April 2020

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Market Summary

Equities

MSCI AC World	442.4
Price / Earnings	15.6x
Dividend Yield	3.0%
S&P 500	2,584
Price / Earnings	17.0x
Dividend Yield	2.3%

US Treasury

2 Year Yield	0.2%
10 Year Yield	0.7%
30 Year Yield	1.3%

US Corporate Spreads

Investment Grade	2.8%
High Yield	9.5%

Equity Volatility

CBOE SPX Volatility	53.5

US Economic Figures

GDP Growth 4Q19	2.1%
Unemployment	4.4%
Inflation (core)	2.1%
Fed Funds Rate (mid)	0.1%
3 Month LIBOR	1.5%

Commodities

Oil (Brent)	$22.74
Natural Gas	$1.64
Copper ($/lb.)	$2.23
Gold ($/oz.)	$1,557

Foreign Exchange

Euro	$/€	1.10
Japanese Yen	¥/$	108
Chinese Yuan	元/$	7.09

Market summary data as of:
March 31, 2020

Scylla & Charybdis

In Homer's account of Odysseus' journey home from the Trojan War, the Greek hero is faced with a dilemma. Opposing his safe passage in the narrow waters of the Strait of Messina were two inescapable dangers – the sea monsters Scylla and Charybdis. He had to choose between sailing close to Scylla, whose six snake-like heads could devour some of his crew, or close to Charybdis, whose swallowing and belching of the waters could engulf their entire ship.

Much of the world faces a similar choice in the fight against the global coronavirus pandemic. Over a span of three months, the virus has spread, taking a large human and economic toll. By the end of the first quarter, the health crisis had taken over 40,000 lives with new cases parabolically rising. Economic disruption resulting from widespread containment efforts resulted in a $16 trillion collapse in global stock markets by quarter end, a fall of 23% from all-time highs in January. Authorities are navigating the novel crisis, working with partial information and forced to choose between health and economic outcomes. Investors, meanwhile, face uncertainty regarding how the evolving situation will affect the markets going forward.

We could make this quarter's letter Homeric with a catalogue of dramatic market facts that are "record-breaking" and "unprecedented". The gist is that we've experienced an economic and market crash of scale and speed hitherto unseen. Likewise for government intervention. Monetary and fiscal countermeasures have exceeded anything previously witnessed, even during the Great Financial Crisis.

As we noted in our interim update published in mid March, the pandemic is a natural disaster that will result in a sharp decline in economic activity and corporate earnings. Mandated shutdowns across a wide range of businesses and "stay-at-home" orders have led to a spike in unemployment (Exhibit 1). Market stress has led to tightened financial conditions (Exhibit 2), and leading economic indicators worldwide and in the US portend further retrenchment (Exhibits 3 & 4).

Exhibit 1: Rapidly Deteriorating Unemployment

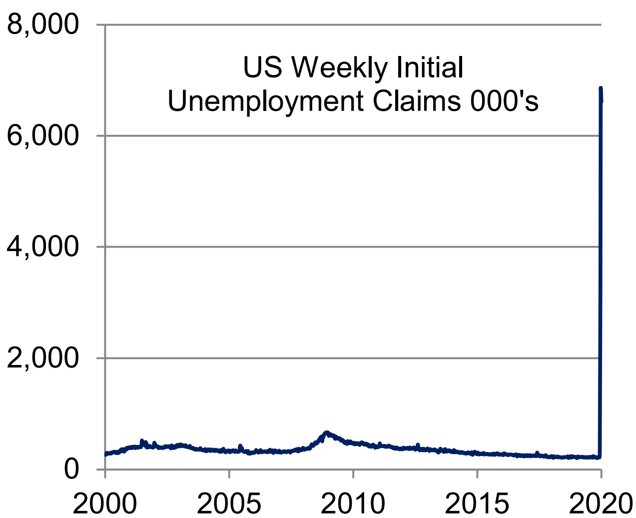


Exhibit 2: Tightened Financing Conditions

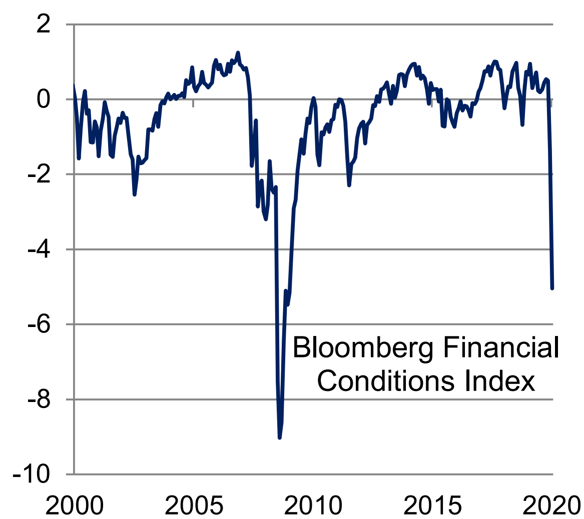


Exhibit 3: Global Leading Indicators Falling

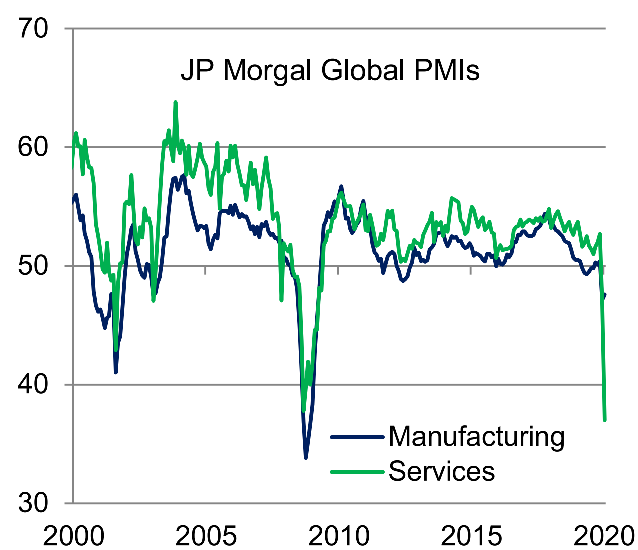
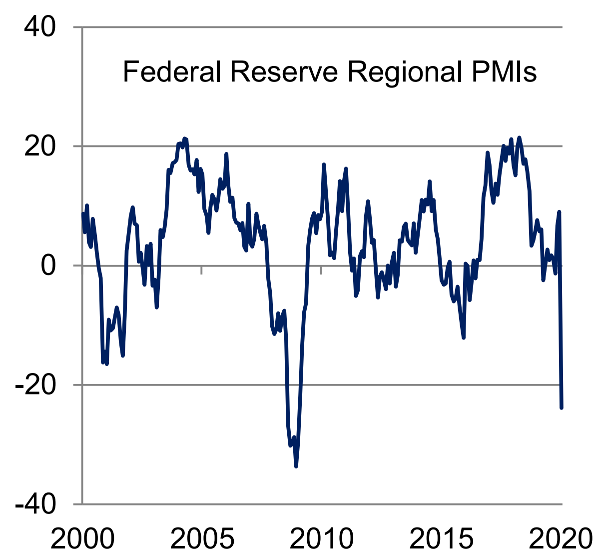


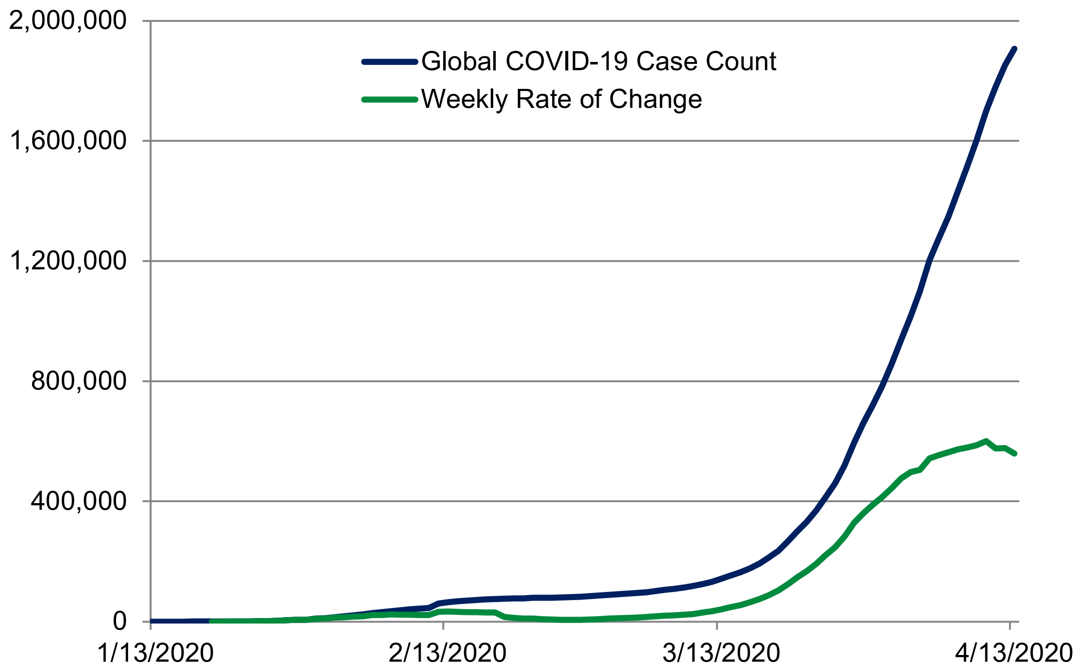
Exhibit 4: Domestic Leading Indicators Falling



How deep and how long the contraction will last is uncertain and depends on the path of the health crisis and government policy response. While quick to acknowledge that we've no formal background in epidemiology, forming a view on the issues affecting the outlook for the economy and capital markets requires an appreciation of the current state of the pandemic and how it might play out.

The number of confirmed infections continues to grow at a dramatic pace as contagion spreads globally and as testing ramps up (Exhibit 5). While the expanding case count speaks grimly of the rising human toll, a slowing in the growth rate of new cases suggests good news -- that restrictions aimed at "flattening the curve" are having their intended effect of slowing the spread of the virus. Further deceleration in new case growth, combined with approvals of drugs that would serve as prophylaxes and treatments, would bring nearer the time when economic activity may begin to recover. A vaccine that would provide comprehensive safety from COVID-19 is unlikely before next year, but enough progress with treatments and curve flattening might be achieved in the near term to begin the process of bringing the global economy out of its policy-induced coma.

Exhibit 5: Global Pandemic Cases Growing But (Possibly) Decelerating



Meanwhile, authorities have taken steps to mitigate the impact of the "Great Lockdown". Central banks have eased substantially, with the most aggressive actions taken by the US Federal Reserve. In two emergency cuts during March, the Fed reduced its short-term interest rate by 1.5% to almost zero. More impactfully, it increased its recently restarted "quantitative easing" bond purchasing program to a scale that dwarfs the interventions taken in the financial crisis of 2008. Initially committing to purchase $700 billion in treasury and mortgage-backed securities, the Fed later announced that it is willing to purchase an unlimited amount of bonds. Moreover, it widened the scope of bonds that it would buy to include corporate bonds (investment grade and those that fall into the top tier of the high yield category) and a wide variety of asset-backed securities. By early April, the Fed's large scale bond purchases had added nearly $1.9 trillion to its balance sheet (Exhibit 6).

Exhibit 6: Aggressive Monetary Intervention
Over $2.5 Trillion in Bond Purchases So Far in 2020

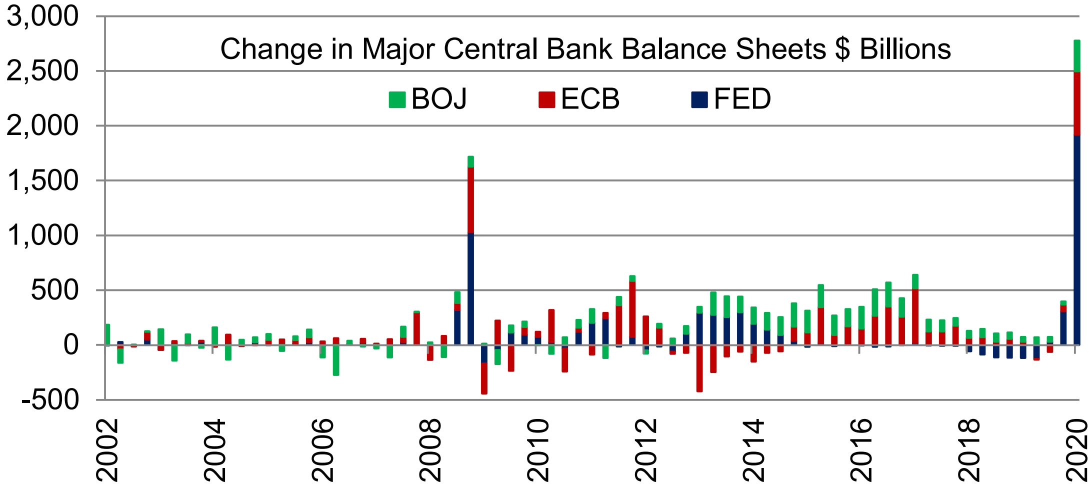
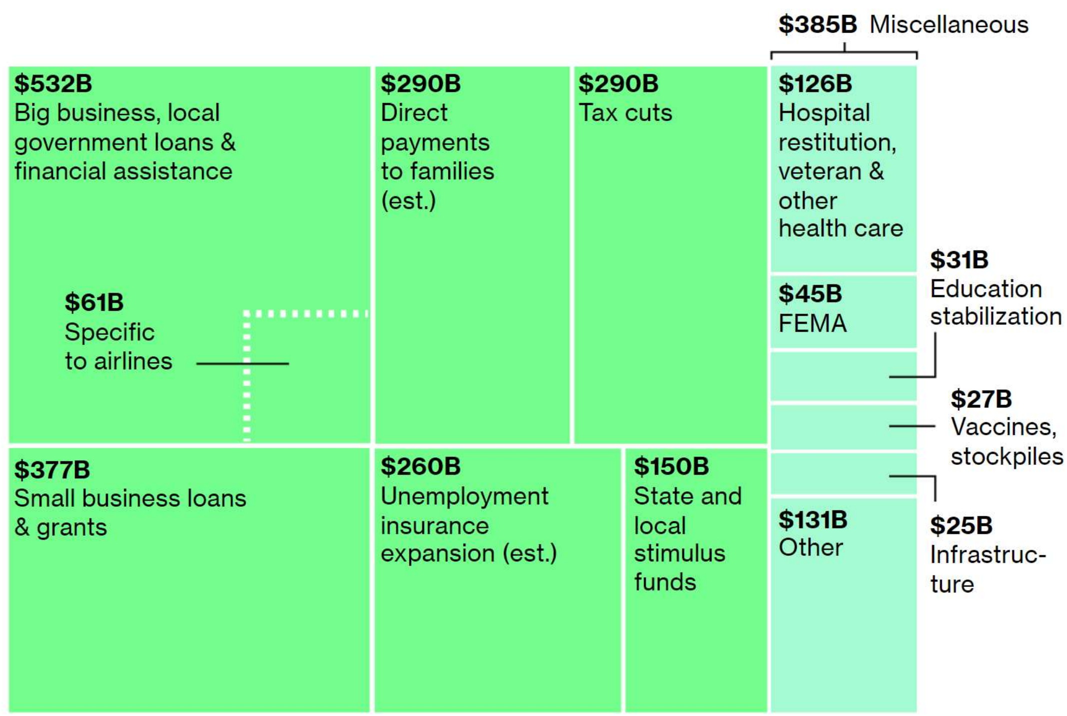


Exhibit 7: Aggressive Fiscal Intervention
$2.2 Trillion "Phase 3" Pandemic Federal Stimulus



The government fiscal response has also been extraordinary in its effort to keep the economy afloat during the mandated lockdown. In late March, the Coronavirus Aid, Relief, and Economic Security (CARES) Act became law, providing $2.2 trillion in funding to support households, businesses, hospitals, and local governments (Exhibit 7). While the CARES Act is by far the highest cost piece of legislation in the country's history, Congress is already pursuing additional stimulus, particularly to replenish funding for small business payroll support and more generally to pursue broader policy objectives (it's an election year). Taken together, the government monetary and fiscal response is following a "whatever it takes" strategy, with consideration of longer-term issues such as central bank independence, heightened government involvement in the private sector, and ballooning deficits and debt reserved for another day.

With the pandemic's reach still expanding and improvements in new case growth tenuous, much uncertainty remains on the key issue for capital markets – the re-opening of economies and the normalization of commerce and employment. In that regard, time really matters. Help from government support is only temporary, and damage to the economy escalates parabolically and more structurally the longer lockdowns persist. As such, we expect more nuanced and targeted policies that, having prioritized health considerations, will recognize the unavoidable trade-offs.

Acknowledging the great degree of uncertainty, we expect a sharp (indeed, shocking) decline in the economy and corporate profits in the first half of this year, followed by a process of recovery as lockdowns loosen and activity gradually recovers. In this context, we expect financial markets to also begin a process of recovery. Valuations are now more favorable. Global equities are trading below historical average versus trailing earnings (Exhibit 8), though perhaps less so versus declining forward earnings. Credit spreads appear even more attractive, trading at historically very high premia over treasury yields (Exhibit 9).

Exhibit 8: Global Stock Market Valuation is Historically Attractive

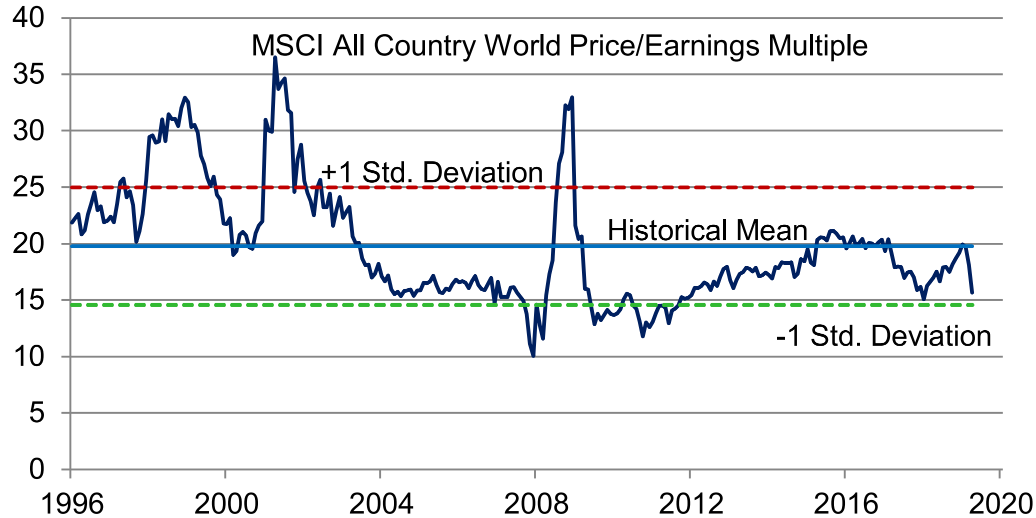
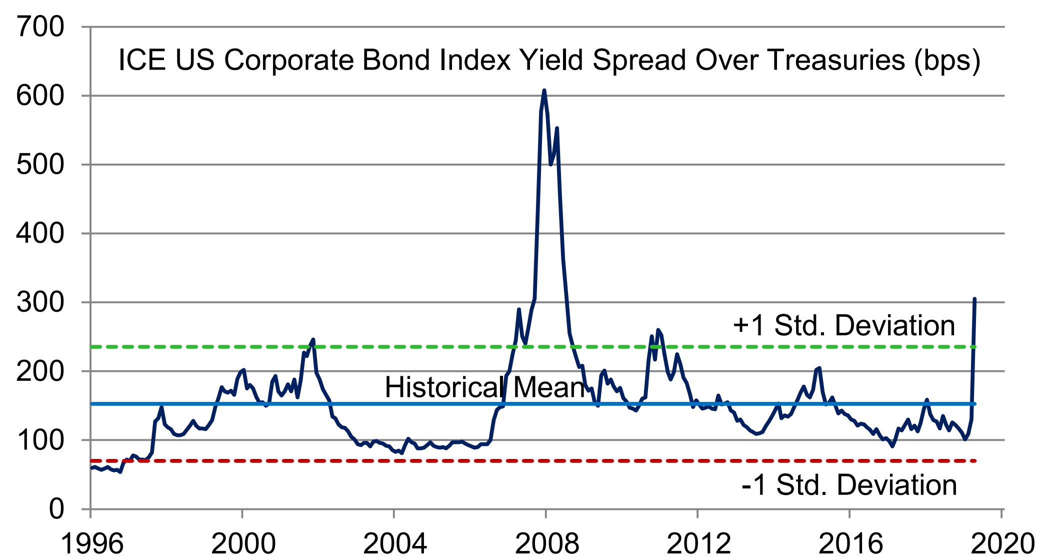


Exhibit 9: US Corporate Credit Spread is Historically Attractive



While values in client portfolios have been affected by the pandemic crisis and the immediate-term remains uncertain, we believe the outlook is positive. Our investment process generally favors quality growing companies that trade at attractive valuations and bonds that offer attractive yields compared with credit risk. As such, client portfolios have strong potential to recover and be productive.

During times of high market volatility and uncertainty, we remain disciplined regarding investment objectives, specifically the purpose of the invested capital and the timeframe in which that capital will be called. Appropriate asset allocation plays a role in maintaining that discipline, and client accounts are structured to contain a mix in lower risk, liquid assets (cash and bonds) to provide for near-term calls on capital and to lessen volatility, in riskier assets (stocks) to provide for long-term growth, and in hedge assets (gold) with lower or inverse correlation to stocks and fiat currencies.

We appreciate that the pandemic is uniquely challenging in its combination of health and financial concerns. We hope that you and your families will stay healthy and safe, and we are honored to help you navigate the near-term financial situation while remaining on course to achieve long-term objectives. We are available to discuss with you the capital you've entrusted with us and the evolving economic and market environment. While our office is closed to visitors, our team is fully operational on a remote basis and would gladly speak with you via phone or video call.

With best regards and wishes to your health and safety,

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