when selecting investments. Avoid the hardest-hit sectors with risky business models, and look for companies with these qualities: strong balance sheets (low leverage, reasonable payout ratios, sustainable earnings growth), and have a long history of consistently paying dividends.

Exhibit 3: Historical examples of bear market rallies

MSCI AC World - Bear Market Rally

Global Bear Market Rally	Start	End	Length days	MSCI AC World (%)	Cyclicals vs. Defensives (%)	Value vs. Growth (%)	EM vs. DM (%)	Small vs. Large (%)	US 10y BY (Δ bp)
Recession & Stagflation	26-Oct-81	04-Dec-81	39	10.3	0.2	-1.8	-	-	-2.44
	17-Mar-82	07-May-82	51	9.2	0.6	-1.3	-	-	-0.33
Program trading collapse	20-Oct-87	21-Oct-87	1	7.9	-0.8	0.0	-	-	-0.11
Recession & Oil shock	02-Apr-90	17-Jul-90	106	15.3	-1.3	-3.4	10.0	-	-0.21
Dot-com bubble	23-May-00	17-Jul-00	55	8.7	3.6	-9.1	3.0	1.0	-0.29
	22-Mar-01	21-May-01	60	14.7	5.3	-0.3	-7.5	-0.2	0.68
	21-Sep-01	04-Jan-02	105	20.1	17.8	-5.1	13.3	1.5	0.46
	06-Feb-02	19-Mar-02	41	9.2	3.3	3.5	-2.2	-0.4	0.39
	23-Jul-02	22-Aug-02	30	13.9	-3.0	-0.6	-14.8	-6.7	-0.16
	09-Oct-02	28-Nov-02	50	18.6	12.6	6.5	-2.6	-0.3	0.67
Global Financial Crisis	22-Jan-08	27-Feb-08	36	8.4	5.5	-1.9	6.2	2.5	0.37
	17-Mar-08	19-May-08	63	13.9	7.0	-2.0	5.7	-0.2	0.53
	17-Sep-08	19-Sep-08	2	8.2	4.9	2.9	1.8	-0.9	0.38
	10-Oct-08	14-Oct-08	4	12.5	0.6	1.8	1.3	-3.5	0.18
	27-Oct-08	04-Nov-08	8	21.8	5.7	-0.2	9.9	0.0	0.03
	20-Nov-08	06-Jan-09	47	23.8	8.9	1.1	6.3	3.3	-0.64
China & Oil turbsulences	29-Sep-15	03-Nov-15	35	10.8	2.2	-0.7	0.1	-2.4	0.16
COVID-19	23-Mar-20	26-Mar-20	3	16.5	3.1	1.7	-4.1	1.1	0.04
Average			**39**	**13.5**	**4.2**	**-0.5**	**1.8**	**-0.4**	**0.0**
Median			**39**	**13.2**	**3.4**	**-0.5**	**1.8**	**-0.2**	**0.1**
Hit rate			**-**	**100%**	**83%**	**33%**	**67%**	**36%**	**61%**

Source: Goldman Sachs Global Investment Research

Closing Thoughts:

While the news may sound dark and hopeless at times, remember this too shall pass. The world has faced many challenges and economic downturns and has always come out on the other side. We are all facing unique risks and unknowns today, but we remain confident in the resilience of the American people and our long-term future. **Don't lose sight that when asset prices drop, future returns increase!** We are seeing much better valuations in global stocks, high-yield bonds, commodities, and other asset classes today that have us more optimistic about future returns than we were a couple of months ago. We anticipate very good buying opportunities ahead but patience may be required first. During these historic times, the key is to make sure your portfolio is well positioned for your specific needs and to stay disciplined in your investment decisions. For anyone withdrawing from their portfolio, it is important to have plenty of liquidity and at least a couple of years of spending set aside in safety assets (cash and high-quality bonds) that will allow you to ride out this period of historic market volatility. If you have any questions about your investment strategy in this market environment don't hesitate to give us a call.

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	Valuations have improved, but earnings estimates have been slow to be revised downwards. We expect earnings to drop by as much as 30%, which will likely keep pressure on stocks in the near-term. We expect to upgrade stocks on further pullbacks and we believe it will create some great buying opportunities in high quality dividend paying stocks for the long-term.
U.S. Small/Mid Cap	↓	We remain underweight small/mid-cap stocks and believe low quality and over leveraged businesses are most at risk. When this economic cycle bottoms we will look for upgrade opportunities.
International Developed	↔	Valuations are attractive for the long-term. We like dividend paying stocks but would focus on the highest quality balance sheets with consistent earnings power and relatively low payout ratios. We plan to upgrade on further pullbacks.
Emerging Markets	↔	Valuations are very attractive for the long-term. However, emerging markets tend to be high beta and are always susceptible to further selloffs in bear markets and volatile times. Wait till this crisis settles down and then upgrade to an overweight.

Fixed Income		
Investment Grade	↓	With the 10- year treasury yield near 0.6% we are under-weight core bonds and overweight cash. We recommend keeping some exposure for disciplined risk management and diversification purposes.
High-Yield Bonds	↔	We have upgraded HY to neutral based on a close to 20% selloff from the peak. Valuations have improved and we are comfortable adding small positions in portfolios, if the selloff continues we will upgrade to overweight as risk/reward improves.
Municipal Bonds	↔	We are neutral on municipal bonds, however they remain attractive for high tax-bracket investors. We have some concerns about liquidity in the short-term and would suggest investing with a long-term mindset.
TIPS	↔	Valuation is poor. We are comfortable holding a position in tax-deferred accounts as a long-term hedge against inflation.
Floating-Rate Loans	↔	Similar to HY bonds we have upgraded our rating to neutral on FRLs. FRLs sold off by close to 20% and valuation has improved. On further pullbacks we would look to overweight in portfolios.
Emerging Markets	↔	This asset class can experience big performance swings and direct exposure may only be appropriate for higher risk tolerant investors. We get some exposure thru our core bond managers and don't anticipate buying any direct positions.

Alternatives		
Absolute-Return/Alternatives	↔	We like this asset class but have lowered our rating to neutral based on the sell-off in global stocks. We like cash as a hedge against further volatility in the financial markets and will look to add back to stocks on further sell-offs.
REITs	↓	REITs have dropped significantly in value the past quarter and we are concerned some REITs may be permanently impaired. On further selloffs we will upgrade this asset class as we like it as a portfolio diversifier and source of dividend income.
Commodities/Gold	↔	We view commodities as an effective way for long-term investors to diversify their portfolios and hedge against higher inflation. Commodities have been in a long-term bear market and when this cycle bottoms, we see significant upside. Gold has performed well as a hedge and small positions are reasonable in portfolios. Energy is oversold and long-term investors should consider buying.

U.S. Stocks
Market Performance, First Quarter 2020

Index	Q1 2020	1 YR
S&P 500	(19.60%)	(6.98%)
Russell 1000	(20.22%)	(8.03%)
Russell 1000 Value	(26.73%)	(17.17%)
Russell 1000 Growth	(14.10%)	0.91%
Russell Midcap	(27.07%)	(18.31%)
Russell 2000	(30.61%)	(23.99%)

Source: Morningstar

- Global stocks are in a historical bear market, the speed and volatility of the selloff has been unprecedented. Valuations have improved, however we expect more earnings downgrades to keep pressure on stocks.

- Growth stocks outperformed value by a wide margin. Mainly because of significant sell-offs in energy, financials and materials, which tend to be in the value sector. Value stocks are not likely to outperform until the economy starts to improve

- We are seeing very opportunities to upgrade portfolios into high quality dividend paying stocks. Long-term investors should view this bear market as an opportunity to improve future returns.

International Stocks
Market Performance, First Quarter 2020

Index	Q1 2020	1 YR
MSCI EAFE	(22.72%)	(13.92%)
MCSI EME	(23.57%)	(17.36%)
MSCI BRIC	(20.92%)	(14.62%)

Source: Morningstar

- Foreign developed markets are in a bear market. Valuations are improving and long-term we like this asset class as markets bottom.

- Twin deficits in the US are ballooning, and when this crisis ends we expect the US $ will trade lower. If the Dollar does sell-off we think it will be a catalyst for better foreign stock performance. Emerging markets, particularly value stocks, may offer the best absolute return potential over the next 5 years.

Fixed Income

Market Performance, First Quarter 2020

Index	Q1 2020	1 YR
Vanguard Total Bond Index	3.25%	8.95%
Barclays Muni Bond	(0.63%)	3.85%
Barclays US Corp High-Yield	(12.68%)	(6.94%)
JPM GBI- EM Global Diversified	(15.21%)	(6.52%)
iShares TIPS Bond	1.67%	6.71%
BofA Merrill Lynch 3 month Treasury Note	0.30%	2.20%

Source: Morningstar

- Core bonds were positive for the quarter, up 3.2%. With interest rates at current levels we would be underweight core bonds, keep durations relatively short and overweight cash.
- High-yield bonds sold off sharply in the first quarter and we upgraded them to neutral. In more aggressive accounts we think it is appropriate to start positions and if the sell-off were to continue we would start to upgrade to an overweight position.

Alternative Assets

Market Performance, First Quarter 2020

Strategies	Q1 2020	1 YR
PIMCO All Asset All Authority	(19.37%)	(16.32%)
AQR Diversified Arbitrage	(6.67%)	(1.96%)
JPMorgan Hedged Equity	(4.93%)	3.68%
Vanguard REIT	(24.11%)	(16.60%)
BNY Mellon Global Real Return	(9.27%)	(3.05%)

Source: Morningstar

- Most alternative assets held up relatively well compared to stocks in the quarter. We continue to like cash and gold as diversifiers and hedges against further market volatility.
- We like alternative assets as a strategic way to reduce risk and increase absolute returns in portfolios. We plan to maintain a position in alternative assets unless we see a significant pullback in traditional assets. We expect alternatives to significantly outperform bonds over the full market cycle.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
JPMorgan Hedged Equity	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.

Alternative Assets		Description
Vanguard REIT	ETF	The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
BNY Mellon Global Real Return	Mutual Fund	The fund allocates its investments among global equities, bonds and cash, and, generally to a lesser extent, other asset classes, including real estate, commodities, currencies and alternative or non-traditional asset classes and strategies, primarily those accessed through derivative instruments.