Market Commentary

March 2020

Equity and Bond Market Update

(as of March 9, 2020)

Index	MTD	YTD
Dow Jones Industrial Average TR	-6.1%	-16.0%
S&P 500 Total Return Index	-7.0%	-14.7%
Russell 2000 Total Return Index	-11.0%	-21.1%
MSCI EAFE Index (net)	-5.4%	-15.7%
MSCI Emerging Markets Index (net)	-5.7%	-14.8%
Barclays US Aggregate Bond TR	+1.9%	+6.1%

Economic Indicators

	Statistic	Data as of
Unemployment Rate	3.5%	Feb 2020
Gross Domestic Product (GDP)	+2.1%	Q4 2019
Consumer Price Index (CPI)	+0.1%	Jan 2020
Consumer Confidence (1985=100)	130.7	Feb 2020
30-year fixed mortgage rate	3.66%	3/10/2020
Housing Starts (single family)	1,010,000	Jan 2020
10-Year Treasury Yield	0.60%	3/10/2020

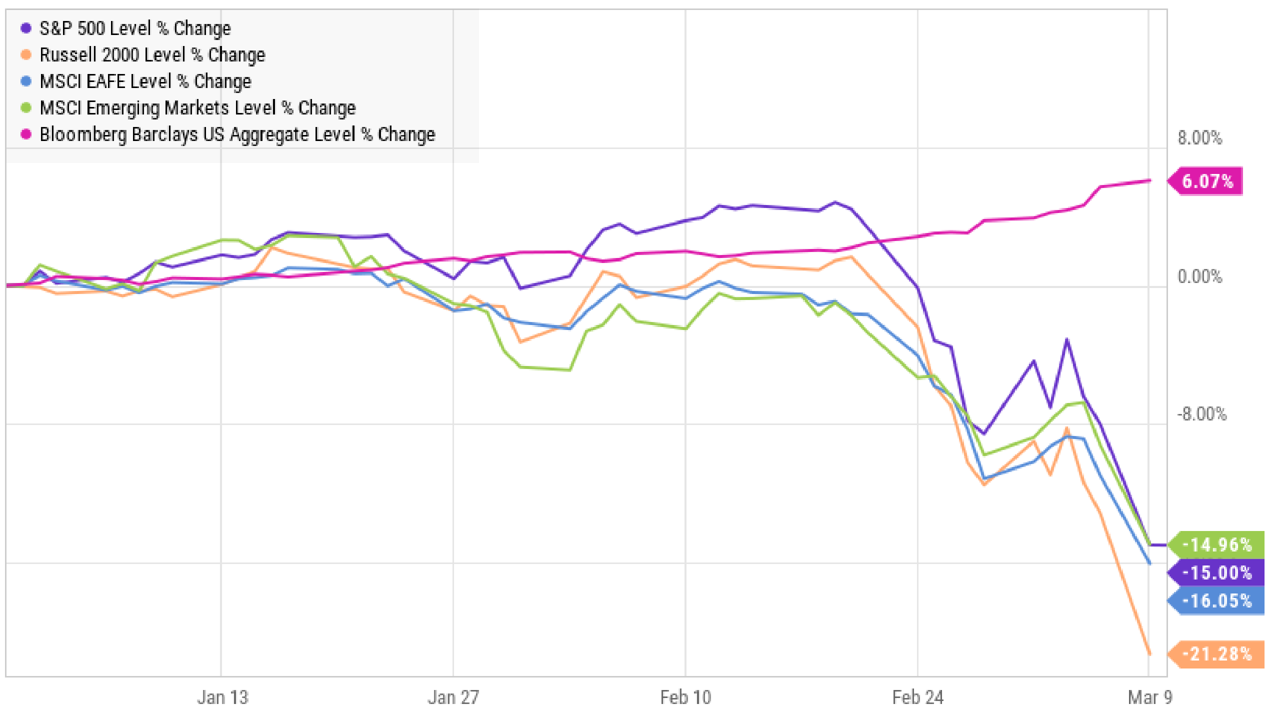
We typically write our monthly commentaries with market performance and thoughts as of the end of the previous month. Since so much has happened going into the end of February and since, this commentary takes everything up to current into consideration.

At the open of the stock market on Monday, March 9th, trading was halted as the first circuit breaker (a decrease of 7% from the previous market close) was violated at the opening bell, ceasing operations for 15 minutes. After trading restarted, U.S. stock markets traded in a range of -5% to just over -7% down from the previous close. This after the broad market had already fallen close to -15% since its all-time high on February 19th of this year, which puts us very close to bear market territory. Other risky asset classes have also suffered similar losses, with small-caps stocks down -22.5% since February 19th, and developed foreign and emerging markets down between -14.0% and -15.0% since mid-February. These downturns are very similar to those we saw in the fourth quarter of 2018, but that correction took three months to pan out…this one happened in just under three weeks. On Tuesday the 10th, markets traded anywhere from flat from Monday's close to up +5% on the day. As of market close at 3pm, the Dow Jones Industrial Average, S&P 500 and NASDAQ 100 indexes were all up +5%, and the Russell 2000 Index closed up +3% on the day.

In our February 18th commentary, we stated that we were expecting "*volatile periods throughout the year*", but that the "*very strong backdrop of a stable and slowly growing economy*" would provide "*support for when we do go through potential corrections throughout the year*". We were not expecting such a deep and quick correction to start just a couple of days later. Nonetheless, we still have a durable economy in place that has weathered many storms throughout the last decade, and expect it to do the same at least in the short-to-mid-term. Volatility is the price investors pay for equity returns, and the more aggressive you are, the more volatility you will experience in your portfolio. Over the last 40 years, the S&P 500 Index has advanced 75% of the time on an annual basis, and on average we see two to three stock market corrections every year. We know this as a fact because we can see it in historical stock charts. Long-term investors must always keep this in mind when going through these corrections to ensure they keep their investment strategies intact. Some of these declines can be painful, but we all have to recognize that the stock market has never gone to zero, and it has never perpetually declined. Stock market volatility should not change your investment strategy, only financial conditions like changes in time horizons to retirement or another financial goal, career changes, or changes in family dynamics and makeup should require you to re-assess your investment policy. Other than that, your portfolio should always reflect these attributes to ensure you are invested properly before, throughout and after market corrections and disruptions.

Stock markets are supported by business performance, earnings and expectations. What we do know is that business performance has been good and trailing earnings over previous quarters and years support this fact. What has been thrown into flux recently are the expectations of what will pan out regarding a potential slowdown in earnings and business performance over the coming quarters, especially now as a result of the fear and panic that has set in over COVID-19. It is not necessarily the virus that is causing panic in the markets, but rather the panic that the masses are going through to prevent a contagious event, such as staying at home and not spending money on items they would normally have, like eating out at restaurants and vacation travel. At current levels of the S&P 500, and compared to where

Major Market Indices Price Return (YTD as of March 9, 2020)



the market has traded in relation to trailing and forward earnings historically over the last 25 years, the market is pricing in a 10% to 15% reduction in U.S. corporate earnings over the next twelve months. That would pretty much wipe out all the earnings growth we have experienced over the last year and a half, throughout the U.S. tax cuts. In mid-February, the stock market was trading at a level that would have dictated an overpricing by approximately 5% to 10% based on these metrics.

As of Monday's close, the three sectors that have experienced the most selling pressure are energy (-43.6% YTD), financials (-26.0% YTD) and basic materials (-20.9% YTD); and the three sectors that have experienced the least pressure are utilities (-2.0% YTD), Consumer Staples (-6.3% YTD) and Real Estate (-7.6% YTD). ***If you remember a time when you said "I wish I had bought into the market a year ago", this may just be that time!*** Current stock prices are at levels we saw over a year ago, and some even farther back.

Always keep in mind that fear, panic and optimism are not investment strategies, but rather emotions that drive short-term markets.

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Sources:

S&P Dow Jones Indices website (us.spindices.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets