Investment and Economic Update
First Quarter 2020

Allos™ Investment Advisors

You may not feel like being congratulated, but congratulations are in order. You have managed to live through the worst first quarter on record in the U.S. investment markets. To put it mildly, the decade is not starting off well.

You also endured the fastest, longest, hardest roller coaster ride in market history, as measured by the VIX volatility index. Basically, that means that one day the markets were down at record or near-record levels, and then as we thought perhaps the bear market would continue, we experienced near-record one-day gains.

The previous record for instability in the stock market was an eight day stretch in November of 2008, when the markets seemed to be gyrating up and down uncontrollably after traders realized the full implications of the collapse of Lehman Brothers. At the end of this recent first quarter, the CBOE Volatility Index (VIX), presented us with a record 10-day run with the index above 60. (The long-term average for market volatility, as measured by the VIX index, is 20.)

Just about every investment saw declines in 2020's disastrous first quarter. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—fell 20.70% since January 1. The widely quoted S&P 500 index of large company stocks is down 20.00% so far this year, with 12.52% of that drop coming in the month of March. The Russell 2000 Small-Cap Index is down 30.61% the year's first three months. The technology-heavy Nasdaq Composite Index is down 13.10% for the year.

International investors are basically in the same boat. The broad-based EAFE index of companies in developed foreign economies has lost 23.43% in the first quarter. In aggregate, European stocks are down 24.81% so far this year, while EAFE's Far East Index lost 18.15%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, fell 23.87% in dollar terms in the first quarter.

In the bond markets, the inversion in the yield curve has righted itself, though rates are at historic lows. Coupon rates on 10-year Treasury bonds have dropped to 1.50%, while 3 month, 6-month and 12-month bonds are now sporting coupon rates of 0%. Five-year municipal bonds are yielding, on average, 1.17% per year, while 30-year munis are yielding 2.08% on average.

You don't have to ask why Wall Street traders are abandoning stocks in near panic mode. The coronavirus epidemic, social distancing and the closure of offices, malls, theaters and anywhere else where people once gathered to work has raised uncertainty about the extent of business disruption in the U.S. and world economies. Economists at the St. Louis District of the Federal Reserve Board are now predicting that the short-term unemployment rate will reach 32%, which is higher than the 24.9% rate at the worst point of the Great Depression of the 1930s. A record-shattering 3.3 million people applied for unemployment benefits in a single week at the end of the quarter. With so much of our

economy shut down until further notice, it is hard to imagine that we will avoid a recession in the first half of 2020.

All is not lost, if course. There is every reason to believe that the U.S. will be back at or near record-low unemployment when people are once again allowed to return to work and leave their homes to shop. To staunch the bleeding, America's central bank is pouring more than $3 trillion worth of loans and asset purchases into the U.S. financial system—an unprecedented commitment. The newly-passed CARES aid package is worth an aggregate $2.2 trillion more, $377 billion of which will be used for loans to businesses that are having trouble meeting their payrolls while they sit on the economic sidelines, $560 billion for individuals and families, $500 billion in outright grants to large corporations, and $340 billion set aside for state and local governments.

It feels like a lifetime ago that we continued to remind you that the returns you were experiencing were extraordinary for a short investment horizon, and nobody should expect those returns to continue at that pace over the long-term. Fast forward three months and it feels like the floor has fallen out from underneath us. But, rest assured, just like you shouldn't have expected those "great" returns to last forever, you shouldn't expect these "negative" returns to last forever. While we wish we could give you a definitive end-date to this cycle, we cannot. Nevertheless, as we've mentioned before, the average number of days from peak to a 20% decline is 255, and the median is 156.

Just like in 2007-2009, we have to believe in the resilience of capitalism to weather yet another "once in a century" storm. Much like a bad earthquake, we believe we have yet to experience the aftershocks. We don't know how severe they will be but want to brace your portfolios for when they do happen. For this reason, as we've previously disclosed, you may notice that your portfolio holds a significant amount of cash right now and probably will for the foreseeable future.

The big question will be, "When do we put your excess cash back to work for you?" We of course are monitoring the markets. Our reentry points may be a little early on some things and a little late on others. But our main goal has been, and always will be, to protect your principal and shorten the amount of time it will take your portfolio to recover your short-term losses.

If we can preserve capital, there will always be another day to invest. Mathematically, we know if your portfolio loses 10%, you will need to gain 11% to break even. It is a realistic expectation that your portfolio can make this back over time. If it drops 20% it takes a 25% gain to be in the same place - harder, but still probable in a climate where everything has been beaten up. However, if it loses 30% then your portfolio would have to earn a 43% return just to be whole again – while still possible, it will take a much longer timeframe and would be significantly more challenging. Therefore, we will continue to try and err on the side of caution and do our best to minimize losses, quite possibly at the mercy of potential gains.

There have been historical events where we are called to face great challenges and have experiences that transform us as people and how we view life moving forward. Moments that are more important than the ups and downs of the markets, and this time certainly

qualifies. Staying safe, staying well, staying alive and keeping our loved ones out of harm's way takes priority in this global pandemic.

We all have much to be grateful for. We look forward to a time after this deadly disease has swept across the world when we have more to be grateful for, including the safety of our loved ones, and a return of value to our portfolios and to our country's economic well-being.

Below, we've summarized some of the widely quoted indexes for your reference. As a reminder the challenge is, the DJIA is not the same as the S&P 500, which is not the same as the NASDAQ – and none of these indexes is likely to match your own distinct mix of assets and their expected returns, especially if you own a globally diversified portfolio with exposure to stocks and bonds, large and small companies, value and growth companies, and U.S. and non-U.S. based companies. The following returns are year-to-date and the rolling 1-year; respectively:

S&P 500: -20.00%, -9.86%
Dow Jones: -23.20%, -16.28%
NASDAQ Composite: -13.10%, -1.89%
Russell 2000 (Small-Cap): -30.61%, -25.77%
MSCI EAFE (International): -23.43%, -16.84%
Barclay's Capital US Aggregate Bond: 3.15%, 8.93%