



Recent Market Volatility

March 2, 2020

“Anytime there is a new emerging infectious disease that is shrouded in mystery with a lot of unknowns, it captivates people in a way that a regular virus that people deal with on a yearly basis won’t,”

Dr. Amesh A. Adalja
Senior Scholar,
Johns Hopkins University,
Center for Health Security

When tumultuous times are at hand and the world seems to be dealing us a set of cards that we haven’t seen before, it’s easy to want to fold. Yes, there is much about Covid-19, or the Coronavirus, that we do not yet understand. How many will be infected in the current outbreak, the human cost, and what impact might it have on the world economy, just to name a few. While these ‘cards’ are possibly different, they do resemble other crisis events of the past – the Ebola outbreak in 2016, the swine flu back in 2009-2010, or SARS in 2003. If there is something that gives us comfort, it is in knowing that those events did not lead to long term economic damages.

As of March 1, the virus has spread to over 50 countries and infected more than 80,000 people. There have been over 3,000 fatalities, most of them in China. Indonesia, the world’s fourth most-populous nation, was the latest to confirm the arrival of the virus. Italy is at the epicenter of the outbreak in Europe and considering emergency measures. In the U.S., at least 30 people have been diagnosed with the infection, and the CDC is guiding to a possibility that the virus will not be contained and could impact schools and businesses.

Uncertain events lead to fear. As one might expect, the Coronavirus is already having an economic impact. Outlook for companies within the travel industry has been hurt; global supply chains have been disrupted; global demand for crude oil has faded; 10yr US Treasury yields have fallen to historical lows and volatility indicators have spiked, all of which have sent equity markets tumbling. Since February 19, the S&P 500 has dropped around 10% and is down close to 6% year-to-date¹. International equity indices have moved in a similar fashion and are down nearly 10% for the year.

Our portfolios have not been immune to this volatility. However, our US Equity positions have held up slightly better than the market. In International and Emerging Market equities, the

¹ Market-related data is through 1:30 PM on March 2, 2020.

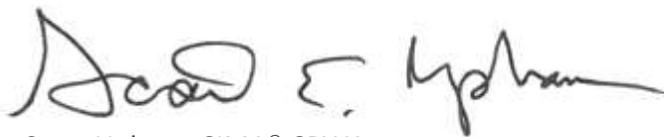
outperformance is even more pronounced. Furthermore, Fixed Income is still up for the year. And most importantly, our alternatives strategy, which includes gold and managed futures, has been able to dampen the impact of these drawdowns. Gold, for instance, is up almost 5% year-to-date. This allows us the ability to selectively rotate out of these positions and into quality companies at a discount, as opportunities arise during this market sell-off.

Looking forward, the optimistic outlook is that the virus fades with warmer weather in line with the flu, and any economic impact is limited to the first few months of the year. On the other hand, some fear that it might take until August before we see the virus peak. Such a scenario could see the economy call into a recession, with significant implications for corporate profitability, employment, and the overall financial health of consumers.

Our goal, in either scenario, would be to maintain our discipline as long term investors and invest your money with the purpose of achieving your financial objectives. The market sell-off over the last 10 days has been emotional, painful, and tough to stomach. Yet, it is important to recognize that the decline has simply returned US equity prices to levels last seen in October 2019. Going forward, we would expect selective buying in your account(s) as we look for places that we believe are oversold, or represent compelling long-term value. As we expressed both in our meetings with you and in prior communications, these purchases will most likely be funded from our Alternatives exposure, such as Managed Futures, which have to date held up exactly as we would have hoped.

This too, shall pass. In the meantime, please feel free to reach out to us to schedule a meeting or just to chat. We always welcome a discussion with you, whether about the current crisis, the global economy, or importantly, your current financial wellbeing.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott E. Upham". The signature is fluid and cursive, with a long horizontal stroke at the end.

Scott Upham, CIMA® CPWA
Managing Partner

Contributions were made to this letter by Aryn Moolji, CIO and COO, Jeffrey Burch, and Taylor Haselgard.