March 2020 was perhaps the single most trying month in our investing careers. Prior to March, the global economy appeared to be chugging along, as domestic unemployment hit 3.5%, consumer confidence was high, corporate profits were robust and many of the prior catalysts for negative investor sentiment, i.e., the US/China trade dispute and Brexit, seemed on their way to being resolved. What a difference a month makes. The coronavirus has come to dominate and touch our lives in a manner that has been unprecedented and without compare; no facet of our world has been spared its effects. The resulting market volatility was truly head-spinning; all but one of the trading days in March saw prices move up or down by more than one percent, with the S&P 500 losing 33.9% peak-to-trough, in just 33 days. By comparison, the market lost 56.8% in 2007-2009, but over a span of 517 days.

What started out as an isolated incident (on January 12, not a single case of Covid-19 had been found outside of China), has truly become a global pandemic, as nearly every country in the world has reported cases of the virus. The rapidity of the spread has been incredible, as have the efforts to contain the virus. Social distancing, lockdowns and stay-at-home orders have become the norm, with little end in sight. The effect has been two-fold, not only a deep impact on our personal and social lives, but also a profound economic impact, as business has virtually ground to a halt and non-essential work has all but ceased.

Never in history have we seen such a sudden and complete cessation of business activity; we are truly in uncharted waters. Unemployment numbers have been absolutely staggering; shattering previous records and are approaching 17 million in just a three-week span. Demand for all manner of goods and services has evaporated and the energy market has been especially hard hit. The glut of supply already on the market, lack of demand due to inactivity and tensions between Saudi Arabia and Russia, drove the price of oil to $20/barrel, a drop of over 60% from the peak. All of these factors are contributing to perhaps one of the most precipitous recessions in history, with the question being, how quickly can we recover?

To stem the impact of the economic fallout, the government response has been surprisingly robust and swift and on a scale that is unprecedented. The Federal Reserve has necessarily utilized just about every tool in its arsenal to combat the effects of the coronavirus, from slashing interest rates, to backstopping the commercial paper/money markets, to buying debt across the spectrum, all to ensure that credit remains available and smoothly flowing. Similarly, a polarized Congress approved $2.5 trillion in legislation meant to augment unemployment benefits and paid sick leave, authorize direct payments to families and provide relief to small businesses. This reaction has been crucial in stabilizing the markets, as it shows officials' and lawmakers' willingness to respond and adapt to a crisis that is evolving by the minute.

Despite the impressive global response to this crisis, several things are clear and many more are unclear. Firstly, while it appears that cases are peaking globally, this is a direct consequence of social distancing efforts and a plunge in economic activity, which could be quickly reversed if things are re-opened too quickly. Estimates for year-over-year domestic GDP growth range from -11% to -35%, indicating unequivocally that more stimulus will be needed to counter the short-to medium-term impacts of the virus, yet no one truly knows how deep or lasting this recession will be. While it was previously posited that this would be a V-shaped recovery, it is looking increasingly likely that we'll see something more akin to a U-shape, with a longer trough and shallower upslope (see chart from PIMCO, below). Yet, this all hinges on the confidence of global citizens; until people feel safe that their risks of contracting the coronavirus have

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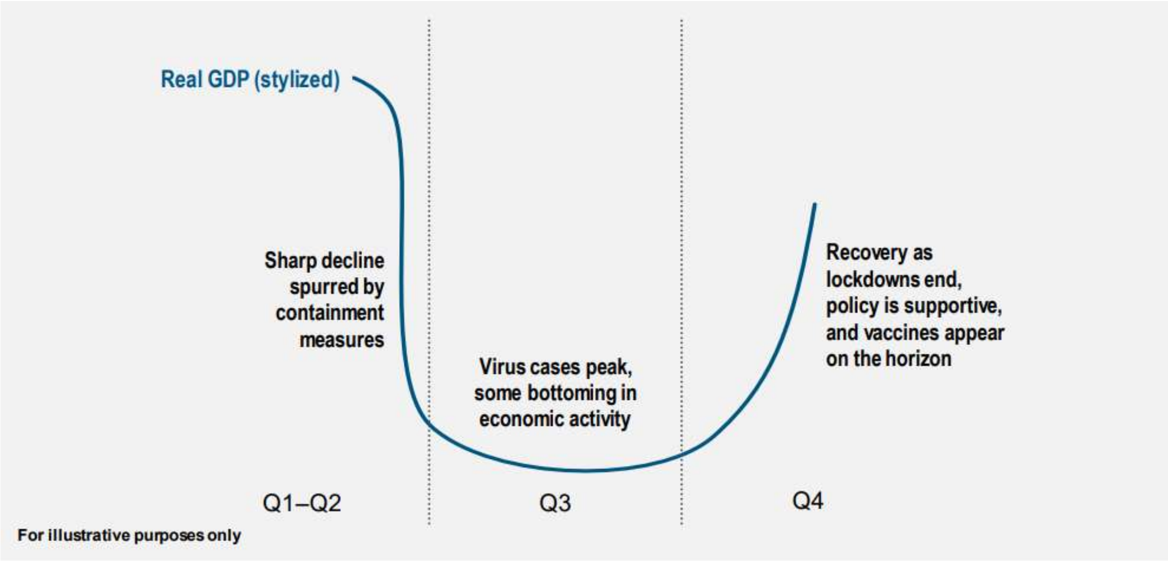
diminished — whether through widespread testing, or a vaccine – it is unclear how quickly economic activity will resume, despite lifting of governmental mandates.



From an investing standpoint, we remain committed to a long-term horizon and a focus on high quality, sector-leading companies. Markets will undoubtedly continue to be volatile and for now, likely driven by emotion (fear), rather than fundamentals. We always have and continue to seek those companies that have reliably shown an ability to perform throughout all business cycles and those which can emerge from the crisis well positioned with strong profitability and liquidity. While the market today represents a far better value than any time since the Great Recession, caution has us slowly re-balancing and prudently deploying our cash.

We implore everyone to stay safe and healthy during this extraordinary time and encourage you to reach out to us with any questions that you may have. While we may not have all the answers, we are happy to provide you with our insights and experience gleaned from over thirty years in the investment industry. We look forward to the day when we'll be able to meet face-to-face once again!

NOTE: All Required Minimum Distributions (RMDs) have been suspended for tax year 2020. More guidance from the IRS is on the way, but if you were subject to an RMD this year, that requirement has been waived. Please reach out to us with any questions.

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