ADAPTATION

That is the name of the game. We are all having to adapt to what's being dubbed the "new normal." Those who are able are practicing "WFH" or Work From Home days, and sharing Wi-Fi access with their children who are completing their school year via online learning. Children are very adaptable and resilient, and it appears they are also resilient to the Coronavirus. Being adaptable is critical to survival. As an example, there are species of frogs that can actually change their sex if the percentage of males and females becomes unbalanced in order to ensure the species will survive. While we are far from that, this virus does appear to be changing certain demographics.

As Americans, we have had to adapt the definition of freedom. Freedom to travel, freedom to gather, freedom to hit the gym, and freedom to buy more than 3 bags of pasta have all been taken from us. We will get through this, and once again American strength and ingenuity will persevere. Everyone is having to adjust their routines and the ways in which we live. Restaurants have moved to delivery, curbside, and to-go overnight, with waiters turned drivers in an attempt to keep staff employed. School districts have adapted school buses from student transportation to meal delivery vehicles for low income students stuck at a home. Convention centers, hotels, and cruise ships are adapting into makeshift hospitals to combat the virus. During this lockdown, I have personally taken it upon myself to help support our local restaurants and have been ordering out as much as I can. Unfortunately, while I sit here typing and eating my yummy brisket grilled cheese sandwich, I realize I might be adapting to a larger waistline.

The stock market is adapting to ever-changing data, expectations of how deep and long a recession will be, and the on again, off again fiscal response from Congress. Moreover, the Fed is adapting daily to issues in the bond market and providing massive amounts of liquidity and support to calm and normalize trading. This support has been critical to bring order back to the markets, where spreads in high quality instruments have gapped out to historical levels (sending bond prices down), due to massive selling and unwinding of portfolios.

While most investors hold bonds for safety and income, they are having to adapt to the fact that traditional bonds can actually be volatile and provide little income at current rates. As a firm, we are adapting our income generation strategies, as in this "balanced bear" market, a 60/40 portfolio loses on both equities and bonds. Private credit markets adapted after 2008 when the banking industry collapsed, and regulations made lending more difficult. These non-bank—banks filled the gaps of many lending needs and provided better yields than the traditional fixed income marketplace.

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While this sell-off has been painful, we do believe a bottoming is near and recovery is on the horizon. Whether that is a “U” a “V”, an “L” or a “W” remains to be seen, but we will recover. Despite social distancing, this pandemic is bringing us together as a nation. Private and public industry collaboration is working to bring about a vaccine, and corporate America is jumping in by converting their manufacturing plants to accommodate the production of masks and ventilators. Americans are committed to flattening the curve and getting us through this difficult period as quickly as possible.

As with any crisis, fear is heightened. It’s times like these that we have to remind ourselves that the sky has never fallen. This too will pass, the stars will come out, and the sun will shine again.

Regards,

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Equity Markets

U.S.

The S&P 500 Index plunged 19.6% in the first quarter, its worst quarterly return since the Global Financial Crisis. After falling more than 30% from peak to trough in just a few weeks, the Index rallied 20% going into quarter-end. Every sector experienced double-digit declines, with Information Technology (-11.9%), Consumer Staples (-12.7%), and Health Care (-12.7%) feeling the least pain. Financials (-31.9%) and Energy (-50.5%) fell the most. Financials were hurt by sharp declines in interest rates, and Energy's performance reflected plummeting oil prices. Oil prices tumbled 66%, with WTI Crude ending the quarter at $20.48, down from roughly $60 at the start of the year. From a style viewpoint, growth significantly outperformed value (Russell 1000 Growth: -14.1%; Russell 1000 Value: -26.7%). Growth indices benefited from Technology exposure while Value struggled with relatively heavy weights in Energy and Financials. Large cap (Russell 1000: -20.2%) outperformed small cap (Russell 2000:-30.6%). Small value (Russell 2000 Value: -35.7%) saw the sharpest decline.

Global ex-U.S.

Global ex-U.S. equity indices fell sharply in the first quarter; the MSCI ACWI ex-USA Index dropped 23.4%. Across developed markets, Canada (-28%), the U.K. (-30%), and Australia (-34%) were among the worst performers while Japan (-17%) fared better, in relative terms. Modest appreciation of the U.S. dollar versus a basket of developed market currencies acted as a headwind for U.S. investors. As in the U.S., growth (MSCI ACWI ex-USA Growth: -18%) outperformed value (MSCI ACWI ex-USA Value: -29%). Also mirroring performance in the U.S., Health Care (-9%) was a top-performing sector while Energy (-38%) was the worst.

Emerging markets equities (MSCI EM: -23.6%) also sold off with currency depreciation being a key driver. Collectively, Latin American countries fell 46% in U.S. dollar terms and 32% in local currency terms. Russia dropped 36% in U.S. dollars (-22% local) and South Africa fell 41% (-24% local). India sank 32% (-27% local) while China performed relatively well, down only 10% in the quarter in U.S. dollar terms.

Fixed Income

U.S. Treasury yields fell to record lows in March as investors sought safety and the Fed cut rates to 0%-0.25%. The 10-year U.S. Treasury yield reached a low in March of 0.31% before closing the quarter at 0.70%, down sharply from the year-end level of 1.92%. Most sectors underperformed U.S. Treasuries, hurt both by challenging liquidity conditions as well as a flight to safety. While the Bloomberg Barclays US Aggregate Bond Index rose 3.1% for the quarter, results were driven largely by performance of the Treasury sector (+8.2%). Corporates (-3.6%) and most securitized sectors underperformed U.S. Treasuries. The quality bias was evident in the return for the AAA-rated component (+5.8%) versus BBBs (-7.4%). TIPS (Bloomberg Barclays TIPS: +1.7%) sharply underperformed nominal Treasuries as expectations for inflation sank. The 10-year breakeven spread ended the quarter at 87 bps, down sharply from 177 bps at year-end. High yield corporate bonds (Bloomberg Barclays High Yield: -12.7%) fell sharply and ended the quarter with a yield-to-worst of 9.4% though it topped 10% in mid-March, the highest level since the GFC. Excluding the beleaguered Energy sector, high yield fell 9.1%. Leveraged loans performed even worse (S&P LSTA: -13.0%) and both high yield and loans experienced heavy outflows.

Developed ex-U.S. market returns were relatively flat in broad terms. The Bloomberg Barclays Global Aggregate ex-US Index fell 2.7% unhedged but rose 0.5% on a hedged basis as the U.S. dollar strengthened modestly against a basket of currencies. Emerging market debt underperformed in the risk-off environment. The U.S. dollar-denominated JPM EMBI Global Diversified Index dropped

13.4%, with returns varying across its 60+ constituents. Emerging market currencies were also under pressure. Local currency emerging market debt, as measured by the JPM GBI-EM Global Diversified Index, fell 15.2% in the quarter, with several local market returns in Latin America dropping about 20% (Brazil, Mexico, and Colombia) and South Africa down 29%.

Tax-Exempt

The municipal bond market experienced extreme volatility in March that is somewhat masked in first quarter returns. The broad Bloomberg Barclays Municipal Bond Index fell 0.6% in the quarter, but notably the index dropped 3.6% in March. Record outflows and a dramatic decline in liquidity drove yields in the muni market sharply higher in mid-March. Yields reversed course going into quarter-end on the back of Fed announcements that lent support to the market. Cross-market valuations between U.S Treasuries and AAA-rated munis reached unprecedented levels in March; 5-year AAA municipal yields rose nearly 200 bps during the month to nearly six times the yield of a comparable 5-year U.S. Treasury note. Not surprisingly, higher quality outperformed (AAA: +0.5%; BBB: -4.7%) for the quarter. While fundamentals of some sectors will be challenged in the wake of the economic downturn and downgrades may ensue, recent government stimulus programs should help to mitigate any near-term pressure on finances.

Real Assets

Real asset returns were significantly challenged during the first quarter of 2020, March in particular, as almost the entire space (except gold and TIPS) experienced performance not seen since the Global Financial Crisis. The MLP space (Alerian MLP Index: -57%) and energy-related stocks (S&P 1200 Energy Index: -44%) were among the worst hit as Russia and Saudi Arabia engaged in an oil price war smack in the middle of a global pandemic that was already poised to cripple near-term energy demand. Both listed infrastructure (DJ-Brookfield Global Infrastructure Index: -21%) and real estate (FTSE Nareit Equity Index: -27%) were also hampered by the outlook and immediate impact of the COVID-19 pandemic. Given the sell-off in the fixed income markets, credit in particular, it's likely that many investors fled these sectors to take advantage of higher nominal yields elsewhere. Meanwhile, the impact on real estate is likely to be varied as several sectors are acutely sensitive to the fallout from the coronavirus (e.g., Retail, Hospitality) while other property sectors such as Industrial, Storage, and Office should be more insulated. One silver lining, pun intended, was gold, which served its usual safe-haven role during the depths of March and throughout the first quarter; the Bloomberg Gold sub-Index rose 4.5% in the first quarter while equities of most companies tasked with mining the shiny metal were not so fortunate (GDX-Van Eck Gold Miners ETF: -14.5%).

Ticker	Name	Mar-31 Return	MTD Return	YTD Return	Feb-2020 monthly Return	Mar-29-2019 To Mar-31-2020 Return
Capital Growth						
RU30INTR	Russell:3000 Index	(1.50)	(13.75)	(20.90)	(8.19)	(9.13)
RU10INTR	Russell:1000 Index	(1.56)	(13.21)	(20.22)	(8.17)	(8.03)
RU10GRTR	Russell:1000 Growth	(1.33)	(9.84)	(14.10)	(6.81)	0.91
RU10VATR	Russell:1000 Value	(1.85)	(17.09)	(26.73)	(9.68)	(17.17)
RUMCINTR	Russell:Midcap Index	(1.90)	(19.49)	(27.07)	(8.69)	(18.31)
RU25INTR	Russell:2500 Index	(1.11)	(21.70)	(29.72)	(8.39)	(22.47)
RU25GRTR	Russell:2500 Growth	(1.28)	(17.72)	(23.22)	(6.78)	(14.40)
RU25VATR	Russell:2500 Value	(0.96)	(24.93)	(34.64)	(9.64)	(28.60)
RU20INTR	Russell:2000 Index	(0.44)	(21.73)	(30.61)	(8.42)	(23.99)
RU20GRTR	Russell:2000 Growth	(0.56)	(19.10)	(25.76)	(7.22)	(18.58)
RU20VATR	Russell:2000 Value	(0.30)	(24.67)	(35.66)	(9.72)	(29.64)
SPTRSUPR	S&P:1500	(1.53)	(13.08)	(20.57)	(8.34)	(8.51)
SPTR	S&P:500	(1.59)	(12.35)	(19.60)	(8.23)	(6.98)
SPTRMDCP	S&P:400 Mid Cap	(1.06)	(20.25)	(29.70)	(9.49)	(22.51)
SPTRSMCP	S&P:600 Small Cap	(0.06)	(22.40)	(32.64)	(9.61)	(25.89)
M1WDU	MSCI:ACWI ex US	0.73	(14.48)	(23.36)	(7.90)	(15.57)
M1WOU	MSCI:World ex US	0.26	(14.12)	(23.26)	(8.88)	(14.89)
FTS5DXUSM	FTSE:Dev ex US Idx	0.34	(13.78)	(23.06)	(8.81)	(14.38)
M1EA	MSCI:EAFE	0.07	(13.35)	(22.83)	(9.04)	(14.38)
SPADRTR	S&P:ADR Index	0.14	(15.97)	(25.56)	(8.15)	(18.50)
M1EF	MSCI:EM	1.99	(15.40)	(23.60)	(5.27)	(17.69)
M1EASC	MSCI:EAFE Small Cap	1.01	(17.24)	(27.52)	(9.80)	(18.15)
M1WD	MSCI:ACWI	(0.60)	(13.50)	(21.36)	(8.08)	(11.25)
M1WO	MSCI:World	(0.94)	(13.23)	(21.05)	(8.45)	(10.39)
Real Assets						
LBUTTRUU	Blmbg:TIPS	(0.83)	(1.76)	1.69	1.38	6.85
BCOMTR	Blmbg:Commodity TR Idx	(0.33)	(12.81)	(23.29)	(5.04)	(22.31)
SPGSCITR	S&P GSCI	0.35	(29.43)	(42.34)	(8.39)	(41.01)
SPTRGL15	S&P:1200 Materials Idx	0.01	(13.43)	(26.15)	(9.72)	(18.86)
SPTRGL10	S&P:1200 Energy Idx	4.38	(29.09)	(44.38)	(13.72)	(45.33)
FNRETR	FTSE:NAREIT Equity Index	(1.80)	(21.92)	(27.30)	(8.01)	(21.26)
AMZX	Alerian:MLP Index	9.21	(47.23)	(57.19)	(14.05)	(60.95)
AMZX	Alerian:MLP Index	9.21	(47.23)	(57.19)	(14.05)	(60.95)
SPGCGC	S&P:Gold Spot Price Ix	(2.84)	1.91	4.83	(1.34)	22.96
DJBGIT	DJB:Glbl Infrastructure	(0.99)	(15.69)	(20.94)	(7.58)	(12.09)
Fixed Income						
LBUSTRUU	Blmbg:Aggregate	(0.10)	(0.59)	3.15	1.80	8.93
LF98TRUU	Blmbg:HY Corp	0.64	(11.46)	(12.68)	(1.41)	(6.94)
LMBITR	Blmbg:Municipal	(0.44)	(3.63)	(0.63)	1.29	3.85
LBUTTRUU	Blmbg:TIPS	(0.83)	(1.76)	1.69	1.38	6.85
LG38TRUU	Blmbg:Glb Agg xUSD	(0.47)	(3.22)	(2.68)	(0.20)	0.74
SBNUU	FTSE:Non-USD WGBI	(0.74)	(2.88)	(1.88)	(0.06)	1.79
SBNUC	FTSE:Non-USD WGBI Hdg	(0.51)	(1.75)	1.30	0.94	6.14
SPBDAL	S&P:LSTA Lev Loan	2.01	(12.36)	(13.05)	(1.32)	(9.13)
G1O2	ML:Treas 1-3 Yr	0.01	1.38	2.81	0.87	5.43
G0O1	3 Month T-Bill	(0.00)	0.29	0.57	0.15	2.26