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Economic & Market Review

First Quarter 2020

Gould Asset Management®

Economic Review

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US Comes to Grips with Coronavirus

The US economy grew at a 2.2% annualized rate in the fourth quarter of 2019 before the coronavirus outbreak hit the country. Estimates for first quarter GDP generally indicate a single-digit-percentage contraction. Looking ahead to the second quarter, it is possible we see year-on-year GDP declines in the 20%-30% range.

Jobless claims in the US skyrocketed to unprecedented levels as over 10 million people filed for unemployment benefits in the last two weeks of March. The beginning of April saw an additional 6.6 million jobless claims, bringing the thee-week total to an astonishing 16.8 million, or 10% of the American workforce. The previous one-week peak in jobless claims was 695,000 in October 1982.

Manufacturing activity fell less than expected in March but still signaled the sector is in contraction. New orders received by factories dropped to an 11-year low, supporting the view that the US is already in recession.

Government Vows "Whatever it Takes"

The Fed and Congress agreed to sweeping fiscal and monetary stimulus measures to alleviate the gargantuan economic burden caused by social distancing.

Congress passed the CARES Act, easily America's largest stimulus bill in history ($2.3T, with potentially more coming soon) that provides additional unemployment benefits, direct stimulus checks to qualifying individuals, forgivable loans to small businesses, and other forms of relief.

The Fed also quickly moved to stabilize financial markets. In just weeks, the Fed cut rates to near zero, implemented programs to purchase unprecedented amounts of bonds (some in the form of ETFs), and even began lending directly to businesses.

Fed Chair **Jerome Powell said the Fed could inject almost unlimited relief into capital markets** if the Treasury Department continues to provide a backstop for bad loans.

Economic Review

First Quarter 2020

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A Grim Outlook for Foreign Developed Countries

The Euro area expanded 0.1% over the fourth quarter, slowing from its third quarter rate of 0.3%. With France and Italy already contracting, **Europe is expecting a full-blown recession** now that most of the area is on lockdown.

The European Central Bank also ramped up its monetary stimulus measures, announcing its most aggressive sovereign bond-purchasing program ever, as governments borrow to support their economies.

Japan's economy shrank 1.8% during the fourth quarter as a sales tax hike weighed on private consumption. Like the rest of the developed world, Japan also faces a severe recession. The Bank of Japan passed measures to help companies obtain loans and increased its purchases of Japanese stock funds.

Emerging Markets at Different Stages of the Fight

China's economic activity remains severely disrupted amid the coronavirus outbreak. Transportation is still restricted, and consumption and manufacturing have been hit hard. Like in the US and Europe, China's government began fiscal and monetary stimulus in an attempt to prop up activity.

In contrast to China, **India appears to be at the beginning stages of its battle with coronavirus.** GDP growth is expected to fall to a multi-decade low as the full effects of the pandemic become apparent.

Crude oil prices plummeted in March amid a price war between Saudi Arabia and Russia after negotiations broke down. While this was good news at the pump for consumers, it was bad news for all oil exporting nations, as well as oil-related industries and the banks who lend to them. The two countries appeared to be nearing agreement in principle in early April to cut production and reduce the global crude glut.

Market Review: Stocks

First Quarter 2020

Stocks Fall Sharply to Begin 2020 as Coronavirus Pandemic Batters World Markets

The first quarter of 2020 will be forever remembered for the COVID-19 global health crisis and the heavy toll it took on world economies and markets. Stocks suffered steep declines as countries went on lockdown, businesses were shuttered, and millions of employees were furloughed or laid off.

In the US, large cap stocks, as measured by the S&P 500 stock index, fell 19.6% on the quarter. The decline felt all the more jarring, since the S&P 500 had just reached a new all-time high on February 19th before unraveling as the magnitude of the virus's impact became clear.

At its worst point in March, **the US stock market was down 33.9% from its mid-February high, a stunning and rapid end to a 10+ year bull market run,** which had been the longest in history.

Every US sector declined in the first quarter, with financials (down 31.9%), industrials (down 27.1%), and materials (down 26.3%) the hardest hit (we consider energy an alternative asset and discuss it in more detail in our Alternative Assets section below). **Technology and healthcare were the lone relative bright spots,** declining a more modest 11.9% and 12.7%, respectively on the quarter.

International developed stocks (down 22.7%) **and emerging markets** (down 23.6%) **fell a little more than US equities,** with China and the eurozone at the epicenter of the virus' early spread. A strong US dollar (up 7.1%) proved to be an additional headwind for foreign stocks on the quarter.

As markets tumbled, market volatility, as measured by the VIX volatility index, surged to remarkable levels. During some of the worst days in March, VIX peaked above 80—levels not seen since the worst of the 2008 financial crisis. At quarter-end, markets were still highly volatile with VIX at 53.5, a far cry from the sleepy 13.8 reading at the end of 2019.

Returns for the Quarter (%)

Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*
US Large Cap Stocks	-6.98	5.10	6.73
US Mid/Small Cap Stocks	-20.53	-1.86	1.53
International Developed Stocks	-13.92	-1.33	-0.13
Emerging Markets Stocks	-17.36	-1.25	0.01
Global Stocks	-10.76	2.05	3.41

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US)

Market Review: Bonds

First Quarter 2020

US Government and Other High-Quality Bonds Move Higher as Fed Enacts Emergency Measures

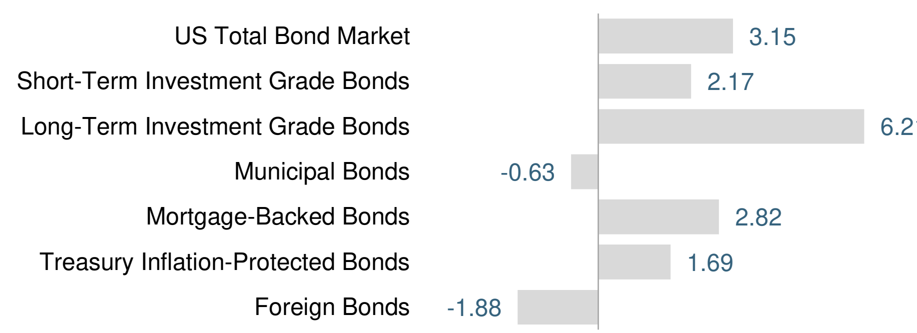
The Fed threw the proverbial "kitchen sink" at markets, cutting short-term interest rates to their lower bound and restarting and expanding asset purchase programs (aka Quantitative Easing). US government and high-quality corporate bonds responded favorably, with the Bloomberg Barclays Aggregate Bond index rising 3.2% on the quarter.

Like the stock market, however, **it was a volatile quarter for bonds as a race for safety and liquidity created conditions that required the Fed to step in** to ensure the orderly functioning of fixed income markets. And not all bond sectors were winners. High yield corporate bonds, for example, fell 12.7%, while the Bloomberg Barclays Municipal Bond index declined a more modest 0.6%.

US Treasury bond yields fell across the yield curve in response to the Fed's actions and expectations of a global recession and subdued inflation. The 3-month T-bill yield declined from 1.55% at the end of 2019 to 0.11% on March 31st, while the yield on the 10-year US Treasury dropped from 1.92% to 0.70% over the quarter.

As is often the case in a falling yield environment, long-term bonds were the best performers, rising 6.2%, as measured by the Bloomberg Barclays Govt/Credit Long-Term Bond index. This illustrates why maintaining a small allocation to long-duration bonds (as we do in many of our portfolios) can provide positive diversification benefits during periods of stock market turbulence.

Returns for the Quarter (%)



Period Returns (%)

**Annualized*

Asset Class	1 Year	3 Years*	5 Years*
US Total Bond Market	8.93	4.82	3.36
Short-Term Investment Grade Bonds	5.58	3.08	2.27
Long-Term Investment Grade Bonds	19.32	9.68	5.99
Municipal Bonds	3.85	3.96	3.19
Mortgage-Backed Bonds	7.03	4.04	2.94
Treasury Inflation-Protected Bonds	6.85	3.46	2.67
Foreign Bonds	1.79	3.14	2.39

Market Review: Alternatives

First Quarter 2020

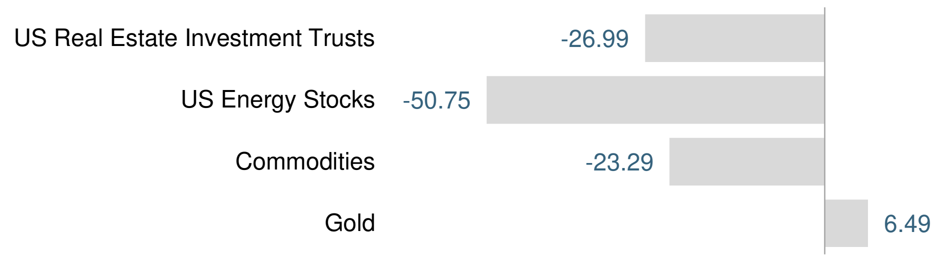
Oil and Energy Pummeled as Alternative Assets Tumble; Gold Volatile but Finishes Higher

Somewhat overlooked amid the myriad other COVID-19 crises, oil prices collapsed in early March, dropping over 75% from their peak in early January**.** An agreement between OPEC and other oil producers (most notably Russia) to cut production fell through, right as global demand softened, resulting in a massive glut of crude. With oil prices in freefall, **US energy stocks plummeted,** declining 50.8% on the quarter. **Commodities also declined** (down 23.3%) **in anticipation of a global recession,** but to a far lesser extent than US energy stocks.

REITs (down 27.0%) **weren't spared from the broader market's carnage either, as investors fretted over shuttered businesses and missed retail rental payments.** Typically, a decline in interest rates helps REITs, but not last quarter, as markets anticipated reduced earnings and cuts to dividends. Commercial mortgage rates also rose as banks and other financial institutions became more cautious in how they lend and to whom.

Gold rose 6.5% and was one of the best performing asset classes on the quarter. Often considered a "safe haven," the precious metal proved volatile on the period, gyrating along with the broader market, but ultimately finishing higher. Gold is another example of an asset that historically has provided diversification benefits during market dislocations.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	-20.99	-3.02	-0.42
US Energy Stocks	-52.54	-21.72	-14.44
Commodities	-22.31	-8.61	-7.76
Gold	21.59	10.49	5.36

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Real Estate Investment Trusts (MSCI US REIT Index), US Energy Stocks (S&P 500 Energy), Commodities (Bloomberg Commodity Index), and Gold (London Bullion Market Association Gold P.M. Price). Gold spot price data obtained from Federal Reserve Economic Data.

Market Summary

Index Returns

	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Q1 2020	STOCKS				BONDS/DOLLAR	
	-19.60%	-27.91%	-22.72%	-23.57%	3.15%	7.07%
Since Jan. 2001						
Avg. Quarterly Return	1.7%	2.3%	1.2%	2.4%	1.2%	0.2%
Best Quarter	15.9% **Q2 2009**	21.4% **Q2 2003**	25.8% **Q2 2009**	34.8% **Q2 2009**	4.6% **Q3 2001**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-3.0% **Q4 2016**	-5.4% **Q2 2009**

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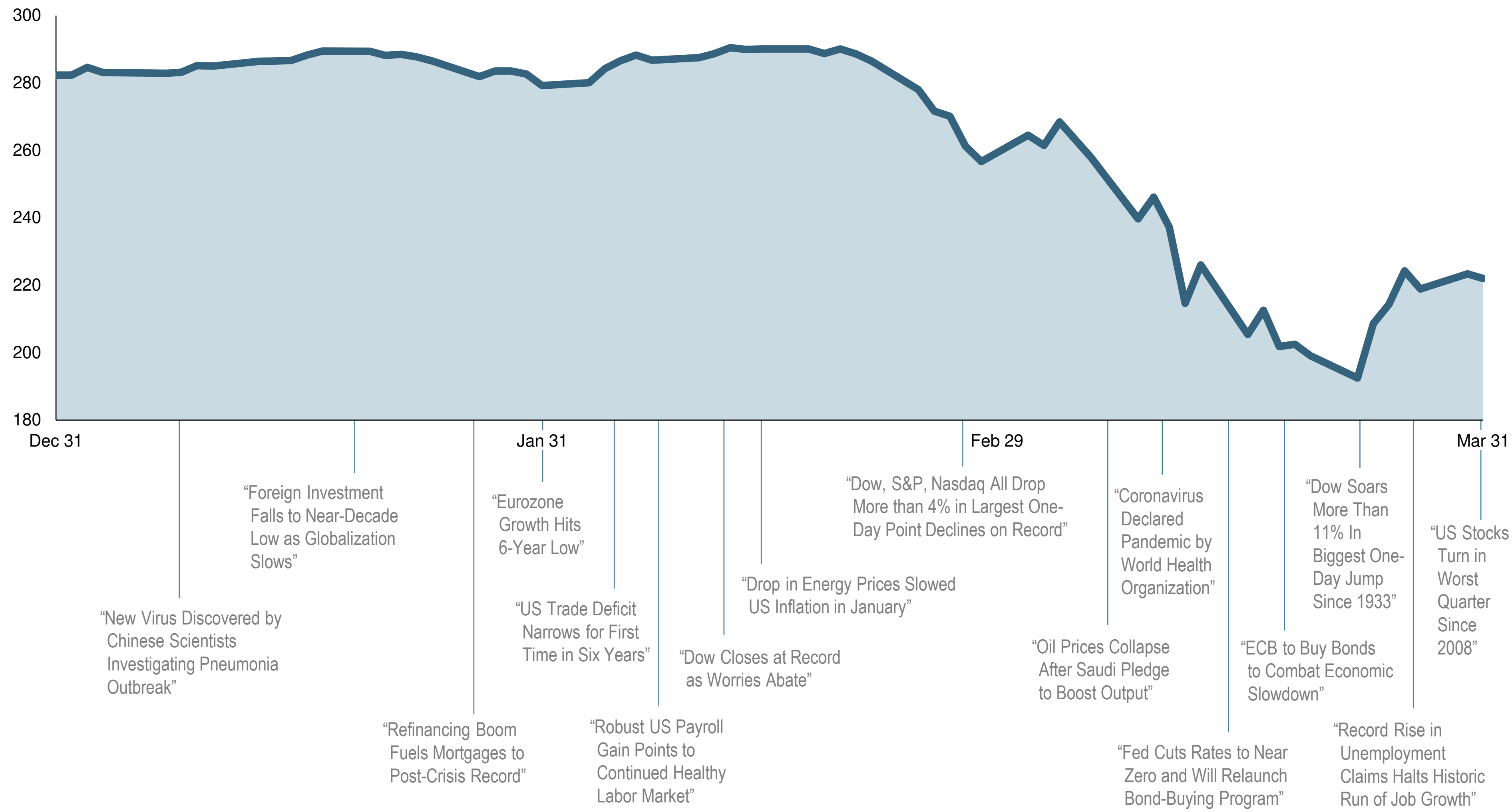
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2020



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.].

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Federal Finances

First Quarter 2020

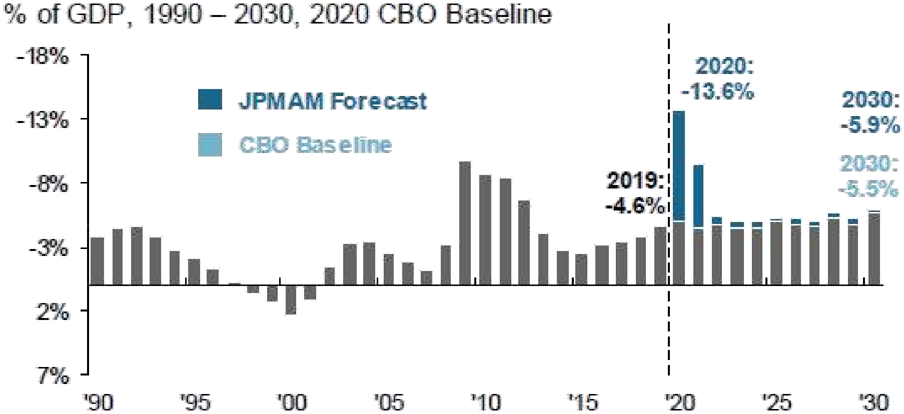
A breakdown of the $2.3 trillion CARES Act passed last month is shown in the left table. The top right chart shows the resulting anticipated spike in the annual federal budget deficit. The chart below right shows the national debt as a percentage of GDP, comparing an estimate of the impact of the CARES Act to the Congressional Budget Office's (CBO) previous baseline projection of future growth of the deficit.

Coronavirus Aid, Relief, and Economic Security Act

Amount ($ bn)	Measure
$290	One-time stimulus checks amounting to $1,200 per adult and $500 per child up to certain income limits
$260	Enhanced, expanded and extended unemployment benefits, adding $600 per week to every unemployment check for 4 months, expanding program to cover contractors and self-employed and extending program to 39 weeks from 26 weeks
$510	Loans to distressed businesses, cities and states. Includes $29 billion for airlines, $17 billion for firms deemed important for national security and $454 billion as backstop for loans to other businesses, cities and states
$377	Small business relief, largely in the form of "forgivable loans" for spending on payroll, rent and utilities
$150	Direct aid to state and municipal governments
$180	Health-related spending
$516	Other spending and tax breaks
$2.283 trillion	**~10.8% of GDP**

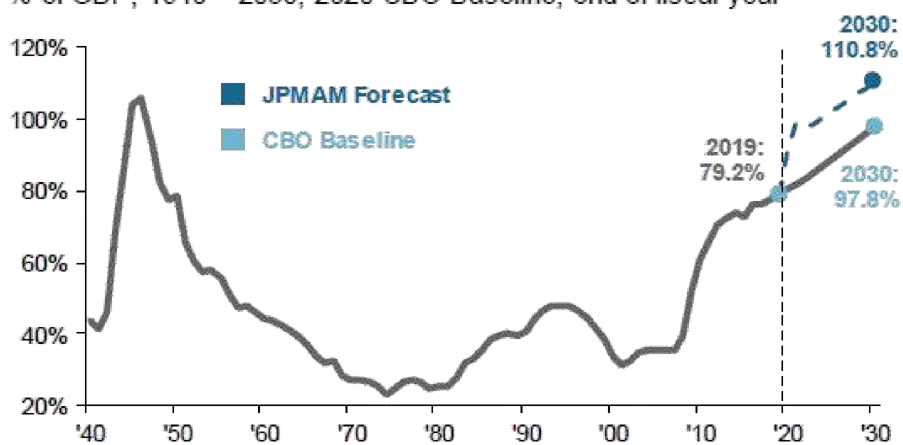
Federal budget surplus/deficit

% of GDP, 1990 – 2030, 2020 CBO Baseline



Federal net debt (accumulated deficits)

% of GDP, 1940 – 2030, 2020 CBO Baseline, end of fiscal year



Source: JP Morgan Asset Management

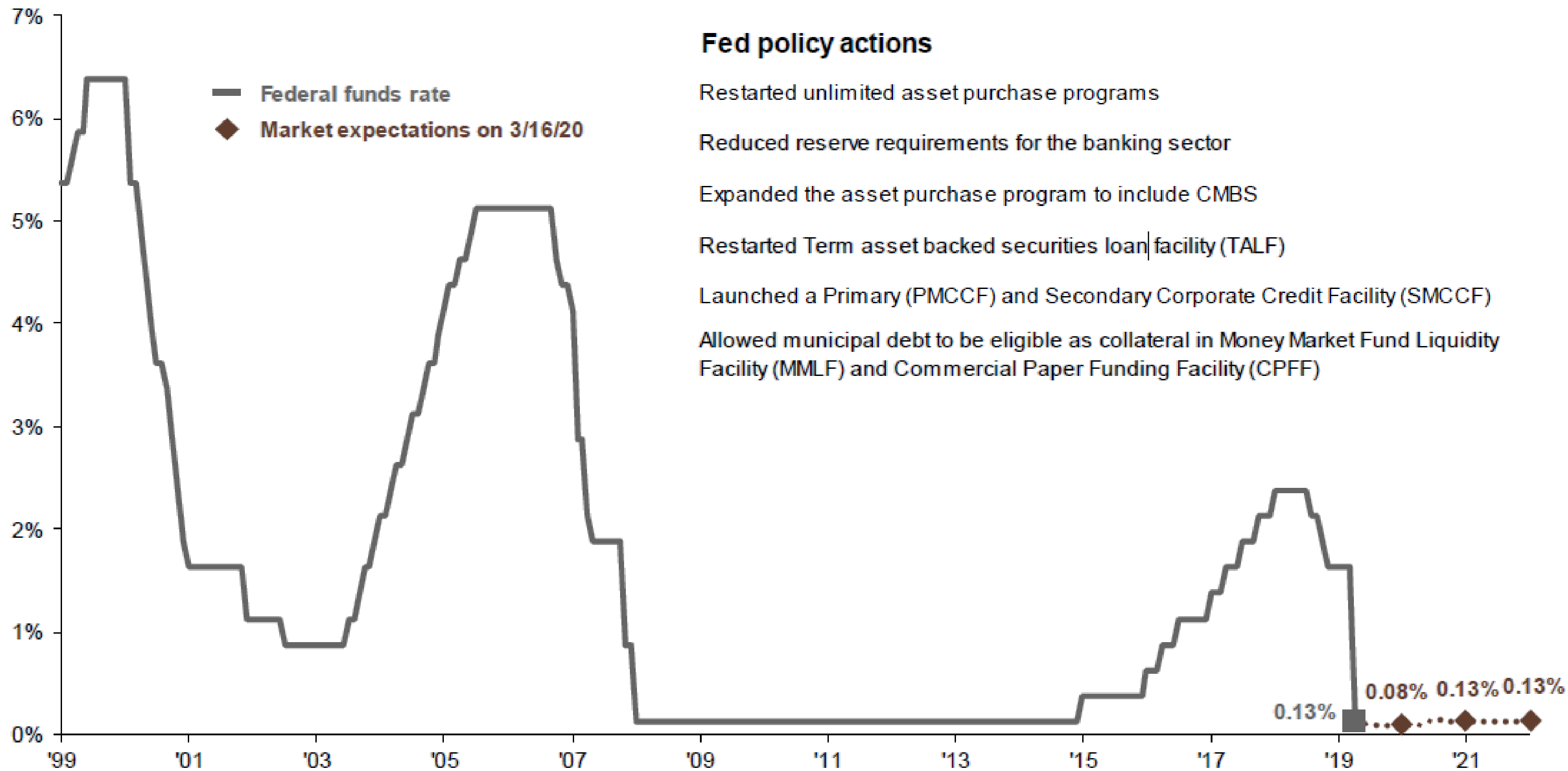
The Fed and Interest Rates

First Quarter 2020

The chart below shows the federal funds rates (the short-term interest rate set by the Federal Reserve) over time, with the dotted line representing market forecasts. The table lists some the actions the Fed is taking to shore up markets and the economy in response to the pandemic crisis. In just weeks, the Fed slashed rates to near-zero, purchased trillions of dollars in bonds (including municipal and high yield corporate bonds), and even agreed to lend to businesses. To date, markets have responded quite positively to the Fed's extraordinary actions.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: JP Morgan Asset Management

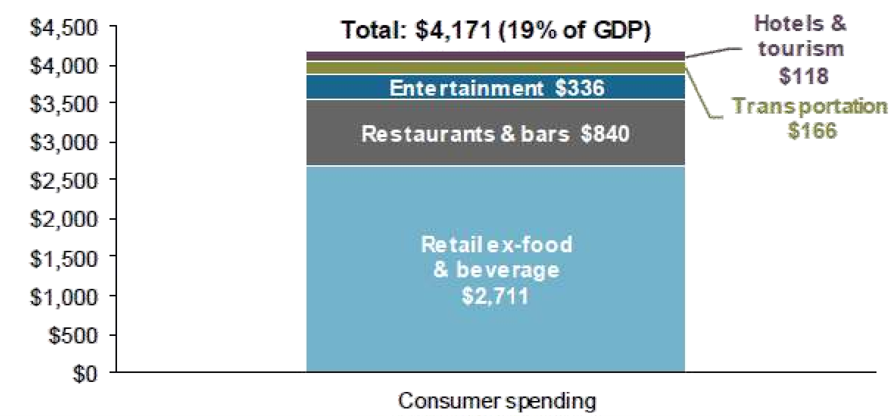
Social Distancing – Most Vulnerable Sectors

First Quarter 2020

These charts take a closer look at the people-facing industries expected to be hardest hit by social distancing measures. The charts on the left show that these sectors account for 19% of GDP and 20% of payroll jobs, highlighting the lockdown's huge impact on the economy and employment. The right chart shows that these sectors account for 7% of total S&P 500 earnings, reflecting their lower-than-average profit margins. Many other industries are also suffering both directly and indirectly from the lockdown.

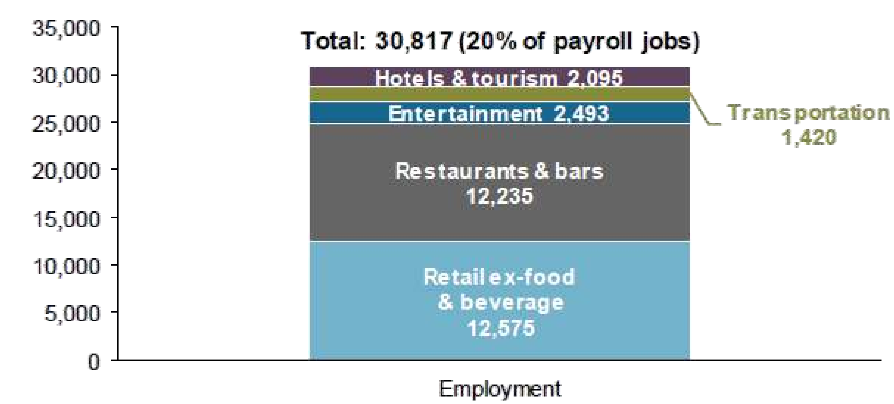
Consumer spending by industry

2019, billions



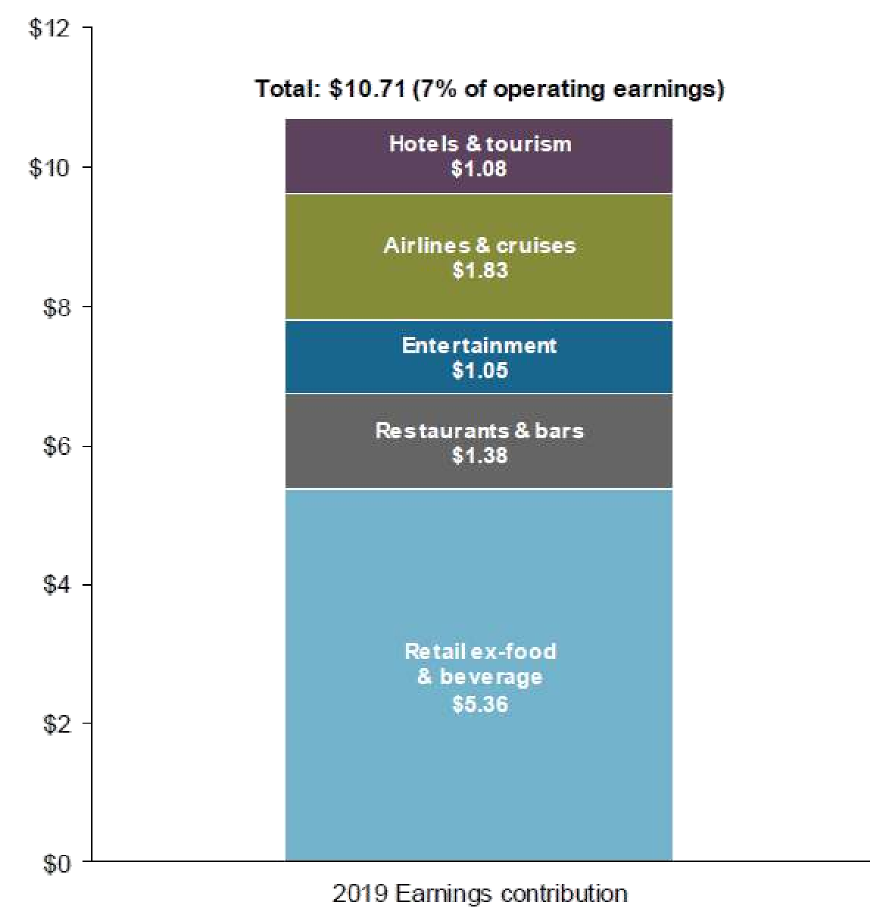
Employment by industry

Jan. 2020, thousands



Earnings contribution by industry

Contribution to 2019 S&P 500 operating earnings



Source: JP Morgan Asset Management

Oil Markets

First Quarter 2020

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This chart shows the price of crude oil over the past 20 years. In early 2020, growing supply and weakening demand were already putting downward pressure on the prices of oil and other commodities. A breakdown in negotiations among major oil exporting nations led both Saudi Arabia and Russia to announce big production boosts, launching a price war. Prices fell to their lowest level in 20 years.

This was good news for energy consumers, but bad news for oil exporting nations and oil-related industries, as well as the banks and bondholders who have lent them money.

In April, Saudi Arabia, Russia and others agreed in principle to cut production, reducing but not eliminating the global crude oil glut.

Source: JP Morgan Asset Management