March 2020

What a difference a few months make. The spread of the disease known as Covid-19 profoundly impacted global markets. From all time highs in February, the Dow Jones Industrial Average and S&P 500 saw it's quickest decline of 20% ever. We saw the greatest single day percentage gains and losses in the history for both Indices. The coronavirus made its way throughout the world, infecting more people, economies and markets, and was officialed labeled a pandemic by the World Health Organization. The jaw dropping headlines were everywhere and the world was seemingly caught flat footed as the virus outbreak proliferated and countries scrambled to react. Economies have been brought to a standstill in order to "flatten the curve", millions have filed for unemployment and the stock markets entered a bear market (defined as a drop of 20% or more). As this newsletter went to press, we were beginning to see progress against the virus yet what the end of this episode looks like is still very much unclear.

It is far too early to comment on the lasting implications from the virus but it is fair to say it will certainly have a lasting impact on our world. From an investing perspective, such events can have a lasting impact as well for those unprepared however, we hope you heed the sage advice of staying disciplined and focused on the long-term through such turbulent times – we call it *Sticking to Principles*.

Sticking to Principles[1]

A famous American football coach once said, "You don't rise to the occasion, you sink to the level of your training."[2] The implication is that, in times of great stress, the most reliable recipe for success is sticking to a set of fundamental principles.

From February 20 to March 20, the S&P 500 Index returned –37.4%, with daily returns ranging from –12.0% to +9.4%, while the US Bond market was up 3.15% for the quarter. A drop of nearly 40% in the stock market combined with a spike in volatility can make many investors reconsider their investment approach. Another way some investors might react to a falling market is jumping ship and selling out of the markets all together. The intuition may be that sitting out of the market for a period of time can help avoid further losses. However, the data suggest this type of market timing may instead reduce investors' gains over time.

Financial downturns are unpleasant for all market participants. Investors can reduce exacerbating the experience by adhering to core principles and being invested the correct way ahead of time. Two such principles supported by a long history of research are broad diversification and maintaining a consistent asset allocation. Investors who deviate from these principles by pursuing stock picking or market timing may undermine their ability to achieve their investment goals.

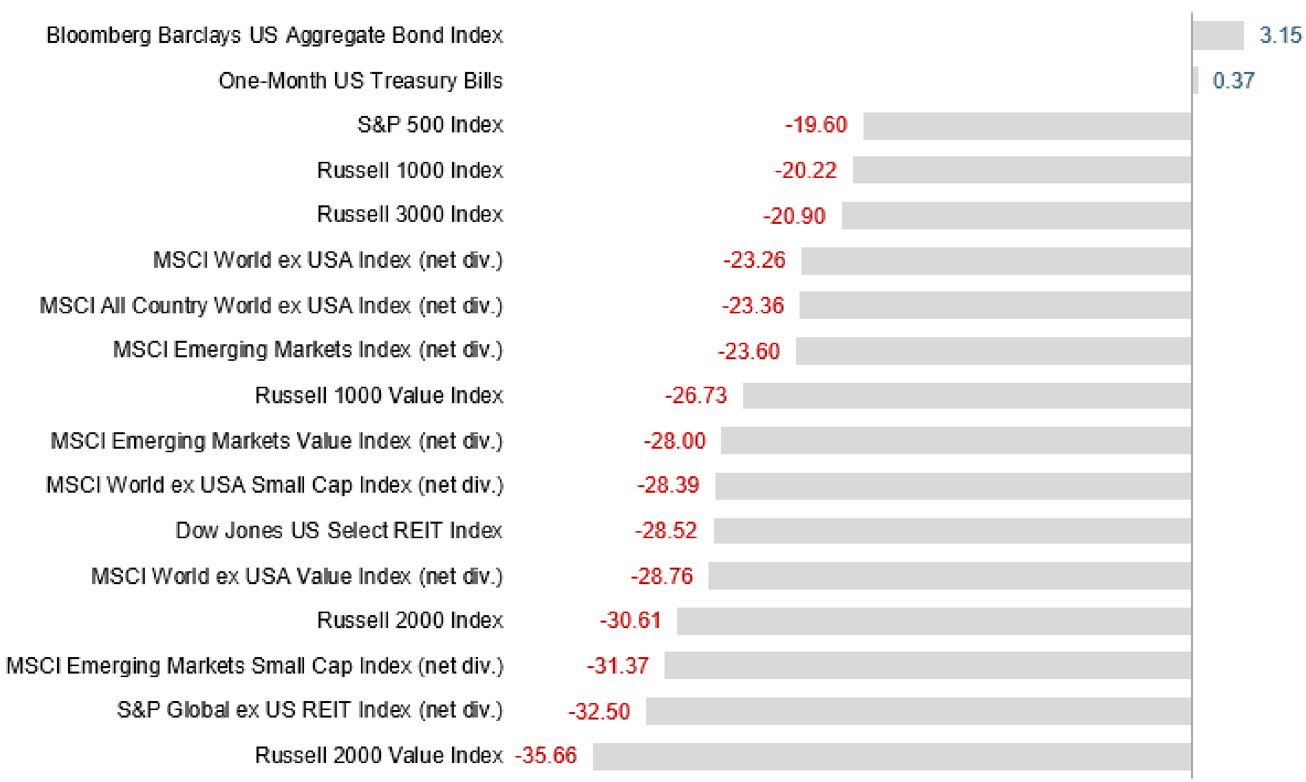
---

[1] Adapted from "Sticking to Principles" from Dimensional Fund Advisors LP.
[2] https://www.phillymag.com/birds247/2014/10/10/inside-voices-practice-versus-training/

Market Update – A Brief Around the World Tour of Markets

Quite simply it was the worst quarter for stocks since 2008. There was nowhere to hide except in the traditional safe haven assets of US Treasuries and gold. The uncertainty, fear and economic impact from COVID-19 (the disease caused by the novel coronavirus) turned record market highs in the US in February into day after day of record volatility (recording some of the greatest daily gains and losses for many indices) and double-digit declines when all was said and done. Most stock markets abroad where hit harder and emerging countries in particular saw drops as much as 50% (see Brazil). Central banks and more specifically, the US Federal Reserve, were incredibly proactive in providing much needed liquidity to certain areas of the marketplace and lowering interest rates. The rancorous partisanship briefly hit the pause button and Congress was able to move relatively quickly to pass historic legislation to support the economy and those most impacted by this pandemic.

It is very likely that the world is in a self-imposed recession along with self-imposed quarantining. How long all this will last is the great question of the day. Famed investor Howard Marks of Oaktree Capital Management recently penned a great response to such questions – “These days everyone has the same data regarding the present and the same ignorance regarding the future.” The cliché “these are truly unprecedented times” can actually be used with great accuracy now. Despite the present uncertainty, we are gaining a better understanding each day, whether it’s more about the virus or a better grasp of the economic impact. Thus far, the human spirit is proving itself to be incredibly resilient yet again.

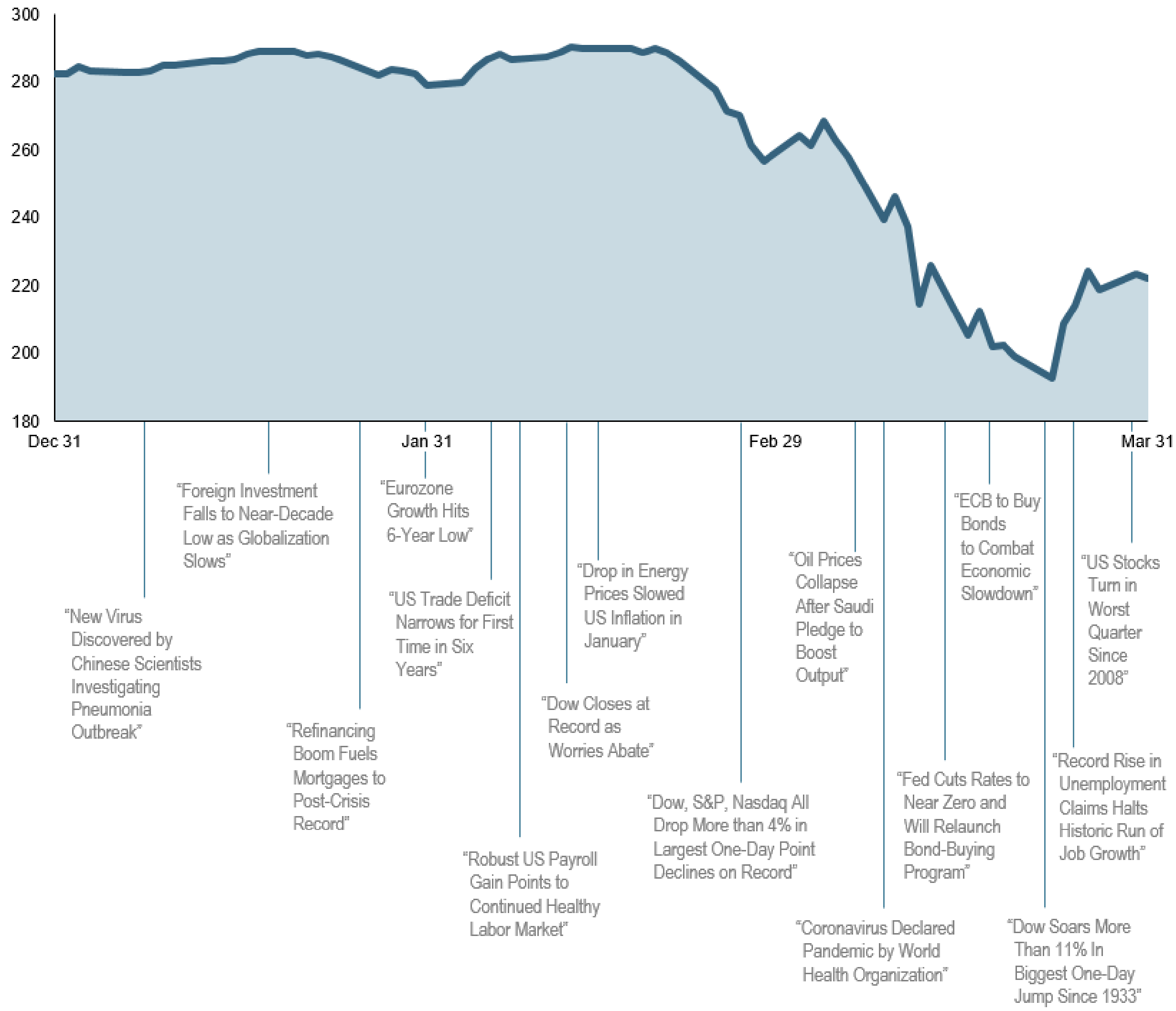


On Stocks

The S&P 500 dropped 20% for the quarter, international developed and emerging markets fell 23%, respectively. Global real estate was the worst performing equity asset class (down 29%) due to the leverage inherent in most funds. Coronavirus headlines persistently dominated the news in a way heretofore unseen by any event in recent memory. The spread of the virus and the disease it causes captured the hearts and minds of almost every human being on our planet. Confirmed cases of COVID-19 around the world rose exponentially from less than 1,000 on January 1st to over 850,000 on March 31st. The absolute uncertainty wreaked havoc on markets as illustrated above and has decimated certain companies and sectors most impacted by the shutdowns imposed around the world (e.g. airlines, hotels, etc.).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2020

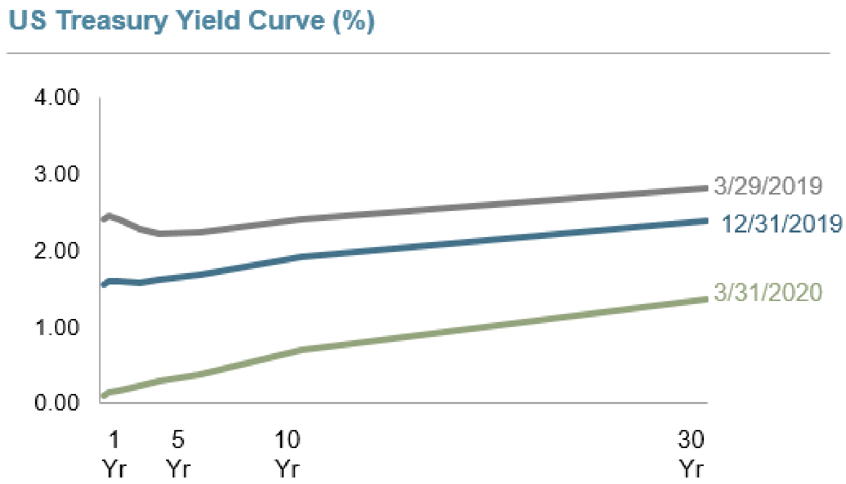


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

On Bonds

Bonds are not all that exciting most of the time but when we are in a market downturn they can be the most electrifying, and comforting, asset in a portfolio. Yields, which were already low, fell even further which drove prices higher except for the more risky areas of the market – for example high yield. Investors largely sought the safety of government bonds, as the coronavirus epidemic became the coronavirus pandemic. The broad based US Bond Market rose 3.15% and Global Bonds turned in a modest 0.51% gain. Yields across many Treasury bond maturities reached historic lows – the 10-year Treasury note hit a low yield of 0.318%.



Period Returns (%)

*Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	20.63	32.28	13.30	7.32	8.89
Bloomberg Barclays US Aggregate Bond Index	3.15	8.93	4.82	3.36	3.88
FTSE World Government Bond Index 1-5 Years (hedged to USD)	2.25	4.98	3.03	2.24	2.00
ICE BofA 1-Year US Treasury Note Index	1.72	3.85	2.31	1.57	0.98
Bloomberg Barclays US TIPS Index	1.69	6.85	3.46	2.67	3.48
FTSE World Government Bond Index 1-5 Years	0.69	2.79	2.12	1.55	0.40
ICE BofA US 3-Month Treasury Bill Index	0.57	2.25	1.83	1.19	0.64
Bloomberg Barclays Municipal Bond Index	-0.63	3.85	3.96	3.19	4.15
Bloomberg Barclays US High Yield Corporate Bond Index	-12.68	-6.94	0.77	2.78	5.64

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).