Macro Summary

Federal Reserve	▪ In early March, the Federal Reserve announced an emergency interest rate cut of 0.5 percent, its first inter-meeting reduction since October 2008. ▪ The Federal Reserve then lowered its benchmark interest rate again to near zero in mid-March, and released numerous emergency measures designed to assure the flow of credit to big corporations and small businesses. ▪ Initiatives from the Federal Reserve include: a new bond buying program, backstopping money market funds, providing cash into the short-term funding markets, and making dollars available to foreign central banks. These powerful and swift responses surpass the measures the Fed created amid the financial crisis a decade ago.
Economy	▪ The dramatic response to contain COVID-19 has likely pushed the global economy into recession. Major central banks have initiated extreme monetary policy measures, and massive fiscal stimulus should cushion the expected economic fallout. ▪ The United States economy is going to contract sharply in the upcoming quarters, as the spread of COVID-19 has resulted in unprecedented containment measures and mass closures of schools and businesses.
Consumer	▪ Consumer confidence in February was strong, buoyed by an interim trade agreement with China, a record setting stock market, and the lowest unemployment in 50 years. ▪ March's consumer sentiment registered the 4th largest monthly decline in almost 50 years. Confidence will deteriorate further, with the magnitude of the decline reflecting the jobs lost to the pandemic.
Equities	▪ After achieving record highs on February 19, the expected economic fallout from COVID-19 drove US stock prices to the fastest bear market ever with the Standard & Poor 500 Index (S&P 500) down ~35 percent at the low point. While a recovery ensued later in the quarter, most global financial markets fell to the same degree. ▪ Corporate earnings have been dramatically lowered and most companies simply withdrew their guidance because of heightened uncertainty. The current valuations are essentially meaningless, given the uncertainty. ▪ Diversification across asset classes greatly helped to reduce volatility in the 1st quarter.

	Q1 RETURN	YTD RETURN
Standard & Poor's 500	-19.6%	-19.6%
Balanced Portfolio - 60 / 40	-10.5%	-10.5%
Dow Jones Industrial Average	-22.7%	-22.7%
MSCI EAFE	-22.8%	-22.8%
Barclays Aggregate Bond	3.1%	3.1%
Barclays Municipal Bond	-0.6%	-0.6%

What's Happening

We hope you all are staying safe and well through these challenging times. COVID-19 is something personal and frightening for us all. These are sad, hard times, but we as a family, a group, a country, a society, and a world will get through this. Crises have a way of bringing people together, even if we must temporarily stay apart. While there are disagreements over whether the economy should open, or if lockdowns should remain in place, this is truly one of those rare moments in history where every human across the world is in a unified battle against a singular and common enemy. Such situations bring out the best in people and while a quicker healthcare policy response may have helped, the economic policy response has been powerful and swift evidence of the communal spirit in action.

It seems like once a decade, significant events of global consequence occur that immediately change the contour and trajectory of history. From 2020 onward, the world will look very different than it has in the recent past. Some things will not change, much change will occur from acceleration of events already underway, and some change will be more temporal in nature. Eventually, this epoch will be a major chapter in history books and the conclusions remain undrawn today.

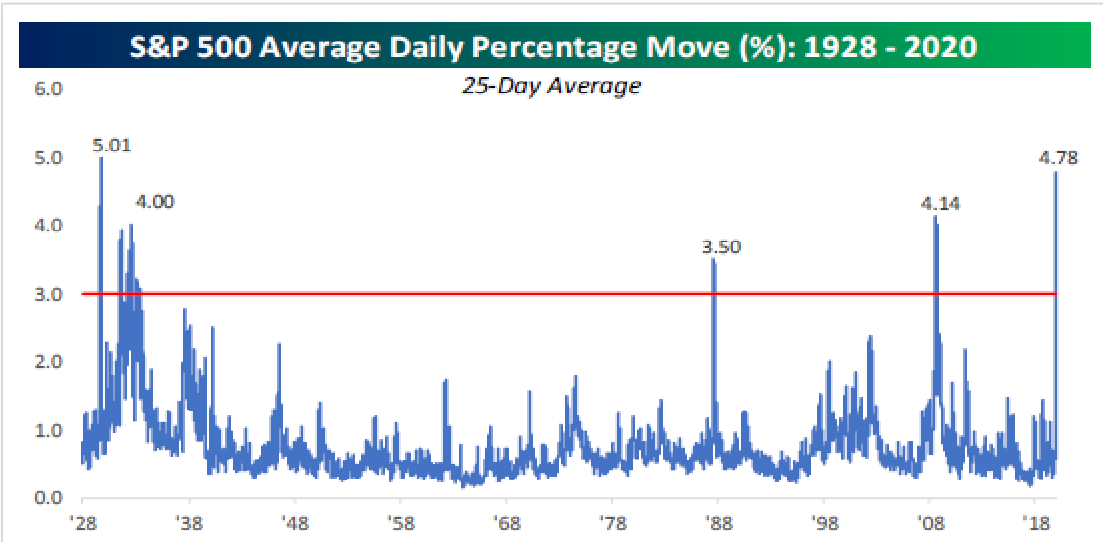
In the last eight weeks, the financial markets have seen unprecedented volatility:

- While consistent volatility of days was practically non-existent in the 1990s, beginning in the early 2000s, their frequency started to rise with the popularity of trading in the S&P 500 Exchange Traded Funds (ETF's). Whereas investors previously bought and sold individual stocks, the increased popularity of ETF's moved the financial market more towards an environment where investors were buying and selling the broad market.

- From February 19 to March 23, the domestic stock markets saw the quickest meltdown in history, for a loss of ~35 percent on the S&P 500.

- Of the 21 trading days between February 27 and March 27, a total of eighteen days saw price moves of more than 2 percent: eleven down and seven up. They included the largest daily price gain since 1933 and the second biggest percentage loss since 1940.

- Over the last seven weeks, the Standard & Poor 500 Index's average absolute daily percentage change has been +/- 4.8 percent. That's higher than we saw at the height of the financial crisis, after the 1987 crash, and in the late stages of the Great Depression. The only time the S&P 500 had an average daily move that was greater occurred after the Crash of 1929.



Building A Bridge To The Other Side

The global financial markets reacted quickly (and perhaps emotionally) to the harsh realities of prolonged lockdowns in the United States. Our businesses are simply not built to withstand zero revenues for short, let alone prolonged periods of time. For example, let's consider landlords who rent space to retailers and restaurants, all of which were forced to close as 'non-essential businesses.' The retailers and restaurants earning $0 revenue do not have any profits to pay their rent. Landlords meanwhile still have overhead including property taxes and mortgages of their own (leverage is beyond merely common; it is the natural state in commercial real estate). How does the system work and get through to the other side? There are three important constituencies and their respective responses we must consider.

First, there is a human element. Were the landlord to evict the restaurant or store who cannot pay right now, there is very low probability they can rent that space anytime soon. For the landlord's lender, were they to foreclose on the landlord, there is little chance they could sell the property for a reasonable price and recoup their costs in doing so. This is a non-zero-sum situation and a dilemma with real consequences. Effectively, everyone in the system has incentive to work out a solution with one another in order to survive these tough times. In speaking with other professionals, business owners, and clients involved in all layers of this situation, we have seen strong evidence that the parties are all attempting to forge mutually beneficial postponements and, in some cases, outright reductions in future obligations. The willingness to work together and build a bridge to normalcy is extremely optimistic and helpful because it sets the backdrop for the extent of the support the Federal Reserve Bank and the government stimulus are providing for the economy.

Second, the actions from the Federal Reserve Bank came with unprecedented speed and scale. The Fed started by opening its Great Financial Crisis toolkit: lowering rates to zero, recommencing quantitative easing and buying commercial paper to support the money markets. Next, Chairman Powell and his committee went even further with support for municipal debt markets, a program to lend to banks standing behind the government's Paycheck Protection Program (PPP) loan program, and a special bond buying program aimed at easing corporate credit through direct purchases of corporate debt. The sum of these measures will inject in excess of $6 trillion into the financial system.

Third, is the government stimulus program. The United States economy is undergoing the ultimate stress test that no company was built to survive for a prolonged period of $0 in revenue. For many, especially small businesses, there is no way to have built a balance sheet to weather this kind of storm.

The CARES Act is being called a $2.2 trillion stimulus package, though some aspects of the disbursed expenditures likely overstate the total cost. Following September 11, 2001, our country underwrote two wars at what is in hindsight estimated to be a $6.4 trillion total cost. In war, price tags are perceived differently than in economic crises; however, we think the response to COVID-19 should be treated as a massive war-like effort. This simple reframing of the debate from stimulus to a war-like effort will stop people from wondering 'how do we afford this?' today and, instead, focusing on building a bridge to the other side. We can worry about paying for it all once we are on the other side. Right now, we need mobilization of healthcare and productive capacity geared towards this situation in rapid fashion, much like we would in war, alongside massive economic support to counteract job loss and business closures. The $2 trillion CARES Act is a starting point in waging the economic battle against the pandemic. The unemployment insurance offered by the act is well intended though it will likely need to be extended farther into the future. The PPP is well thought out; however, at $349 billion, it is clearly proving far too small given the scale of the problems small businesses are dealing with.

ESTIMATE OF MAJOR PROVISIONS IN THE CARES ACT, IN BILLIONS OF DOLLARS

Provision	Cost ($ bn)
Rebates to Individuals	$290
Small Businesses	376
Loan Forgiveness	349
Loan Subsidies	17
Emergency EIDL Grants	10
Corporate Tax Relief	232
Payroll Grants to Airlines/Cargo/Contractors	32
ESF Loans/Loan Guarantees/Investments	500
Airlines/Cargo	29
Businesses Important to National Security	17
Fed 13(3) Lending Facilities	454
Unemployment Insurance	250+
Coronavirus Relief Fund	150
Appropriations	340
Hospitals/Veterans Care	117
FEMA Disaster Fund	45
Department of Education	31
SNAP & Child Nutrition	25
Strategic National Stockpile	16
Vaccines / Therapeutics & Other Medical	11
DoD	11
Other	85
TOTAL	$2,170

Sources: Ways and Means Republicans, Senate Republicans, and Cornerstone Macro.

One important factor that must be addressed is how much better capitalized our banking system is in today compared to 2008. The US banks in aggregate boast strong balance sheets, high liquidity, and are able to lend into the crisis instead of retrenching. The inability of banks to lend in 2008 is what amplified the magnitude of the Great Financial Crisis (GFC) of 2008-2009. Stated another way, bank behavior was procyclical in the GFC, while here it has the potential to be countercyclical, and help build that bridge for the economy to the other side of the virus.

Looking To The Other Side Of The Bridge

We can trace some of society's greatest productivity gains to the aftermath of our most severe economic upheavals. Such was the case after the Great Depression, World War II, and other periods of extreme dislocations. From radar to penicillin, electric razors to car radios, we are exceptionally good at innovating under stress. The novel coronavirus exposed serious weaknesses in the areas of medical preparedness, supply chain dependence, and dollar-based funding around the world. These are a few areas, among others, that we believe are set to undergo secular shifts.

Strategic Research & Development (R&D)
One possible and welcome change would be a reversal in the decline of government-led investments in critically important sectors of the economy. The decrease in spending on healthcare and biotech R&D as a percent of Gross Domestic Product put the United States at a noticeable disadvantage to our competitors globally. New programs should be funded to increase preparedness for future disease outbreaks. Policies should also be implemented that encourage companies to return medical supply chains to the US. We may realize that 'redundancy' is not always a dirty word in critical parts of our economy.

Improved Connectivity
The trend towards working from home is likely to become more deeply entrenched in our culture as a result of recent shelter-in-place policies. This would serve to increase demand for internet bandwidth and encourage further development of 5G technologies. Internet traffic and wireless networks threaten to swamp our existing networks, with important business implications for companies that rely on the internet to deliver their services. Netflix was recently asked to reduce its transmission volumes in order to allow millions of displaced workers to communicate with one another online. The federal government is escalating its fight with China over 5G; it's not a battle the United States can afford to lose.

Modernized Consumption
The recent boost in e-commerce penetration is likely permanent. Some trends borne out of necessity might be less likely to continue once the necessity fades. But other trends will endure as consumers experiment with new services and realize the benefits. Anecdotally, drugstore chain CVS said its prescription deliveries are up nearly 300 percent after the company waived fees in March.

Supply Chain Reset
Look for acceleration toward localization and regionalization, and moves away from globalized supply chains. China became the world's factory floor, and that model succeeded in delivering lower prices to consumers in a world of low tariffs, stable currencies, and the promotion of free trade. But the US - China trade dispute started to pressure that model, and the rolling closures of so many economies around the world will compound that pressure. Companies might be forced to choose between efficiency and supply chain security, which could result in higher-paying manufacturing jobs, but at the expense of lower profit margins or higher prices.

Investment Strategy

> ***"In the short run, the market is a voting machine but in the long run, it is a weighing machine."***
> — Benjamin Graham, British-Born American Investor & Economist (1894-1976)

The essence of Graham's quote is that sentiment rules the short-term, while substance drives the long-term. Markets typically look forward six months or so; today they are barely looking beyond six hours. Sentiment is quite negative and deservedly so. A useful, informal technique to gauge sentiment is to periodically rate the state of affairs - in both medical and economic matters - against a range from 'worst of this crisis' to 'normality before this crisis.' Informal polling of colleagues shows recent readings a bit above the worst of crisis though obviously still well below normal. Progress has been made, assistance has been provided, and time towards a bent epidemiological curve marches forward. Yet, there is much work to be done and we will sense many false starts and disappointments. Yet, as sentiment on both the virus and the economy begins to improve, markets will afford more weight to individual business fundamentals.

A three-year time horizon generally allows the action of the weighing machine to be the dominant force. As the time horizon extends, reality matters more than sentiment - coupon payments, dividends, and earnings growth: these are the sources of durable wealth creation.

Some segments of the economy will return to normal quickly, while others may experience permanent change. These differing paths to recovery and differing balance sheet characteristics are the basis for our view that a disciplined investment process, the combination of active and passive management, and tax efficient strategies will continue to be critically important.

Currently, the most relevant signposts will come from monitoring the rate of change of leading indicators and the path of stimulus funds. This means watching for decreases in the growth rate of COVID-19 (the bend in the curve), monitoring the pace of weekly jobless claims, and carefully following the implementation of financial support from the United States Treasury Department and the Federal Reserve. The second stage will involve monitoring high-frequency alternative economic data, watching for moves off of zero in indicators that have been fully or partially stopped - things like restaurants and traffic - as well as indicators like those created by the Chairman Powell. As the economy starts to re-open, traditional metrics will become more relevant.

COVID-19 is vile and it is the dominant force acting on the economy and on sentiment. However, there is light in the darkness. Consider the words of the omnipresent Dr. Anthony Fauci, quoted below from an April 2nd interview with the New York Times.

'I think it will be remembered of really showing what a great country we are. We have been through, as I've said, if you look at the history of our country, some extraordinary ordeals. I mean, world wars and diseases and depressions,' he said. 'And we've gotten through it. I have a great deal of faith in the spirit of the American people. We're resilient. We're going to get over this. And this is going to end.'

There is no reason to panic. The invisible pandemic will end. We don't know exactly when, and so rather than peer too deeply into a cloudy crystal ball, our team is focusing on: continuing to evaluate all portfolio holdings, actively harvesting tax-loss opportunities, careful planning and customization, and a disciplined rebalancing process that is essential to achieving your long-term success.

Concluding Thoughts

Throughout history, the world has faced numerous severe challenges and economic downturns, and has always come out the other side. While not minimizing the unique risks and unknowns from the COVID-19 crisis, we will lean on that being the case again.

Over the past twenty-five years, and having successfully navigated through three bear markets, we have learned that trying to time market tops and bottoms is a fool's errand. The evidence is overwhelming that long-term returns are diminished in trying to do so. However, incrementally adjusting asset allocations and rebalancing portfolio holdings in a patient and disciplined fashion is appropriate in these unprecedented times, and on an ongoing basis.

We appreciate your trust and confidence in our team. And, as always, if you have any questions, please contact one of our team members at (414) 257-4248 for a personal conversation.

Stay safe. Be well. It will get better.

David A. Massart
President