

**FIRST QUARTER – 2020 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:**

Index:	1Q20	2020
S&P 500	-19.60%	-19.60%
S&P Mid-Cap	-29.70%	-29.70%
S&P Small Cap	-32.64%	-32.64%
Morgan Stanley's EAFE (International Stocks)	-22.83%	-22.83%
Barclay's US Aggregate (Bonds)	3.15%	3.15%

ECONOMY & MARKETS:

The coronavirus pandemic caused a global chain reaction that included a complete market meltdown over the last few weeks. This included the fastest bear market in history occurring in about 4-5 weeks as compared to about eight months. Clearly, this has pushed the economy into a recession. The April unemployment rate rose from 3.5% to 4.4% with nonfarm payrolls dropping 701,000. As we had noted, the price-to-earnings ratio (P/E) on the S&P 500 was inflated at a multi-year high shortly before the pandemic. This elevated P/E likely escalated its further decline. Adding in the Saudi's disagreement with Russia on oil production was yet another detrimental factor. We will note March also brought about two of the five single largest daily percentage drops in the entire stock market history.

Our belief is the markets will remain exceptionally volatile until we see signs of a flattening of the new infection curve aka "flatten the curve". Unfortunately, the other statistic which is the "death rate" appears likely to remain high through the end of April. We believe with the concerted global effort with self-isolation and heading into the warmer months, we should be on the cusp of seeing some positive signs in the near future. However, there still remains multiple questions that must be answered:

- Will COVID-19 infection rates decrease during the summer and pick back up afterwards?
- When will it truly be safe for large group gatherings again?
- Are other countries' citizens engaging in the same preventative strategies we have implemented?
- When will a vaccine be produced and how effective will it be?

Our best belief is that certain industries will be affected much differently than others. Our projections include:

- A. Long-term recovery – travel & leisure, hotels, cruise lines, airlines, restaurants, entertainment venues including movie theatres, bowling allies, venues built around children's birthday parties.
- B. Medium-term recovery – technology, telecommunications, possibly parts of the health care industry.
- C. Short-term recovery – staples including grocery stores & food wholesalers, producers of paper products and the other items that people have hoarded, potentially drug stores.

While no one could have predicted the voracity of this bear market, we had actively been holding a position in gold to protect client's assets in the event of a market downturn. Initially, client's bond positions held up very well. Then, in mid-March we witnessed what I termed a "liquidity crunch" whereby investors sold everything (*our bond positions have since recovered most of this drop*). On March 15th, the Federal Reserve ("The Fed") lowered short-term interest rates to zero. Later that month, high demand for short-term Treasury Bills (1-3 months) pushed those interest rates into negative territory. While The Fed did announce it would take whatever necessary steps to secure the economy, financial experts were unclear if that meant securing ("backstopping") money market funds. During The Great Recession, one money market fund had it's trading value fall below a dollar. Since then, government rules and regulations were strengthened to significantly reduce the possibility that would happen again.

As a result of these market dynamics, we implemented a few changes inside the investments in our clients' assets (with likely more to follow). We do agree with Schwab's Investment Strategist (Liz Ann Sonders) that "Panic is not an investment strategy". We also believe the markets will eventually recover, but that is dependent on many factors and possibly could take some time. In the meantime, my family has been actively practicing the social distancing and I would encourage everyone to play their role. **If we all play our part, we will get through this.**

YAIA News:

We want to pay tribute to Camille Simon as our friend, colleague, and service partner who unexpectedly passed away from cancer on March 19th. Camille had worked the past two and a half years with YAIA as our Administrative Assistant. Most of our clients either met her, talked to her, or received emails from her. Despite being diagnosed with pancreatic cancer in February, she was intent on maintaining her regular life, which included coming to work on a daily basis. She was extremely pleasant to work with in our small office and will be missed dearly.

U.S. Government actions against novel Coronavirus Bear Market

I. March 27th - The \$2 trillion CARES Act – The Coronavirus Aid, Relief, and Economic Security Act

Estimates:

- \$532B “Big business, local government loans & financial assistance”
- \$377B “Small business loans & grants”
- \$290B “Tax cuts”
- \$290B “Direct payment to families”
- \$260B “Unemployment Insurance expansion”
- \$150B “State and local stimulus funds”
- \$126B “Hospital restitution, veteran & other health care”
- \$31B “Education stabilization”
- \$27B “Vaccines, stockpiles & others”

*Source – Bloomberg Research

Key Takeaways (*not all inclusive and some are abbreviated*):

1. Individuals – Most individuals earning less than \$75,000 or \$150,000 married filing jointly will receive direct cash payments of \$1,200 (\$2,400 couples) and additional \$500 per child.
2. Unemployment – The Act includes additional \$600 per week for four months (July 31, 2020) in addition to what states already pay along with an extension of an additional 13 weeks.
3. Tax Returns – The filing and payment deadline extended to July 15th, 2020.
- 4. Retirement – Required Minimum Distributions (RMD) for both Traditional IRAs and Inherited IRAs are suspended for 2020 (this suspension is not limited to participants affected by coronavirus).**
 - i. Traditional IRA RMDs already distributed can potentially be rolled back into their respective accounts within 60 days.
 - ii. “Eligible” participants younger than age 59.5 can take up to \$100,000 from employer-sponsored retirement plans and IRAs without being subject to 10% early distribution penalty or 20% mandatory tax withholding. These distributions are still subject to regular income tax. *In general, “Eligible” participants are individuals who have experienced adverse financial consequences resulting from this crisis or have been diagnosed with COVID-19 (or a spouse or a dependent).*
 - iii. The CARES Act doubles the current retirement loan limits to \$100,000 (up from \$50,000) or 100%. “Eligible” participants can also delay their loan repayments.
5. Mortgage – Federally backed mortgages can request forbearance if they have been affected by COVID-19. If approved by their bank, the borrower will not have to pay their mortgage payment for 180 days.
6. Student Loans Assistance – All loan and interest payments would be deferred through September 30th. Also, employers can currently contribute/reimburse up to \$5,250 tax free for most tuition assistance.
7. Charitable Contributions – Permits \$300 in charitable contributions in 2020 to be a deducted without itemizing.
8. Expanded Health Savings Accounts (HSAs) – The Act allows coverage of telehealth services and payment for over-the-counter medications without a prescription.
9. Insurance Coverage – The Act requires all private insurance plans to cover COVID-19 treatments, vaccines, and mandates free coronavirus testing.
10. Paycheck protection program (PPP loans) – This loan program allows business to borrow money for a variety of qualified costs related to employee compensation. All or a portion of the loan may be forgivable and debt service payments may be deferred for up to one year. Companies that employ 500 or fewer may be eligible.
11. Payroll Tax credit – A tax credit for employers who continue to pay non-working employees (up to 50% of wages) whether it’s the employers choice to retain those employees or mandated by state law.
12. Net operating losses – NOL arising in a tax year beginning in 2018, 2019, or 2020 can be carried back five years and temporarily removes the taxable income limitations to allow an NOL to fully offset income.

Other recent U.S. Stimulus packages before the CARES Act

- II. March 4th - Congress passed a \$8.3 billion package to cover:
 - \$3B - Research of vaccines, therapeutics, and diagnostics
 - \$2.2B - Federal, State, and local health agencies
 - \$1B - Loan subsidies for small business
 - \$500M - Telehealth services for elderly patients
 - \$1.6B – Others

- III. March 18th - Congress passed the Families First Coronavirus Response Act:
 - Act includes - Unemployment insurance, food assistance, paid sick leave, cost of COVID-19 testing, etc.

Future Talks - U.S. also plans to possibly introduce another stimulus package later this month.

The Federal Reserve (FED) – Major actions taken by the FED thus far (not all inclusive)

March 3rd – cut interest rates by 50 basis points in its first emergency move.

March 15th – cut interest rates by a full percent to near zero and will boost its bond holdings by \$700 billion.

March 23rd – in regards to asset purchases, it will aid in “whatever amount the markets need”.

April 7th – will back the PPP loans originating from the CARES Act (*explained on previous page #10*).

April 9th – announced providing another \$2.3T of financing into small businesses, states, and cities.

We definitely believe the measures taken by the government and The Fed were essential given the extreme economic effect. Basically, parts of our economy came to a complete standstill. Our immediate issues with the CARES Act were first, it became apparent how extremely difficult it was to direct governmental assistance to those who needed it the most. Second, while the expansive unemployment benefits should help many of the families who have been traumatically affected, it's possible it may provide a disincentive to return to work. Third, at some point, the government is likely going to need to raise taxes to pay for the \$2 trillion CARES Act. Additionally, many financial industry experts have forecasted that the dollar could weaken and inflation could rise over time. In extreme times as today, it was still reassuring to see unanimous bipartisan support. Furthermore, with The Fed lowering interest rates to zero, the eventual movement upward in the long-run could once again prove to be painful for the markets.

International monetary support:

- French President Emmanuel Macron said the Country would guarantee up to 300 billion euros of bank loans in an effort to stop businesses failing.
- European Central Bank announced a 750 billion euros purchase program to help fight the effects of the coronavirus in the region.
- The central banks of Australia, Indonesia, the Philippines, Taiwan, and Brazil have all cut rates.
- It is not only the U.S. announcing massive fiscal stimulus: Governments around the world are pumping money into their economies to fight the economic effects of virus shutdowns.
 - o On March 11th, Australia announced a \$17.6 billion fiscal stimulus package.
 - o Most recently, in Japan, the Prime Minister announced a two-phase stimulus package. Singapore announced third stimulus package in April.