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I have little to add to the media coverage of the carnage to the economy and financial markets in Q1 2020. The 2nd longest bull market in US financial history has ended and the long expected recession is likely here.

Warren Buffet, the legendary investor, has often opined that in the short term financial markets (the daily tally of how thousands of investors deploy their money) are a voting machine but in the longer term they are a weighing machine.

And in the short term, investors' thinking is fearful because we have been hit by a triple fear whammy: A virus that threatens your health, consequences that threaten your wealth and an uncertain future because we don't have a cure (yet).

So what might investors do as they transition from a fear provoked voting mentality to a more balanced weighing mentality?

I believe that we will weather this (economic) storm. And there are emerging analyses to support optimism. Moreover, the damage to portfolios happened unpredictably and fast. So reacting now, after the horse has fled the barn, is not effective. A better approach might be to opportunistically re-balance portfolios.

We plan to re-balance portfolios and keep them diversified across the 5 main asset classes and to rely on fundamentals and evidence-based investment strategies, and to remain cost-conscious. We think this remains a sound investment approach.



FROM WITHER THE VOLATILITY TO WEATHER THE VOLATILITY - Q2 2020 MARKET REVIEW

The Markets (first quarter through March 31, 2020)

The world's economies and stock markets have been rocked by the spread of COVID-19. Investors' fears prompted a major sell-off in February and March, plunging stocks well below their 2019 closing marks. Nevertheless, 2020 started

Key Dates/Data Releases

4/1: PMI Manufacturing

**Index, ISM
Manufacturing
Index**

**4/2:
International
trade in goods
and services**

**4/3:
Employment
situation, ISM
Non-
Manufacturing
Index**

4/7: JOLTS

**4/9: Producer
Price Index**

**4/10:
Consumer
Price Index,
Treasury
budget**

**4/14: Import
and export
prices**

**4/15: Retail
sales,
industrial
production**

**4/16: Housing
starts**

**4/21: Existing
home sales**

**4/23: New
home sales**

**4/24: Durable
goods orders**

**4/28:
International
trade in goods**

**4/29: GDP,
FOMC
statement**

**4/30: Personal
income and
outlays**

off in a positive way. Following a strong 2019, stocks were slow to move forward as investors cashed in some of their 2019 gains. But by mid-January, each of the benchmark indexes were safely ahead of their 2019 closing marks. However, concerns over the COVID-19 outbreak in China quelled investor optimism. By the end of January, only the small caps of the Nasdaq remained ahead of their prior year's pace, as each of the remaining indexes listed here fell into the red.

February started off as January ended, with investors more inclined to sell rather than buy equities. However, word of China's plans to cut tariffs on some U.S. imports sent stocks higher during the second week of the month. The Nasdaq was more than 6% over its 2019 year-end value while both the S&P 500 and the Dow also pushed ahead. But by the third week of February, the impact of the virus was becoming evident with news of a widespread outbreak in South Korea. Selling accelerated the following week as outbreaks were reported in Iran and Italy. As more cases were reported in the United States, investors feared that containment of the virus was not likely and rushed to cash in stocks. By the end of February, each of the indexes lost significant value led by the Dow, which fell more than 10% for the month.

March 2020 will surely go down as one of the most turbulent months. COVID-19 continued to spread worldwide. In the United States, confirmed cases and, unfortunately, deaths spiraled. Fear became the motivating factor in our daily lives — fear of catching the virus, fear of the illness affecting our loved ones, fear of losing our jobs, fear of economic failure, and fear of losing our money. With respect to the stock market, this fear manifested itself in a major sell-off for most of the month. After falling sharply during the last week of February, stocks rebounded marginally to open the month. But that push was short-lived as stocks plummeted dramatically mid-March, despite the announcement of new actions and legislation by the Federal Reserve, Congress, and the President. On March 20, each of the benchmark indexes listed here posted double-digit losses. Year to date, the major indexes were more than 20% behind their 2019 closing values. The passage of the CARES Act at the end of the month helped ease investors' concerns enough to move back to stocks. The end of the month saw each of the benchmark indexes post major gains, with the Dow marking its best single day since 1938. However, the spike in index values was not nearly enough to offset the major losses sustained throughout the month. March saw the Dow fall almost 14%, the S&P 500 drop over 12%, the Nasdaq lose 10%, the Global Dow give back close to 15%, and the small caps of the Russell 2000 plunge nearly 22%.

The first quarter of 2020 closed with each of the benchmark indexes securely in the red compared to their 2019 year-end values. The Russell 2000 again suffered the largest three-month fall, closing the quarter down nearly 31%. The Dow suffered its worst quarter since 1987, while the broader-based S&P 500 hasn't seen a quarterly decline this bad since 2008. The Nasdaq fell more than 14%, marking its worst quarter since 2018. The Global Dow fell over 24% for the quarter.

By the close of trading on March 31, the price of crude oil (WTI) had sunk to \$20.35 per barrel, well below the February 28 price of \$45.19 per barrel. The national average retail regular gasoline price was \$2.120 per gallon on March 23, down from the February 24 selling price of \$2.466 and \$0.503 less than a year ago. The price of gold finished March at \$1,591.20, slightly higher than its February closing value of \$1,585.80.

Market/Index	2019 Close	As of March 31	Monthly Change	Quarterly Change	YTD Change
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DJIA	28,538.44	21,917.16	-13.74%	-23.20%	-23.20%
Nasdaq	8,972.60	7,700.10	-10.12%	-14.18%	-14.18%
S&P 500	3,230.78	2,584.59	-12.51%	-20.00%	-20.00%
Russell 2000	1,668.47	1,153.10	-21.90%	-30.89%	-30.89%
Global Dow	3,251.24	2,469.53	-14.84%	-24.04%	-24.04%
Fed. Funds	1.50%-1.75%	0.00%-0.25%	-150 bps	-150 bps	-150 bps
10-year Treasuries	1.91%	0.69%	-43 bps	-122 bps	-122 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- Employment:** Employment rose by 273,000 in February after adding 225,000 new jobs in January. In 2019, job growth averaged 178,000 per month. Notable job gains occurred in health care and social assistance, food services and drinking places, government, construction, professional and technical services, and financial activities. The unemployment rate dropped 0.01 percentage point to 3.5% for the month as the number of unemployed persons dropped by close to 100,000 to 5.8 million. In February, average hourly earnings for all employees rose by \$0.09 to \$28.52. Average hourly earnings increased by 3.0% over the last 12 months ended in February. The average workweek rose by 0.1 hour to 34.4 hours in February. The labor participation rate for February was 63.4%, the same as in the previous month. The employment-population ratio was 61.1% last month (61.2% in January).
- FOMC/interest rates:** The Federal Open Market Committee held several emergency meetings in March, dropping the target range for the federal funds rate 150 basis points to 0.00%-0.25%. To further combat the economic impact of COVID-19, the Committee proffered a number of new and drastic measures. Among the actions taken by the Fed are unlimited bond buying including the purchase of corporate bonds; \$300 billion in new financing; and the establishment of two new facilities, the Term Asset-Backed Securities Loan Facility to enable the issuance of asset-backed securities, and a Main Street Business Lending Program to support lending to eligible small and medium-sized businesses.
- GDP/budget:** According to the third and final estimate for the fourth-quarter gross domestic product, the economy accelerated at an annualized rate of 2.1%, the same rate as in the third quarter. Consumer spending grew at a rate of 1.8% (3.2% in the third quarter), fixed investment fell 0.6% in the fourth quarter (-0.8% in the third quarter), and nonresidential fixed investment dropped 2.4% in the fourth quarter, compared to a 2.3% decline in the prior quarter. Consumer prices advanced at a rate of 1.4% in the fourth quarter, comparable to the third quarter (1.3%).
- Last February saw a budget deficit of \$235 billion. Through the first five months of the 2020 fiscal year, the deficit sits at \$624.5 billion, 14.8% greater than the deficit over the same period last fiscal year. Compared to the same period last year, government spending climbed 9.2%, far exceeding receipts, which rose 7.0%. In February, the largest expenditures were for Social Security (\$91 billion), income security (\$91 billion), national defense (\$55 billion), and Medicare (\$52 billion). On the income side of the ledger, social insurance and retirement accounted for \$100 billion and individual income taxes totaled \$70 billion.
- Inflation/consumer spending:** According to the Personal Income and Outlays report for February, personal income rose 0.6% for the month, the same advance

as in the previous month. Disposable, or after-tax, income increased 0.5% after increasing 0.6% in January. Consumer spending rose 0.2% in February for the second consecutive month. Price inflation remained low, however, as consumer prices inched ahead 0.1% for the third month in a row. Over the last 12 months, consumer prices are up 1.8%.

- The Consumer Price Index inched ahead 0.1% in February, the same increase as in January. Year to date, consumer prices are up 2.3%. Increases in prices for shelter (which makes up the largest portion of overall consumer costs) climbed 0.3% in February following the same 0.3% increase in January. Energy prices dropped 2.0% in February after falling 0.7% in January. Gas prices plummeted 3.4% while fuel oil prices decreased 8.5%.
- Prices producers receive for goods and services fell 0.6% after advancing 0.5% in January. The index has increased 1.3% since last February. Producer prices less foods, energy, and trade services inched down 0.1% in February following a 0.5% increase in January. Since February 2019, prices less foods, energy, and trade services moved up 1.4%. In February, producer prices for goods fell 0.9%, the largest decline since moving down 1.1% in September 2015. Over 60% of the February decrease in goods prices is tied to a 3.6% drop in energy prices.
- **Housing:** After falling 1.3% in January, existing home sales jumped 6.5% in February. Year over year, existing home sales are up 7.2% (9.6% for the 12 months ended in January). The median sales price for existing homes was \$270,100 in February, compared to \$266,300 in January. Existing home prices were up 8.0% from February 2019. Total housing inventory at the end of February was 1.47 million, an increase from the January rate of 1.42 million units for sale. Following a strong January, sales of new single-family homes decreased in February, falling 4.4% below January's totals. Sales are 14.3% above the February 2019 estimate. The median sales price of new houses sold in February was \$345,900 (\$348,200 in January). The average sales price was \$403,800 in February (\$402,300 in January). Available inventory, at a 5.0-month supply, was slightly lower than January's 5.1-month supply.
- **Manufacturing:** For the first time in three months, industrial production increased, climbing 0.6% in February after falling 0.5% the previous month. Manufacturing output edged up 0.1% last month but is still 0.4% below its level of a year earlier. Total industrial production was unchanged from a year earlier. New orders for durable goods climbed 1.2% in February following a 0.1% increase in January. New orders have advanced four out of the last five months. For the year, new orders for durable goods are up 0.4%. New orders for transportation equipment drove the increase, vaulting 4.6% in February. However, excluding transportation, new orders fell 0.6%. New orders for capital goods (manufactured assets used by businesses to produce consumer goods) jumped ahead 4.1% in February, driven primarily by a jump in new orders for defense capital goods, which soared 25.7%. Orders for nondefense capital goods inched up 0.5%.
- **Imports and exports:** Import prices fell 0.5% in February after inching up 0.1% in January. February's drop in import prices was the largest decrease since a similar decrease last August. Since February 2019, import prices have fallen 1.2%. Fuel imports plunged 7.7% in February, the largest monthly decline since prices receded 7.8% in June 2019. Excluding fuel, import prices actually increased 0.3% in February. Prices for exports dropped 1.1% last month after advancing 0.6% in January. This is the largest monthly decrease in export prices since December 2015. Prices for exports decreased 1.3% on a 12-month basis from February 2019.
- The international trade in goods deficit was \$59.9 billion in February, down from \$65.5 billion in January. Exports of goods for February increased 0.5% to \$136.5 billion. Imports of goods dropped 2.6% to \$196.4 billion.
- The latest information on international trade in goods and services, out March 6, is for January and shows that the goods and services trade deficit shrank to

\$45.3 billion, \$3.3 billion less than the December trade gap. January exports were \$208.6 billion, \$0.9 billion less than December exports. January imports were \$253.9 billion, \$4.2 billion lower than December imports.

- **International markets:** The spread of COVID-19 sent world markets and economies tumbling. With over 110 countries and territories reporting cases of the virus, major institutions and banks have cut their forecasts for the global economy. Several nations, led by China, have ordered certain areas locked down, restricting movements of millions of people and suspending business operations. China's gross domestic product is expected to plunge to 4.9% this year, slower than earlier forecasts of 5.7% annual growth. Year to date, the STOXX Europe 600 Index fell almost 23%, Germany's DAX slipped over 24%, France's CAC 40 lost 24%, Italy's FTSE MIB Index dropped 26%, the UK's FSTE 100 Index has given back close to 23%, and Japan's NIKKEI 225 is down 21%.
- **Consumer confidence:** Not surprisingly, the Conference Board Consumer Confidence Index® declined sharply in March. The index fell to 120.0 from February's 132.6. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — decreased from 169.3 to 167.7. However, the Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, fell from 108.1 to 88.2.

Eye on the Month Ahead

Individuals' health is of primary importance as the world continues to battle the effects of COVID-19. Of secondary, but great importance, is the impact of this pandemic on the world's economies and markets. April will, hopefully, begin to point toward recovery of both personal and economic health. The impact of the CARES Act should begin to be felt by individuals and businesses next month.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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