FIRST QUARTER 2020 MARKET REVIEW:

There are two challenges associated with the Covid-19 pandemic, a health and an economic crisis. What follows focuses on the economic dislocation. Admittedly, it is difficult to separate the health from the economic crisis. They are intertwined, impact the same communities, and the economy will not fully revive until there are successful therapies to address the health element.

The quarter began with many believing the US economy would extend its longest ever business expansion well beyond its almost eleven-year cycle. A truce on the tariff war between the US and China seemed in place with the successful negotiation of an initial accord. There were few obvious signs of an eminent black swan event.

In January 2020, news of a novel corona virus event in China seemed limited to a specific geographic region of that country and all but government intelligence units and those involved in global epidemiology matters gave particular attention to what was in the offing.

By mid-January the Chinese economy was under considerable duress as government implemented quarantining protocols to stem the advance of Covid-19. By February the virus had transcended borders extending to other Asian countries, Europe and the Americas. By March countries around the world had implemented extensive stay-at-home orders designed to stem the spread of infection and morbidity. These actions disrupted economic activity, shuttered businesses and initiated an upward spiral of unemployment, particularly in those public facing sectors of economies and those dependent on extended supply chains and/or requiring employees to collaborate in close physical proximity.

On top of the already reduced demand for crude oil in the face of the economic slow-down, Saudi Arabia proceeded to flood the oil market with crude in an effort to undercut Russian and US oil sales. During the quarter an existing agreement between Russia and Saudi Arabia to limit production ended with no replacement. Saudi Arabia’s decision to pump crude regardless of the implications to global demand sent the barrel price into free fall, further damaging world economies.

The dimensions of the present economic crisis are an unprecedented demand and supply shock to global economic production impacting virtually all industry and service sectors.

The question of when the economy will go into a recession, which has occupied market observers for the past year, has now moved to how deep and extended the current one will be. Concerns of a catastrophic outcome are not unwarranted. In the US alone, job losses exceed those experienced during the 2008 recession. There is the real possibility that final job loss numbers will exceed those experienced during the Great Depression of the 1930s.

In February and March the Federal Reserve Bank slashed over-night borrowing cost to zero and deployed in excess of a trillion dollars to purchase financial instruments to ensure liquidity throughout the monetary system. This level of intervention is expected to double in the coming months.

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In Q-1 the US 10-year yield dropped from 1.92% to 0.63%, while the two-year yield dropped from 1.57% to 0.23%. By Quarter end, the 10-year Treasury remained below 1%. Investors continued to invest in US Treasury obligations seeking the security these obligations afford. Fidelity Investments reports that the yields reached at points within the quarter were the lowest in almost 150 years of history.

Specific to non-Treasury bonded debt, US investment grade bonds had a record issuance month in March resulting from the Federal Reserve's decision to buy corporate bonds to support the economy.

Fiscal stimulus was not an absent player in this economic drama. The US Congress appropriated and the President signed legislation that deployed in excess of two trillion dollars for economic stimulus through loans, grants and/or cash payments to state and local governments, health service providers, health research entities, businesses and individuals. This funded the purchase of goods and services designed to combat the Covid-19 epidemic as well as to support the unemployed for several months.

The US is not alone in implementing unprecedented measures to forestall national economic downward spiral. Central banks and governments world-wide have cut rates, expanded asset purchase programs and committed funds to tackling the most pernicious aspects of this crisis.

Strategies differ by individual countries. Measures taken in the United Kingdom and Germany are designed to encourage companies to retain staff until business can be revitalized. In Hong Kong direct payments are made to residents of that Territory to offset loss of employment and promote spending. The US approach is to significantly increase jobless benefits for the next few months. The US Federal Reserve has supported geographically dispersed access to the dollar, easing the movement of monies within economies.

The following statistics illustrate the breadth and depth of the market decline over the past three months.

Asset Class:	2019	Q-1 2020
US S&P 500	+31.5%	-19.6%
Growth	+34.1%	-15.1%
Value	+28.7%	-26.8%
Small cap	+26.8%	-30.0%
Barclays Aggregate Bond Index	+8.72%	+3.15%

Asset Class Data: JP Morgan, 1 Apr 2020, Review of Markets
Bloomberg PLC: Barclay Aggregate Bond Index

Where these economy-focused therapies will lead remains unclear at this stage of the crisis. What is apparent, however, is that absent this concerted level of intervention by central banks and governments, the global economies and the lives of individuals would by now be more desperate. This unprecedented level of intervention, however, will have cost. The hope is that by the time that bill becomes due the world economy will be better able to service that debt.

SESLIA ACTIVITY:

In January 2020, Seslia conducted a review of its client portfolio holdings with an eye to, among other objectives, orienting investments in less transparent sectors away from passive to active management strategies. In an environment of increasing uncertainty, we believed this movement prudent.

Simultaneously we pared back on bond portfolio investments with substantial exposure to non-investment grade holdings. These portfolios served the purpose of increasing investor return in a low-yield investor return environment. However, we increasingly believed that the associated risk-exposure did not align with the investment objectives of most clients, especially in a market environment that had the opportunity for increased volatility and uncertainty.

We, like so many others, were surprised by the magnitude of the initial market decline in early March. We did, however, stay the course through the most volatile trading days with the conviction that our client holdings would rebound with the economy and the financial markets.

We have used the opportunity of the April 2020 market rally to lighten client portfolio holdings in small cap stocks, exposure to the discretionary spending and energy sectors. We further reduced client exposure to bond portfolios with investment strategies highly dependent on below investment grade holdings and commercial mortgages, which boost investor returns. We are monitoring the intermediate term performance prospects of the financial sector.

In the coming days and weeks, we will use available cash to invest in companies involved in consumer staples, technology, bio-medicine and health care, among others.

We will favor investment grade bonds for fixed income return despite the low yield these investments generate until more certainty returns to the economic outlook. We will also pursue dividend distributions and/ or preferred stock opportunities to generate investor income.

Finally, we will continue to use portfolio investment strategies such as Exchange Traded or managed funds over individual companies or bond issuers to reduce investment exposure.

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