WINFIELD
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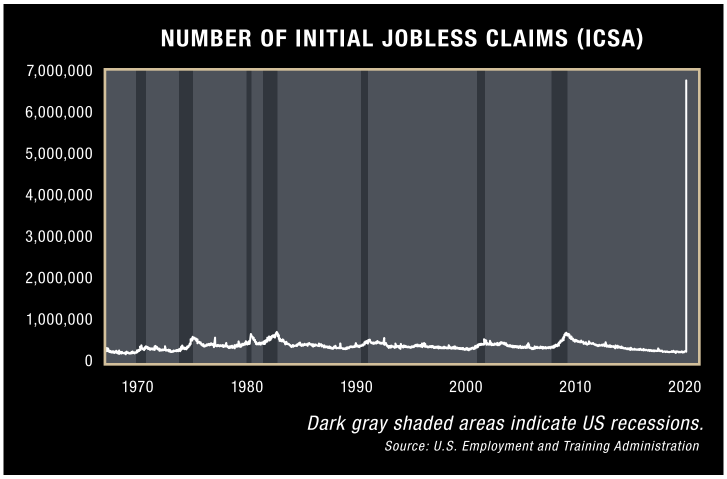
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

In our January *Market Commentary*, we reviewed the decade that followed the Great Recession, highlighting the remarkable recovery in employment, productivity, and strong economic growth. Financial market performance in 2019 reflected confidence that central banks would maintain looser monetary policies for the foreseeable future and trade concerns would fade, leading to ongoing economic growth in the new year. Then within a few short weeks of releasing our January newsletter, COVID-19 struck the globe. While only three months have passed since we outlined our expectation of GDP expansion in 2020, we are now considering the severity and depth of the economic collapse in the wake of COVID-19.

There may be no better graph to demonstrate the economic impact of the pandemic than weekly initial jobless claims. As we noted in January, jobless claims had steadily declined from 665,000 in March 2009 to below 200,000 in April 2019. As in prior downturns, we believed jobless claims would presage a drop in economic activity and a corresponding fall in the prices of financial assets. Every cycle is a bit different, and in the case of COVID-19, financial markets reacted to the impending healthcare crisis weeks before jobless claims presented in the data.



US equity markets peaked in mid-February with the S&P 500 reaching an all-time high of 3,386, the Dow Jones Industrial Average (DJIA) touching 29,551, and the NASDAQ hitting 9,817. In the five weeks that followed, the S&P 500 fell -34%, the DJIA -37%, and the NASDAQ -30%. Weekly initial jobless claims remained well below 300,000 for most of that period until the week ended March 21 when jobless claims spiked to 3.3 million. In the three weeks that followed, claims weakened to 6.7 million, 6.6 million, and 5.2 million, bringing the total number of unemployed Americans to 23 million people. In a matter of just six weeks, the US unemployment rate jumped from near full employment at 3.5% in March to an estimated 15% in the middle of April.

Historic, devastating, and unprecedented are perhaps the best words to describe the pandemic. The terrible impact of this virus – over 100,000 deaths globally and the staggering loss of income for millions of families – has prompted swift and decisive policy actions from both the Federal Reserve Bank and Congress.

Summary of Monetary Stimulus

In the first two weeks of March, the Federal Open Market Committee aggressively cut the federal funds overnight target rate to 0 – 25 basis points (bps) from 150 – 175 bps. Then on March 15, the Fed announced that it would purchase at least $700 billion worth of securities. Only eight days later, the Fed announced that there would be no limit to these purchases and that it would continue its asset-purchasing program "in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy." On April 9, the Fed took additional action to provide $2.3 trillion in loans to small and mid-size businesses as well as state and local governments. Taken altogether, we expect these Federal Reserve programs to resolve issues across a range of markets, providing liquidity as a backstop during the crisis.

Summary of Fiscal Stimulus

The Coronavirus Aid, Relief, and Economic Security Act (CARES) was signed into law on March 27 in an unprecedented effort of scale and speed. During the global financial crisis, it took two months to negotiate the $787 billion American Recovery and Reinvestment Act of 2009 even with a single party in control of the executive and legislative branches of government. The bipartisan fiscal stimulus package was negotiated in less than two weeks and allocates $2 trillion to support the economy. Perhaps the most important question surrounding the CARES Act is whether the small business assistance package can be deployed rapidly enough. Moreover, most economists believe that the small business component will only cover business interruption for about three months, and the household payments of up to $2,400 are unlikely to last beyond one or two months. If the current shelter at home and strict social distancing restrictions continue into May and June, additional fiscal stimulus is likely.

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Economic Impact and Outlook for Markets

Forecasts for US GDP growth in 2020 vary widely on how fast the economy is shrinking during the government mandated quarantine. Strategists at Goldman Sachs predict a sharp but short recession with US GDP falling –6% in the first quarter and a record drop of -24% in the second quarter. As the economy comes back online following the quarantine, Goldman Sachs predicts rapid reacceleration of +12% in the third quarter and +10% in the fourth quarter, ending the year down -3.8% on an annual average basis. For historical context, the steepest quarterly real GDP decline during the height of the Global Financial Crisis was -8.4% in the fourth quarter 2008. In the history of the data dating to 1947, the US economy has only experienced one quarter where real GDP growth declined double digits, falling -10% in 1958.

Despite the dire predictions for US GDP, equity markets staged a remarkable rally following the signing of the CARES Act on March 27. The news resulted in the strongest 3-day gain for the S&P 500 Index (+17.6%) since a 3-day period in April 1933 (+19.8%). The rapid, positive market reaction to the news of the fiscal stimulus likely illustrates what might be expected when greater clarity develops around the resolution of the global pandemic. As the near term uncertainty around COVID-19 continues to disrupt the economy, we are optimistic that science will prevail and the development of effective treatments and eventually a vaccine will bring this crisis to an end. We look forward to stronger economic activity and continue our disciplined approach to portfolio management to help you achieve your long-term investment goals and objectives.

CARES ACT PROVISIONS IMPORTANT TO YOU

Required Minimum Distributions (RMDs)

The CARES Act suspends RMDs for 2020. RMDs taken after February 1 can be rolled back into your account without penalties or interest.

IRA Contribution Deadline

The deadline for filing 2019 income tax returns was extended to July 15, 2020. Because the due date for filing Federal income tax returns has been postponed to July 15, the deadline for making contributions to your IRA for 2019 has also been extended to July 15, 2020.

Withdrawals from Qualified Retirement Plans and IRAs, and Plan Loans

The CARES Act provides tax relief for retirement plan and IRA “coronavirus-related distributions” up to $100,000 taken by individuals on or after January 1, 2020 and before December 31, 2020. The CARES Act permits in-service distributions and provides an exception to the 10% early distribution penalty. The CARES Act also provides that for plan loans made during the 180-day period beginning on the date of enactment, the maximum loan amount is increased from $50,000 or 50% of the vested account balance to $100,000 or 100% of the vested account balance. The due date for any repayment on a loan is delayed for one year (normally five years).

Please contact us if you have specific questions about your portfolio.

MARKET PERFORMANCE

	1Q 2020	2019
Dow Jones	-22.7%	25.3%
S&P 500	-19.6%	31.5%
Nasdaq	-14.0%	36.7%
Russell 2000	-30.6%	25.5%
MSCI EAFE	-22.8%	22.0%
Barclays Agg	3.1%	8.7%

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- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS
- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS
- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES
- Customize investment portfolios with the option of drawing income
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