

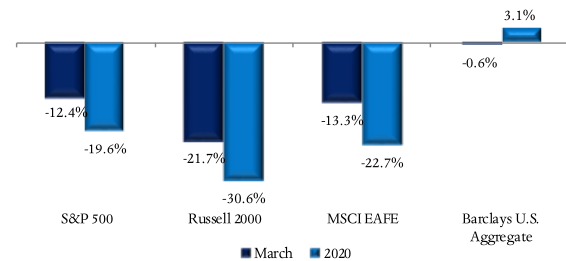


MARKETS

The first quarter of 2020 was a challenging one for investors. Global equities suffered their worst quarter since 2008, bringing the eleven year old bull market to an end. Stockholders experienced a historically rapid decline in prices, accompanied by record high volatility during March. The Covid-19 coronavirus' tragic repercussions on health and the global economy was the main catalyst, subsequently labeled a black swan event. Losses from the S&P 500 index's February record high reached 34% before unprecedented monetary stimulus and fiscal spending plans sparked a furious three-day rally of 18%. During the capitulation phase the VIX volatility (fear) index reached levels 4.4x higher than the mean over the past decade, with average daily equity volatility in March reaching 5%. At quarter-end the S&P 500 index settled down -12.4% in March (-19.6% ytd). Smaller capitalization stocks were inordinately hit by liquidity driven selling, with the Russell 2000 index declining -21.7% (-30.6% ytd).

Overseas markets also succumbed to the malaise. The MSCI EAFE index declined -13.3% in March and -22.7% for the quarter. European stocks acted similarly, with the Stoxx 600 down -14.4% (-22.5% ytd). Asian country shares were more resilient given their greater success combatting the spread of Covid-19. Tokyo's Nikkei 225 index fell -9.7% in March (-19.2% ytd), while Shanghai stocks retreated -4.5% (-9.5% ytd). Most affected were emerging market equities, which pulled back -15.4% (-23.6% ytd).

Government bonds acted defensively, rising in price, as central banks cut interest rates and restarted quantitative easing. Exhibiting tremendous volatility, the 10-year US Treasury yield plunged from a high of 1.94% on Jan. 20, to as low as 0.31% on March 9, closing the quarter at 0.68%, sending bond prices significantly higher.



However, concerns about the effect of economic slowdowns on business profits led corporate bonds and other credit instruments to decline markedly. The Bloomberg Barclays US Aggregate index pulled back -0.6% in March (+3.1% ytd) while riskier, junk-rated, bonds dropped -11.8% during the month (-13.1% ytd).

Commodity prices, other than safe-haven gold (-0.9% in March; +3.6% ytd), fell sharply during the quarter amid the curtailment of industrial activities globally. For example, Copper fell -23% and nickel lost -19% in Q1. Energy markets suffered even more, caught in a perfect storm of reduced demand coupled with a supply shock stemming from the end of OPEC and Russia's production constraints. WTI crude oil dropped by -67% to \$20.48, well below the cost of production.

COVID-19

Over the past two months, the rapid global spread of the Covid-19 pandemic has interrupted the lives of virtually everybody on the planet, led many businesses to severely curtail operations and reducing employment, in turn, throwing financial markets into turmoil due to future uncertainty. Given the insidious nature (asymptomatic transmission) and severity of the virus, striving to maintain one's health has become of the utmost importance for individuals, communities, and policy makers. China, where Covid-19 originated, enacted rigid virus containment measures, subsequently followed by many other countries, in an effort to halt the spread of the virus. The toll on human lives, global

health care systems, and economies around the world is still too early to accurately forecast, but it is sure to be unlike anything we have experienced in modern times. However, advancements in healthcare, technology, and communications, coupled with proactive governmental policy action, as well as robust global fiscal and monetary support, allow us to be optimistic that a worst case scenario will be avoided.

UNITED STATES

The US, which is presently at the forefront of dealing with the Covid-19 pandemic, has responded by enacting three fiscal stimulus packages, the third of which is estimated at \$2.2 trillion (9.3% of GDP). Some of the very long list of aid items will go directly into the hands of consumers (i.e. a \$3,000 check per qualifying family of four). Further, an additional “fourth phase” multi-trillion program is considering additional tax cuts, suspending the payroll tax through the end of the year, extending the much enhanced unemployment benefits for longer, more money for state governments, increased welfare and food stamp payments, forgiveness of student loans, infrastructure spending, free health-care coverage for coronavirus patients, money to shore up pensions, and increased Social Security checks for seniors.

Joining the battle on the monetary stimulus front, the US Federal Reserve cut short term interest rates twice during March, to near zero, engaged in large repo operations, and resumed Quantitative Easing (QE) money printing. These efforts, with more likely to follow, have increased the size of the central bank’s balance sheet by nearly \$1 trillion (to \$5.25 trillion) over the past two weeks (similar action took eight months following the global financial crisis of 2008). The Federal Reserve has characterized its QE bond buying program as “unlimited,” targeting Treasury as well as agency mortgage backed securities (understood to be backed by the federal government). In addition, for the first time, the Fed will be buying or supporting a variety of other assets that they have never previously been legally allowed to do. Those include commercial mortgage-

March 2020 Economic Statistics

	Mar-20	Dec-18	Dec-17
Federal Funds Target Rate	0 - 0.25%	2.25-2.50%	1.25-1.50%
Consumer Confidence Index	120.0	128.1	122.1
Manufacturing PMI Index	49.1%	54.1%	59.7%
Unemployment Rate	4.4%	3.9%	4.1%
JPY / USD	107.53	109.56	112.67
USD / EUR	1.1029	1.1469	1.1996
Gold / oz.	\$1,571.05	\$1,282.73	\$1,302.45
Oil (WTI)/bbl	\$20.48	\$45.41	\$60.42

backed securities, corporate bonds and associated ET-F’s, municipal financing, and support for loan financing to businesses (large and small), as well as to consumers. These actions should also indirectly support the stock market.

There is no question that the rapid and strong fiscal and monetary response to the pandemic was necessary. The resulting shock to the economy has been sudden and severe as seen by the 9.9 million Americans that have already filed for unemployment benefits. While we believe that these job losses will be mostly temporary, the dreary labor news coupled with the general contraction of the economy, during the period when most people are sheltering in place, will undoubtedly lead to a substantial economic recession. Combatting the downturn will also come at a cost. The US budget deficit is now projected to exceed \$4 trillion, up from \$1 trillion. This deficit spending will add to the current \$23.6 trillion US national debt, with eventual potential upward pressure on the rate of inflation.

EUROPE

The government policy response to Covid-19 from the UK and Germany has been encouraging. They have committed to pay a significant proportion of workers’ wages during the shutdown to enable companies to avoid layoffs, despite a dramatic hit to sales. This should allow their economies to rebound sharply once the health situation is under control.

Joining the global central bank effort to fight the pandemic, the European Central Bank (ECB) started a new

€750 billion QE bond buying program and declared it would no longer be bound by prior limits on its purchases. Further, the Bank of England announced its own £200 billion monetary stimulus effort.

ASIA

Covid-19 has seemingly run its course in China, thanks to extraordinary measures of containment, with better than expected outcomes. As such, the rest of the world is analyzing the regional progression of the virus, and the associated effects on China's economy. Select data points demonstrate the magnitude of the shock. On a year-over-year basis, through February, the Chinese economy experienced the following declines: investment in fixed assets -24.5%, retail sales -20.5%, value of exports -15.9%, industrial production -13.5% (the fastest contraction in 30 years), services production -13.0%. Further, unemployment rose from 5.2% in December to 6.2% in February (a record high). With a negative GDP growth rate forecast for Q1, this would be the first time since 1976 that China experiences a shrinking economy. Yet, life is slowly returning to normal. Factories have once again begun to produce goods and are operating at near three-quarters of capacity, domestic flights have resumed, select retail stores are re-opening, and consumers are wearily returning to public places, such as malls and restaurants.

During the current crisis, China did not implement massive fiscal stimulus, as it did in 2008 during the global financial crisis or again in 2015, to prop-up growth. However, the Chinese government has asked banks to extend the terms of business loans and commercial landlords to reduce rents. In addition, many local governments have been distributing prepaid spending vouchers to boost consumer spending, but the amounts are relatively small. China's central bank, the People's Bank of China, did however, implement several monetary policy measures to improve liquidity in the money markets (\$245 billion), lowered the banking lending and prime rates modestly (0.05% - 0.10%) and reducing bank reserve requirements, freeing up \$79 billion to be lent out.

In Japan, life has remained surprisingly free of the coronavirus with people living relatively normally and businesses

continuing to operate. Nevertheless, the Bank of Japan (BoJ) stated it would double its annual pace of stock ETF purchases to over \$110 billion. To put this in context, the central bank already owns nearly 80% of all stock ETF's, equating to 8% of the entire Japanese equity market. The BoJ also significantly raised its ownership targets for corporate bonds and commercial paper.

OUTLOOK

Governments and central bankers have dusted their Global Financial Crisis (GFC) playbooks and are rapidly deploying similar, yet more potent, programs, to more assuredly dampen the effects of the coronavirus pandemic. While it was clear that economies were in the later stages of the economic cycle, the debate has now moved on from whether or not there will be a recession this year, to how deep and long it will be. Thus investors should be comforted by the fiscal and monetary responses we have seen thus far. These actions should ensure that unemployment is prevented from spiraling higher and bankruptcies of otherwise sound businesses are prevented.

Looking ahead, we continue to believe that the best course of action, for longer term oriented investors, is to maintain high quality equity holdings and be ready to weather future bouts of greater than normal volatility, which are likely to recur until there is more clarity around the future outlook. Previously we had been adamant about the risks in credit given low interest rates and high levels of indebtedness. Credit events still remain the main risk to fixed income investors, and prices have reset lower to reflect a probable increase in defaults. We must now add that since US Government bond yields are at, or nearing, the zero bound, across the yield curve, Treasuries will provide less of a ballast to overall portfolios, and little income for the foreseeable future. In all, we maintain our cautious stance towards fixed income securities and instead suggest alternative forms of portfolio diversification, centering around select non-market correlated strategies which have held up well during the recent sell off.

Most importantly, we hope that all of you and your loved ones are safe and healthy.

Important Disclosure and Terms of Use: Property of Papamarkou Wellner Asset Management, Inc. For targeted distribution only and not a solicitation. This report may not be displayed, reproduced, distributed, transmitted, or used to create derivative works in any form, in whole or portion, by any means without express written consent by Papamarkou Wellner Asset Management, Inc. or its operating subsidiary, Papamarkou Wellner & Co., Inc. MEMBER: FINRA/SIPC. All opinions expressed within unless otherwise stated are those of Papamarkou Wellner Asset Management, Inc. based on the most recent market, security, and economic data available.

Sources: Barclays, Bloomberg, Bureau of Labor Statistics, Conference Board, Department of Agriculture, Federal Reserve, Financial Times, IMF, Institute for Supply Management, MSCI, Reuters, Russell, Standard & Poor's, and the Wall Street Journal