SECOND QUARTER 2020 MARKET REVIEW:

Any second quarter market report is essentially about the Covid 19 pandemic and its impact on businesses, consumers and the global economy. Both reality and perception of what will occur tomorrow have influenced market movements often in an environment starved for substantive data and informed forward guidance. Economic uncertainty and absence of reliable data have influenced the volatility occurring in both the equity and debt markets.

Defensive plays have done well this quarter: gold, US Treasuries, technology, and health therapeutics. Investors have seen opportunity in the depressed share price of companies that suffered most in the March down-draft. What prospects exist for some of these companies remains uncertain. Select small cap companies and international investments have positively benefitted from this changed investor perspective. Europe, Asia, Canada, and countries in the geopolitical region are viewed as having transited the pandemic better positioned to enjoy growth resulting from early and decisive actions to limit the virus spread.

The European Union has done what investors have hoped it would do for many years. The economically strong countries have agreed to participate in a recovery fund that will assist those countries most adversely impacted by Covid 19. A repeat of the politically induced European sovereign debt crisis in the aftermath of the Great Recession appears to be averted.

The first quarter ended with the shuttering of economies worldwide to reduce the spread of the Covid virus. Workers were furloughed. Unemployment soared. Several economic sectors were brought to a standstill. Others were severely crippled by disruptions to existing supply chains. Consumer demand for goods and services, beyond the very essential, slowed as individuals sheltered-in-place.

The second quarter was all about economic survival during this unconventional and worrisome period. Economies held out hope for vaccines and therapeutic solutions that would allow a return to some degree of economic normalcy. The imperative of economic reopening to mitigate the social and community impact of unemployment and the insufficiency of family savings to weather wage-loss gained momentum over concern about virus spread. By quarter end, attention turned to ways to open economies. The decisions made in the face of this imperative will influence what happens in the Q-3 and those to come.

Throughout the quarter, the Federal reserve took unprecedented steps to ensure liquidity throughout the monetary system. Chairman Powell from the onset made clear that everything that could be done would be done. The Fed Board gave substance to this position by exponentially increasing its balance sheet and introducing novel programs in a best effort to insulate the economy. The US Fed was universally joined in this effort by central banks world-wide.

Throughout, however, the Fed acknowledged limits to its firepower. Though it could provide liquidity support it was incapable of addressing the solvency of businesses or the more basic well-being of main street and the American consumer. This required aggressive government fiscal stimulus.

Congress and the administration stepped forward with three separate stimulus packages injecting trillions of dollars into the economy. It came in the form of small business loans, financial support to the health care health delivery sector, financial assistance to state and municipal entities, and financial support to the unemployed. To stimulate consumption financial assistance was provided most households. At least one additional stimulus package will undoubtedly occur in the third quarter. Many of the initiatives implemented sunset in August. Sectoral stresses, the adverse impact the pandemic has had on state and local government finance, and the continuing need for support to the unemployed must be addressed.

The imperative of monetary and fiscal stimulus to stave off economic meltdown has overridden more traditional concerns surrounding the ballooning of the federal deficit, the printing of money by the federal government to support the economy and the possibility of excessive liquidity driven inflation.

Fifteen days into the third quarter and the virus is far from contained in the United States. Regions of the country that moved forward aggressively to reopen economies are experiencing increased virus spread. The possibility of retrenching in many states and urban areas remains real . The situation is most pronounced where the initial wave of virus spread in the March/ April time period was less pronounced.

The US equity market has from the inception of the downturn favored the concept of a quick recovery following economic reopening. The second quarter, therefore, saw the paring back of market losses. New share price highs were achieved by certain technology companies. Amazon, with its well-honed logistics benefitted from the stay at home orders. Representing almost 40% of the consumer discretionary sector, the company buoyed that consumer discretionary sector distorting the melt down that was occurring in much of retail, travel and leisure spending.

The intractability of the virus; the distorted markets courtesy of the unprecedented liquidity provided by the Fed; the forestalling of foreclosures, evictions, and bankruptcies; and the burgeoning deficits of states and municipalities all distort the economic outlook for the coming third quarter and beyond.

Global political risk also remains high through the end of the year. In November the US will decide whether to change political and economic direction. In the United Kingdom, the Brexit decision will again be in full focus with the implementation of custom controls between Great Britain and the European Union. The tensions between China and the United States have now escalated well beyond just a tariff dispute and now involve almost all aspects of bi-lateral relations.

The below statistics illustrate the breadth of change in the domestic equity and debt markets over the past three months.

Asset Class:	2019	Q-1 2020*	Q-2 2020**
US S&P 500	+31.5%	-19.6%	+20.5%
Growth	+34.1%	-15.1%	+25 .6%
Value	+28.7%	-26.8%	+12.9%
Small cap	+26.8%	-30.0%	+24.7%
Barclays Aggregate Bond Index	+8.72%	+3.15%*	+0.6%

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

SESLIA ACTIVITY:

We will again complete a review of most client positions during the coming quarter. Where appropriate, we will reposition investments to better take advantage of opportunities that exist or seek to improve the performance of mutual fund portfolio management.

The heightened economic and, by extension, market uncertainty inevitable over the next few quarters means that we will be defensive in our investment selections, ostensibly maintaining existing positions. When new funds are available for investing, we will favor increasing the size of existing holdings rather than exploring new opportunities.

We will, however, continue to seek investment opportunities in technology and health services, the new defensive sectors in this market environment. As greater clarity unfolds concerning an improvement in mid-term economic outlook, certain managed funds or Exchange Traded Fund portfolios that have significant holdings in companies badly impacted by the pandemic may offer opportunistic investment opportunity. We will evaluate and take advantage of these opportunities when the situation presents itself.

Clients unwilling to relax investment guidelines and assume larger equity exposure and by extension risk, must be prepared for annual returns at a significant discount to those of the recent past. Ten-year treasury yields are well below 1%. This yield has in the recent past approached the zero bound. Investment grade credits will not produce significant returns in this market environment. Some opportunity for higher yield exists in leveraged portfolios but this is minimal and is accompanied by higher risk exposure.

Clients amenable to relaxing investment constraints may choose to consider a more substantial weighing of portfolio allocation to equity investments.