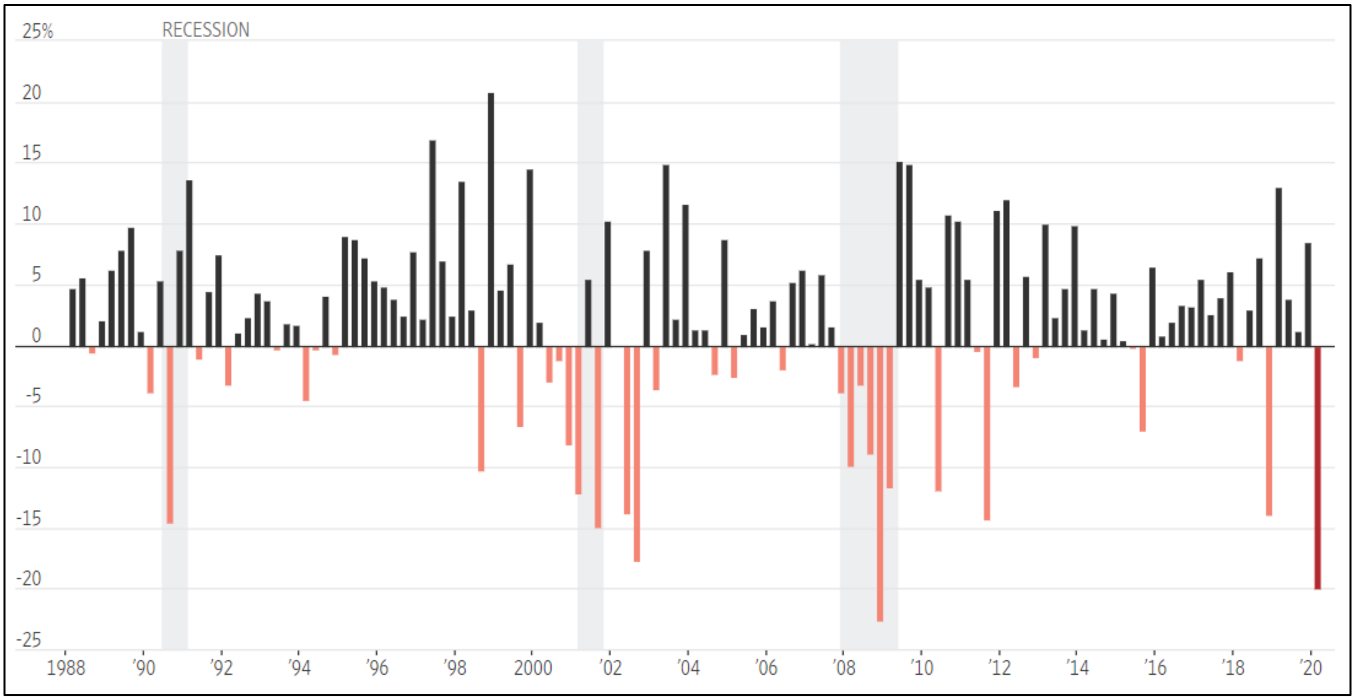
Monthly Investment Update

April 2, 2020

March was a difficult month, both in terms of the societal and human impact of the COVID-19 coronavirus and for returns to investors holding risk assets. The S&P 500 declined 12 percent for the month bringing the year-to-date losses to nearly 20 percent, resulting in the largest quarterly loss for the index since 2008 (Chart 1). The index put in a near-term bottom on March 23rd as Washington and the US Federal Reserve were rolling out massive fiscal and monetary stimulus measures to help blunt the economic impacts of the virus. The more than $2 trillion fiscal stimulus package passed by Congress and signed by the President included:

- $450 billion toward a Federal Reserve emergency lending program;
- $1,200 in direct payments to individuals, and $500 for each child (though the program phases out for higher income earners);
- Increases to unemployment benefits such as an additional 13 weeks and the potential for an extra $600 per week in payments to those who become unemployed;
- $350 billion in loans to small businesses;
- $500 billion in rescue financing for struggling industries such as airlines;
- $100 billion for hospitals.

Chart 1: Quarterly S&P 500 Returns



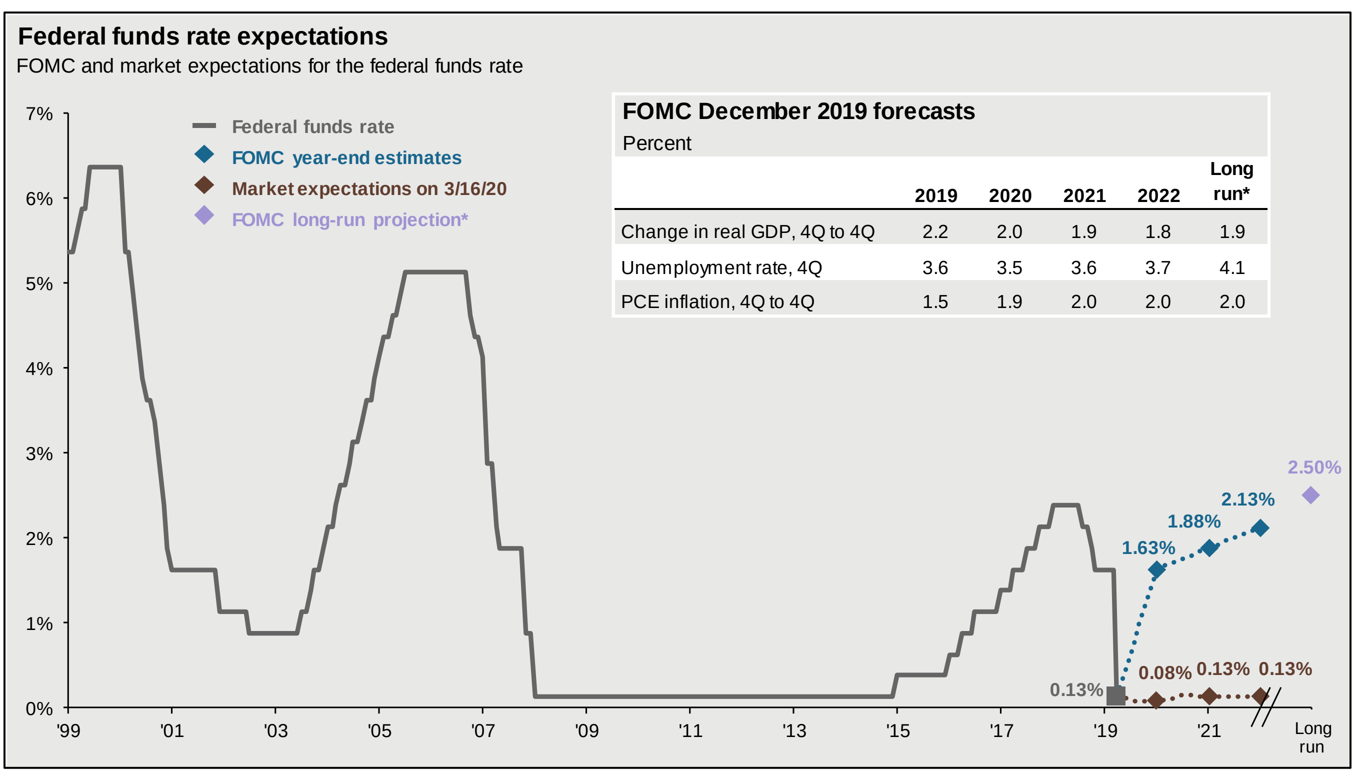
Source: Factset

The Federal Reserve also announced new and "extensive" measures to support corporate debt markets, and mentioned a direct lending program targeting small businesses to be unveiled in the coming weeks. The Fed announced that it would step in to buy US Treasuries and agency-backed mortgage securities "in the amounts needed" and will also begin purchases of commercial mortgage-backed securities. The Fed's new corporate debt support vehicle, the Primary Market Corporate Credit Facility (PMCCF), will directly purchase eligible corporate bonds from investment-grade issuers in addition to a Secondary Market Corporate Credit Facility (SMCCF) which has the latitude to purchase corporate bonds on the secondary market, including some investment-grade exchange-traded funds. Previous guidance for the amounts of government bonds and commercial paper have been suspended until at least September 30, 2020.

The yield on US Treasury securities also declined significantly during the quarter. Ten-year US Treasury Notes now pay investors just 0.7%, down from 1.9% at the end of 2019, and Two-year Treasury Notes pay only 0.2%, down from 1.6%. As a result, investors will once again be forced to take more risk in their portfolios in an effort to find income.

The steep decline in shorter-term rates happened largely in March as investors (correctly) anticipated that the Federal Reserve would move its benchmark rate for Fed Funds to near zero, which it did as part of a series of emergency meetings in mid-March (Chart 2). The Fed's dual mandate of facilitating stable prices and full employment likely was a key factor in the decision as governments and economists have been anticipating a massive spike in unemployment as a result of the response to the virus which includes significant business closures. For the week ended March 21, the first week following the ramp up in quarantine efforts, initial jobless claims, as reported by the US Department of Labor, rose to 3.3 million, the largest weekly increase in history (Chart 3).

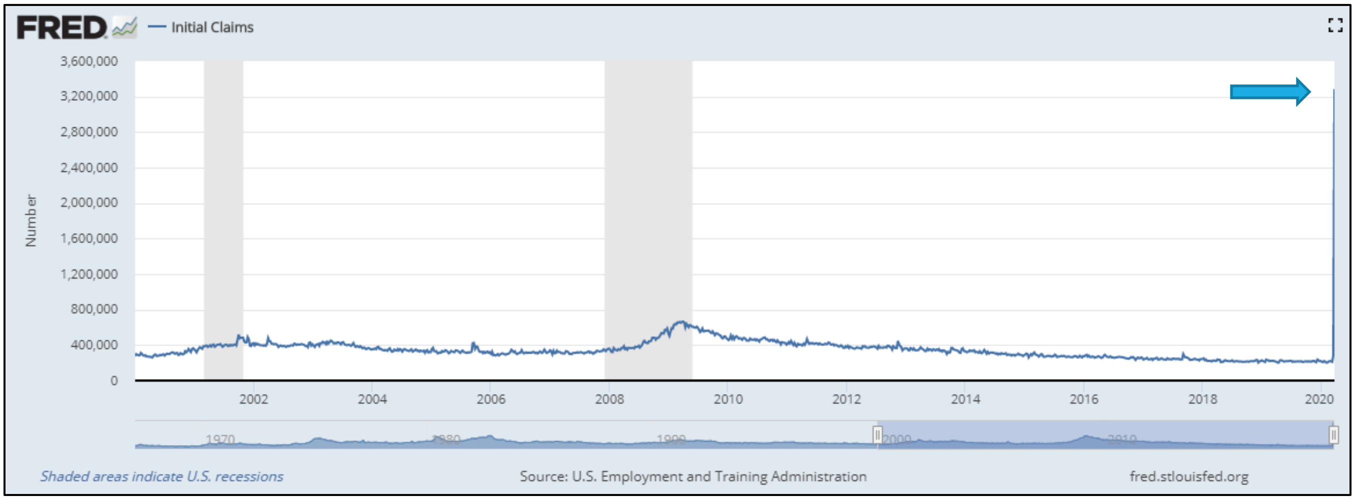
Chart 2: Federal Reserve Interest Rate Policy



	2019	2020	2021	2022	Long run*
Change in real GDP, 4Q to 4Q	2.2	2.0	1.9	1.8	1.9
Unemployment rate, 4Q	3.6	3.5	3.6	3.7	4.1
PCE inflation, 4Q to 4Q	1.5	1.9	2.0	2.0	2.0

Source: JPMorgan Guide to the Markets

Chart 3: Initial Jobless Claims



Somewhat in the background of the all the news related to the COVID-19 pandemic and economic fallout has been the oil price war between Saudi Arabia and Russia. To the dismay of their OPEC counterparts, the countries have ceased limiting production volumes in an effort to gain market share, particularly from the US which has become one of the largest oil and natural gas producers in the world over the last 10 years (Chart 4). As a result, oil has entered a new and sharp bear market, ending March at just above $20 per barrel for West Texas Intermediate crude oil, and the S&P 500 energy sector lost more than 50 percent during the quarter (Chart 5).

Chart 4: Oil Market Dynamics

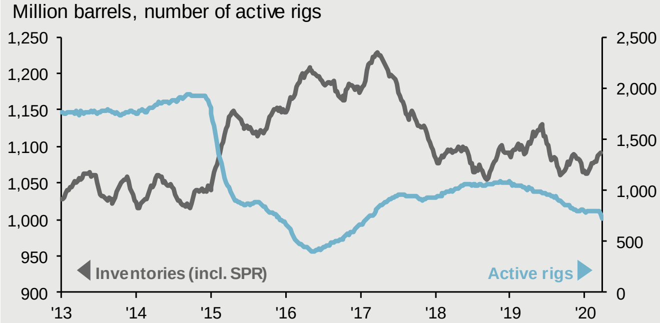
Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	2017	2018	2019	2020*	2021*	Growth since '17
U.S.	15.7	17.9	19.5	20.9	20.8	32.8%
OPEC	37.4	37.3	35.2	34.2	34.5	-7.8%
Russia	11.2	11.4	11.5	11.6	11.5	2.8%
Global	**98.1**	**100.8**	**100.6**	**102.1**	**102.4**	**4.4%**
Consumption						
U.S.	20.0	20.5	20.5	20.5	20.7	3.8%
China	13.6	14.0	14.5	14.6	15.4	13.4%
Global	**98.7**	**100.0**	**100.8**	**101.1**	**102.9**	**4.2%**
Inventory Change	-0.6	0.8	-0.2	1.0	-0.4	

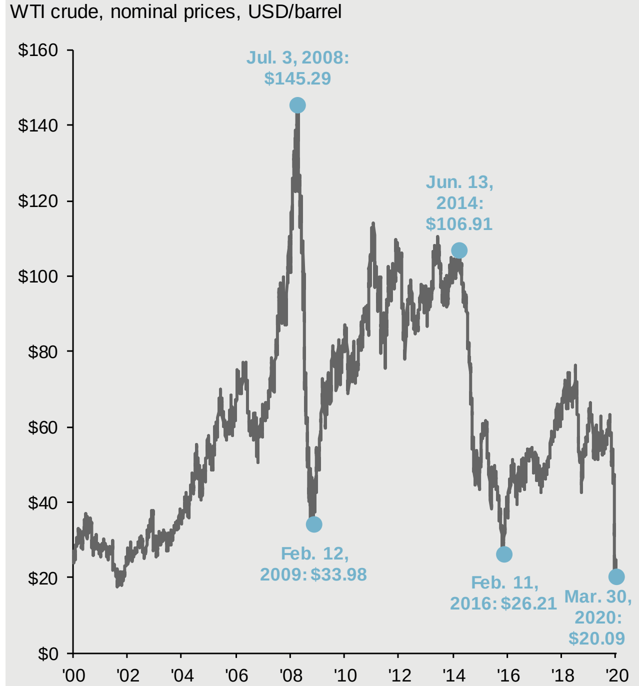
U.S. crude oil inventories and rig count**

Million barrels, number of active rigs



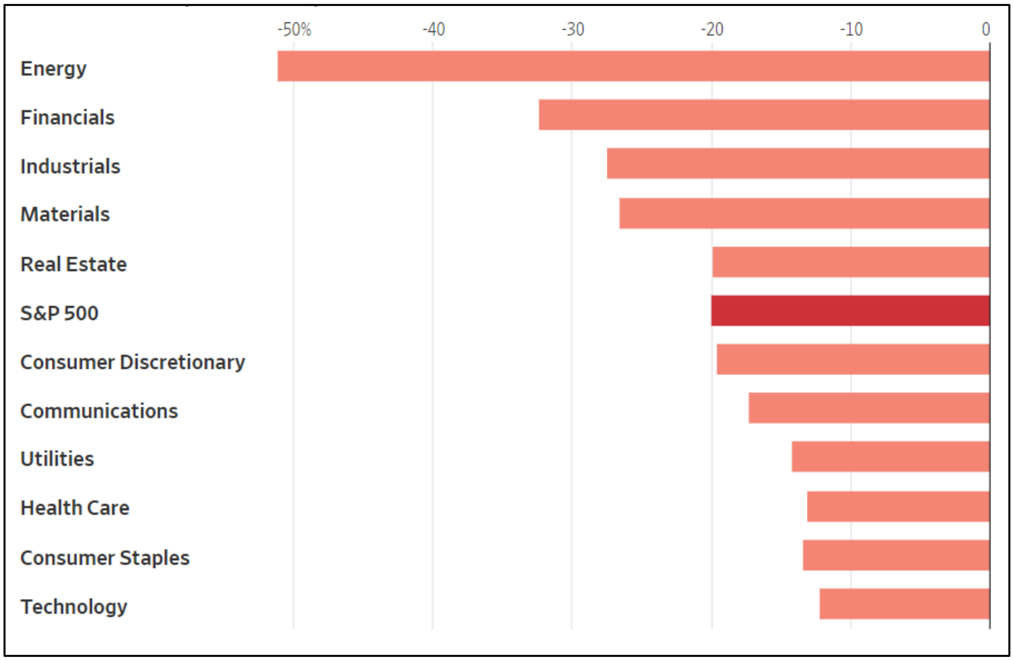
Price of oil

WTI crude, nominal prices, USD/barrel



Source: JPMorgan Guide to the Markets

Chart 5: Year-to-Date Performance by Sector for the S&P 500



Source: Factset

What are the implications for investors?

A great deal of uncertainty still exists regarding the economic, human, and societal impact of the COVID-19 virus. While the S&P 500 declined nearly 20 percent for the quarter, it's important to remember that it rose approximately 400 percent from the lows of March 2009 through mid-February of this year (Chart 6). Companies and analysts are attempting to estimate corporate earnings for 2020, but the task looks increasingly difficult. The index now trades near 16 times 2019 earnings, which is roughly in-line with long-term averages. The massive fiscal and monetary stimulus being provided seems to have put a short-term floor under the market, but we anticipate continued volatility as data related to the virus and economic impact are reported in the second quarter.

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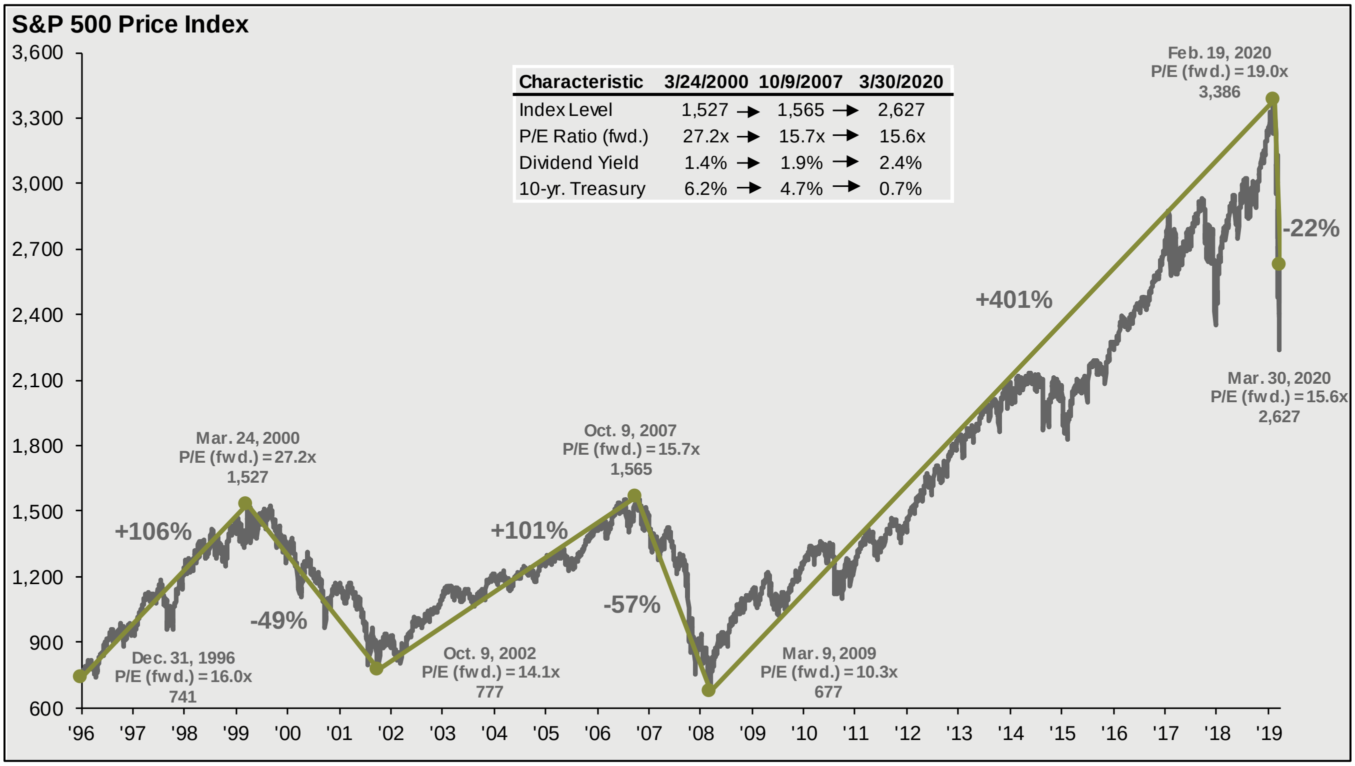
Chart 6: S&P 500 Price Performance



Source: JPMorgan Guide to the Markets

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Asset Class Returns

Category	Representative Index	March 2020	YTD 2020	Full Year 2019
Global Equity	MSCI All-Country World Index	-13.5%	-21.4%	26.6%
US Large Cap Equity	S&P 500	-12.4%	-19.6%	31.5%
US Small Cap Equity	Russell 2000	-21.7%	-30.6%	25.5%
Foreign Developed Equity	MSCI EAFE	-13.4%	-22.8%	22.0%
Emerging Market Equity	MSCI Emerging Markets	-15.4%	-23.6%	18.4%
US High Yield Fixed Income	ICE BofAML High Yield	-11.8%	-13.1%	14.4%
US Fixed Income	Barclays Aggregate Bond	-0.6%	3.2%	8.7%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.1%	0.5%	2.2%

Prices & Interest Rates

Representative Index	Current	Year-End 2019
S&P 500	2,585	3,231
Dow Jones Industrial Avg.	21,502	28,538
NASDAQ	7,720	8,973
Crude Oil	$20.28	$61.21
Gold	$1,592	$1,520
US Dollar	$99.05	$96.39
2 Year Treasury	0.23%	1.58%
10 Year Treasury	0.70%	1.92%
30 Year Treasury	1.35%	2.39%

Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)
As of March 31, 2020

These are unprecedented times, but we continue to be encouraged by communities coming together to support each other and stem the spread of the virus. As always, we appreciate the opportunity to work with you and we welcome any questions you may have. We hope you, your family, and friends remain safe and healthy.