

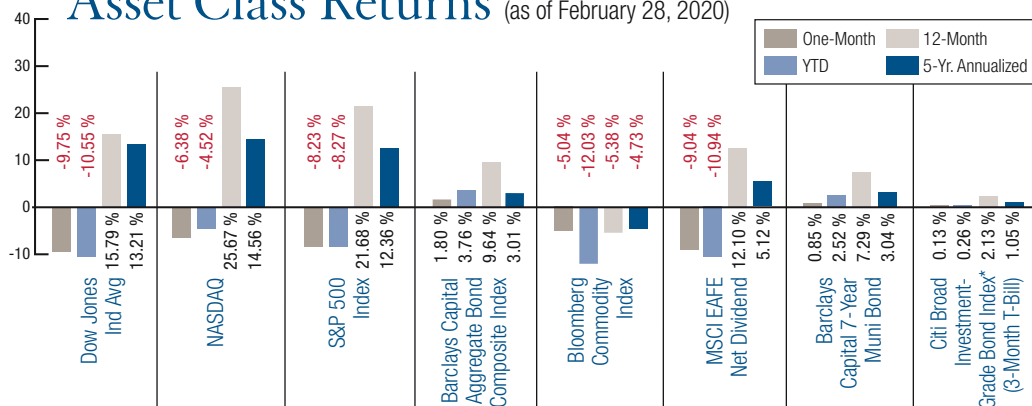
From the Office of Jeff Sgroi, CFP®



"Be fearful when others are greedy and
greedy when others are fearful."

— Warren Buffett

Asset Class Returns (as of February 28, 2020)



Market & Economic Synopsis

- Treasury yields hit historic lows as 10-year U.S. Treasury Note drops to 0.66% (as of 03/06/20).
- February U.S. jobs report smashes expectations, adding 273,000 jobs.
- Coronavirus cases top 100,000 worldwide, including 500+ domestic cases in 25 states (as of 03/09/20).
- Super Tuesday voting sees Joe Biden surge ahead as the Democratic presidential candidate favorite, as Elizabeth Warren, Michael Bloomberg, Pete Buttigieg, and others suspend campaigns.
- Federal Reserve takes uncommon measure to cut fed funds rate outside of regularly scheduled meeting.

- Crude oil prices drop to multi-year lows, as OPEC is unable to reach an agreement on production cuts.
- 30-year fixed-rate mortgage drops to 3.29% (for week ending March 5), creating refinance and home-buying opportunities for many.
- Volatility rules in equity markets, as VIX tops 60.
- Top banker and CEO of JP Morgan, Jamie Dimon, recovering from heart surgery.
- Defensive sectors, including utilities and real estate, hold up best in beleaguered market, while energy and financials lag.

Market Update

Our last market letter focused on ten themes we expect to play out in 2020. Although we are only two months into the new year, some themes have already rung true. Specifically, the Fed's influence on the bond market, the impact of the upcoming presidential election, and volatility spiking to start 2020 is not a total surprise.

Capturing (and captivating) investors' attention the past two weeks have been unprecedented moves in most all aspects of the financial markets – fixed income, domestic equities, foreign equities, currencies, commodities, and more. These moves, though historic in nature, have been processed and handled well by our financial system. Circuit breakers have worked as intended and trading channels have been orderly. That's the good news.

On the flip side, we have seen substantial and abrupt moves in the equity markets push the S&P 500 lower by double digits within days. Fixed-income yields have taken a precipitous tumble. And there is no clear picture as to when we will return to some semblance of "normalcy."

With that being said, we want to share our views as to why we have seen such violent moves in the markets lately. In other words, "What happened in the past few weeks to turn markets?"

Coronavirus

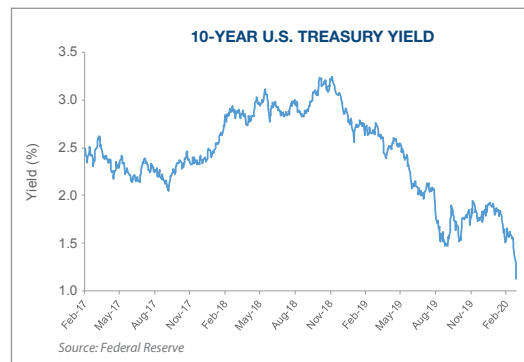
Widespread selling in the equity markets began shortly after U.S. indices reached highs on February 19th. It is no mystery that this timing coincided with reports of the coronavirus spreading at an accelerated pace throughout China. Shortly thereafter, additional cases were reported, in significant numbers, in South Korea, Italy, and Iran. Selling and volatility in the equity markets continued and accelerated. Currently, confirmed cases of the coronavirus exist in most developed nations. The timeframe for a vaccine and how widespread the virus will become are unknown, which is of utmost concern. However, while infections are rising, the rate of change within China is declining, assuming reporting

is accurate. It is unknown if this is occurring due to quarantine efforts by the Chinese government, or if in fact the spread of the virus is declining. Time will tell.

The human toll of any global healthcare crisis is always the first and foremost issue to address. For purposes of this discussion, the impact on financial markets is of utmost importance as well. With many localities within China being locked down, the global supply chain is, and will continue to be, disrupted for the foreseeable future. Beyond that, travel from both a business and pleasure standpoint has been greatly disrupted. Conferences, sporting events, concerts, and other activities have been greatly curtailed worldwide. No doubt both the human toll and financial toll will have an impact on global economic growth.

Lower Interest Rates

At the time of this writing, the 10-year U.S. Treasury Note touched a low of 0.40%. At this rate, a lender will loan the U.S. government \$100,000, and ten years later expect to receive the principal back plus annual interest payments of \$400. Considering cost of living adjustments, inflation, and other expected price increases, the return on investment is not exactly a thrilling prospect. Jeffrey Gundlach, esteemed portfolio manager for DoubleLine Capital LP, said this past week that the 10-year U.S.



Treasury is no longer a money-making instrument, but rather a place to not lose money. His comments validate that we are in historically monumental times.

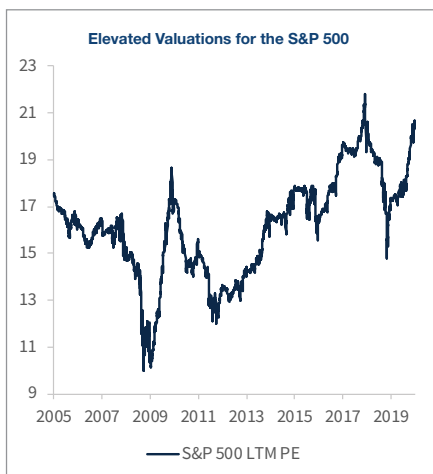
A rule of thumb in the markets is that when stocks are up, bonds are down. This scenario has played out to a “T” the past three weeks. Interestingly, I would argue that lower interest rates have moved stock values lower, rather than stocks moving yields.

High-quality sovereign debt, like U.S. Treasuries, are often seen as a safe-haven investment. As demand for these securities increases, values rise and rates drop. The drop to current interest rates implies a high level of fear in the financial markets. The Federal Reserve cutting the Fed funds rate by 50 basis points in an emergency meeting on March 3rd confirms some of those concerns.

2020 Elections/Democratic Race

As expected, the 2020 presidential race is already having an impact on the financial markets fueling the volatility is the race to nominate a candidate on the Democratic ticket for President of the United States. The field has narrowed considerably since the last debate on February 25th in South Carolina. Leading up to Super Tuesday, seven candidates were on stage. Currently, two candidates remain – Senator Bernie Sanders and former Vice President Joe Biden.

Financial markets prefer a known entity – surprises are unwelcome. Proof in point – when VP Biden emerged with a strong turnout in the Super Tuesday delegate vote, equities rallied sharply the following day. Senator Sanders’ platform and agenda, if elected president, includes Medicare-for-all, free college tuition, higher taxes, and other items quite different from any other administration ever running our federal government. Since we have learned that polling and expert political predications are of little use in determining eventual winners, the Democratic nomination process and subsequent election in November will likely continue to shift the markets throughout the year.

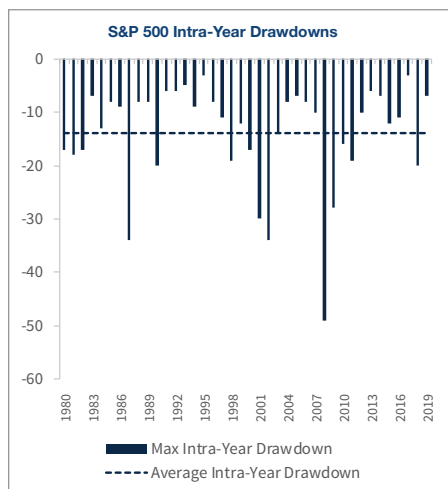


As the graph above demonstrates, P/E ratios topped out around 21, exceeding historical norms. Annual drawdowns are, in fact, the norm.

Frothy Equity Markets

As noted above, the S&P 500 hit an all-time high of 3,393 on February 19th. Stock prices of certain companies went parabolic, indicating their stock prices were set to reach the moon. Inevitably, the forces of gravity and science won, as they always do. In other words, high prices do not cause crashes, but they do make markets more vulnerable, and that is what we have witnessed recently.

As the chart below shows, the intra-year drawdown has averaged approximately 15% over the past 40 years. Drawdowns are best described as a peak-to-trough move. What has been unique about this drawdown



is the speed in which it occurred.

A double-digit dip in the stock market is never a pleasant experience. February and March market activity has been no exception. Time will tell how the coronavirus spreads and what will be its impact, when interest rates will settle into a more traditional level, and how the U.S. Elections play out, as well where equity values shift. In the meantime,

we will not let fear drive our investment decisions, but rather continue to seek opportunity and manage risk where appropriate. As always, please contact me if you would like to discuss your thoughts, or ours, surrounding the markets and your investments.

From the Homefront

It has been a full, active winter in our household! Between key roles and lots of rehearsal at home by Lily and Hannah in the 1st grade play, basketball practice and competitions, and Scouts (Girl Scouts for Hannah and Stella, and Cub Scouts for Lily), we have thankfully managed to keep up good report cards at school.

The X Games came through Aspen in late January. On the final day of competition, the local Girl Scout troop was invited to a front-row view of the Women’s Ski Slopestyle Final. Below is Stella with one of her GS friends. It was a treat for the girls to meet the athletes up close for an amazing experience. My hope is that they are not so inspired to get as vertical and push such limits as these athletes!

Many of you, like our family, have travel plans for the end of winter and spring break. The coronavirus situation is such a dynamic and rapidly changing situation, with so many unknowns that have disrupted and altered the daily lives of many people worldwide. My hope is that we all stay healthy, and can still enjoy any scheduled trips or vacations.



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