COVID-19 CORRECTION: OUR OBSERVATIONS
FEBRUARY 28, 2020

MARKET CORRECTION: Given the quick and dramatic sell-off in equities this week, we wanted to reach out to our clients and friends of the firm with our observations. We sent out a Flash Report on Feb 4th discussing coronavirus (COVID-19) and that its global reach could affect world markets and create volatility. Then we witnessed the opposite, the markets actually under-reacted and in the U.S. reached new all-time highs on February 12th and 19th. That all changed over the past week as the number of COVID-19 cases increased, countries infected increased, and fears spread over the impact the virus could have on worldwide health and economic activity. Markets did a quick about face this week and put us in correction territory (defined as a 10% or more drop from the highs).

Index	Record High in Feb	Feb 27 Close	% Change
S&P 500	3,386.2	2,978.8	-12.0%
Nasdaq	9,817.2	8,566.5	-12.7%
DJIA	29,551.1	25,766.6	-12.8%

Markets are now pricing in the likelihood of a global producitivy slowdown and are expecting the virus will have a more prolonged impact on global growth. Our assumption on Feb 4th was that COVID-19 would negatively impact 1st quarter productivity and that is now more of a fact. General consensus today, that we share, is that dealing with the virus will also impact 2nd quarter as well.

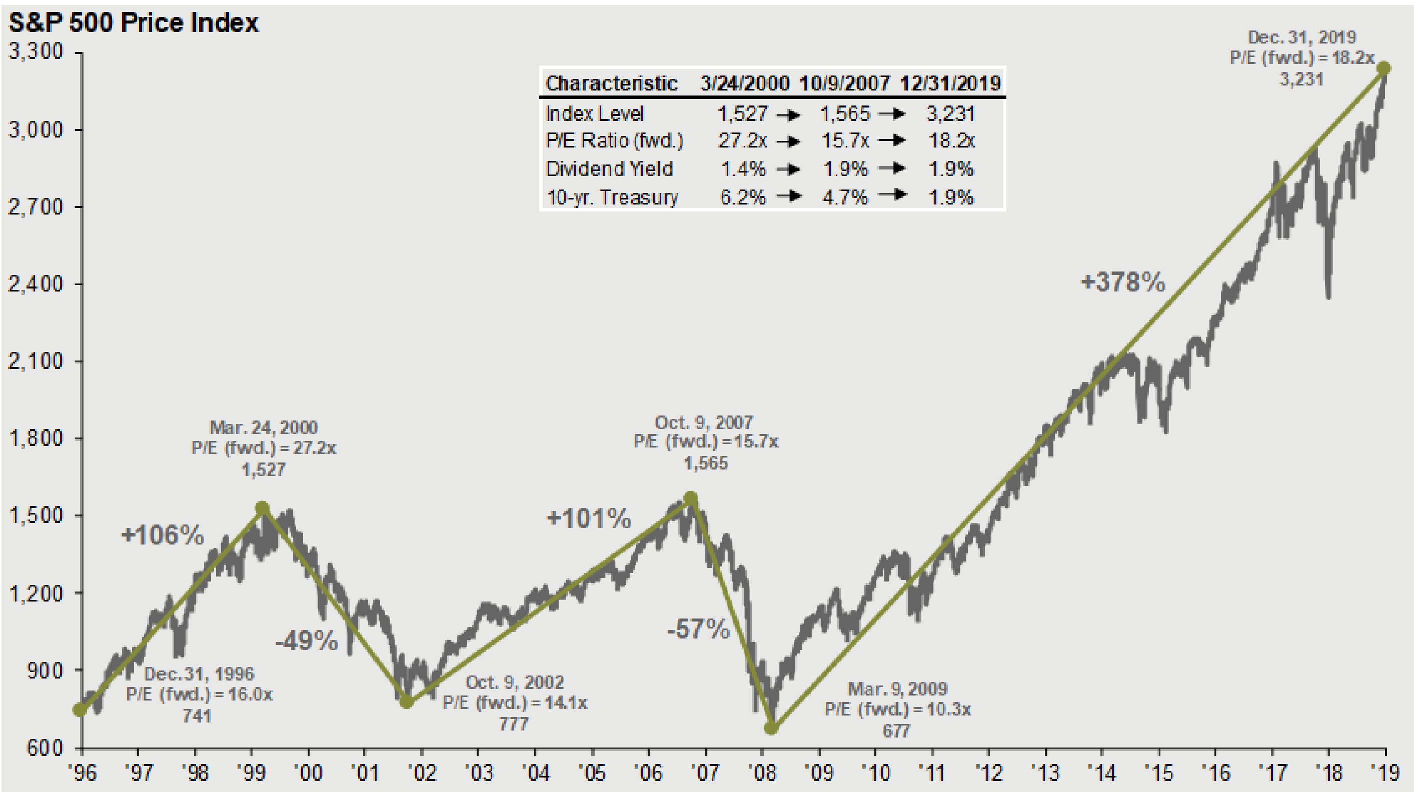
SOLID FOOTING: We remind ourselves that before this outbreak the U.S. economy was (and still is) on very solid footing. Employment, housing, consumer sentiment, and economic indicators are all solid. We take stock in the fact that any disruption from COVID-19 is happening during a period of economic strength.

GLOBAL REACTIONS: We also believe that governments and Central Banks will not sit idly as fear grips the markets and will take action soon. Both monetary easing and fiscal stimulus are possible not just in the U.S., but perhaps a synchronized global response. Additionally, world health organizations have stepped into high gear with financial backing to improve containment and search for a cure. We cannot forecast when COVID-19 will peak in its severity, but we are confident that many conditions that would allow for a speedy recovery are already in place.

LONG TERM OUTLOOK: After such a strong year in 2019 where the S&P 500 saw a meteoric 31.5% rise, we expected much lower returns in 2020 and suggested taking an average two-year view of 2019-2020 returns which would still produce an above average return for most clients. We know the fear and anxiety that sell-offs cause, like the one we just witnessed, and may still be in the midst of. It's human nature to be worried, especially when we don't know the answers of "how bad can it get?" This is where asset allocation becomes so important as the bond portion of portfolios are outperforming due to the flight to safety. The other benefit to asset allocation is being diversified which is our goal for clients. Portfolios that are highly concentrated in one stock or fund or in one geography will have a much tougher ride during this time than ones that are well diversified. Lastly, we have been prudent during the markets' strong rise in 2019 to rebalance portfolios back to the target allocation (selling equities and buying fixed income). Thus, our clients do not have unintended equity exposures.

We thought this graph of the S&P 500 below would be a helpful reminder of a few things:

- We've seen material downturns before in U.S. equities including the 2008 crisis
- In all cases, the equity markets recovered
- We've experienced an extraordinary run in the last decade with very few corrections



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.

PERSPECTIVE FROM HISTORY: We look at other market corrections and rebound during such events like 2002 SARS outbreak and the 2011 Fukushima nuclear disaster. In the 2002 SARS outbreak, near-term demand and supply chains were impacted, but it had only a temporary reduction in growth. In 2011, economists predicted a dramatic slowdown in Japan's growth rate in 3rd quarter of less than 2%, but the actual figure was growth over 10%.

We take a long-term approach to investing and we have personally witnessed many market corrections and recessions during our investment careers. Taking advantage of dips has always proved to be the right action over the long-run and we view this as no exception. As advisors, we are ready to serve as a steady hand.

As always, please feel welcome to contact us with any questions or concerns.

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