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Portfolio Comments
For the Quarter Ending March 31, 2020

It's a sign of the extraordinary when, in order to discuss the economy and markets, you first have to talk about epidemiology, but here we are. Also extraordinary are the following two headlines both occurring within the past month (in reference to percentage changes for the index): "The Dow Jones Industrial Average Just Had Its Worst Day Since 1987" and "The Dow Just Had Its Best Day Since 1933." But again, here we are, and above all we hope you are keeping safe and well.

The S&P 500 ended the first quarter of 2020 at 2,585, delivering a return of -19.60% for the year to date. The Dow Jones Industrial Average (DJIA) ended March at 21,917 for a first quarter return of -22.74%. These losses occurred during a quarter when the S&P 500 and the DJIA marked record closing highs of 3,386 and 29,551 respectively in February.

The cause behind the abrupt and precipitous market declines is the COVID-19, or coronavirus, pandemic that is wreaking medical and economic havoc worldwide. In what will be looked back on as the Black Swan event of 2020, individuals, industries, and governments were caught largely unprepared for the scale of the ensuing disruption. The human and financial toll is already significant, but compounding equities' wild swings is massive uncertainty faced by investors, combined with a wave of redemptions and program-driven forced selling. More answers in the coming months should, at least, dampen volatility and restore rational assessments of value.

In efforts to shore up the U.S. economy and maintain the functioning of financial systems, the Federal Reserve has responded in an unprecedented way, and on an almost-unimaginably large scale, dwarfing the speed and scope of interventions during the 2008 financial crisis. The Federal Open Market Committee announced two emergency interest rate cuts in the federal funds rate to bring it to a range of 0.00-0.25%. The Fed has also pledged to buy government debt and mortgage-related securities in unlimited amounts, and provide a backstop to the U.S. corporate bond market, spurring references to a "nationalization" of bond markets. This open-ended quantitative easing ensures the functioning of the financial markets in the face of mass asset selling and a rush to cash, behaviors that dry up the supply, or hike the cost, of credit.

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The Fed's measures do not stop here. With the help of the United States Treasury, it is also trying to funnel lending on favorable terms to smaller impacted businesses through a "Main Street Business Lending Program" targeting companies without access to Wall Street debt markets. Summing up its stance, the central bank stated: "Aggressive efforts must be taken across the public and private sectors to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate." In essence, a shortage of dollars across the economy must be avoided, and the Fed is prepared to consider anything, on any scale, to achieve this.

The Fed's actions, combined with a flight-to-safety, namely a worldwide rush to invest in stable dollar assets, led to some striking statistics in the U.S. government bond markets. On March 9th, yields of all benchmark maturities up to 30 years fell below 1% for the first time ever, and two weeks later, yields on one-, two- and three-month Treasury bills went negative for the first time since a brief dip into this territory in late 2015. Although the U.S. negative foray was short-lived, it should be noted that Japan and large areas of Europe are now used to negative-yielding debt.

On the political front, following intense bipartisan negotiations, Congress passed, and President Trump signed, a sweeping $2.2 trillion economic aid bill advancing the largest fiscal stimulus package in modern American history to bolster the economy. To put it in perspective, this figure represents close to 10% of American gross domestic product. Key elements of the plan include 1) direct payments of $1,200 for most adults (subject to income) and $500 for each child, 2) extension of unemployment insurance by four months, with wider eligibility and higher benefits, 3) $500 billion to back loans for companies, industries, and states, 4) $367 billion to support small businesses, 5) $150 billion in stimulus funds for state and local governments, and 6) $130 billion for hospitals and healthcare providers. One of the hardest hit group of companies, the airlines, may receive direct grants in return for the government taking some form of equity stake.

Time is of the essence in funneling the money where it is needed most. Millions of businesses have furloughed their workers or announced layoffs, and innumerably more, deemed nonessential, have been required to shutter temporarily. For the week ended March 21st, the U.S. jobless reports from The Labor Department indicted a record 3.3 million workers applied for unemployment benefits, ending our nation's historic run of a decade of job growth. The figure was nearly five times the previous 1982 record high, while only a month ago the unemployment rate was 3.5%, a level not seen since the 1960's. The unprecedented vertical leap in jobless claims is an aberration shattering a positive trend. Of note, the S&P 500 and DJIA indices both rallied over 6% on the day the figure was released, having already anticipated the magnitude. Treasury Secretary Steven Mnuchin went so far as to comment "I just think these numbers right now are not relevant." He is correct that backward-looking, or a snapshot, is not informative in this workforce crisis, but never has what comes next been so critical.

The looming question is whether the gargantuan deluge of funds made available so far will be enough. Unlikely, is the tentative answer. Nancy Pelosi, the Democratic Speaker of The House of Representatives, is already talking of the need to draft the next stimulus plan aimed more at economic recovery. The uncomfortable truth is that a turnaround in this situation cannot solely be brought about through government intervention and monetary and fiscal policy. Ultimately, day-to-day life, the economy, and the markets will return to a semblance of normalcy when the virus is controlled, and that needs to happen through the social and medical spheres. Fiscal and central bank action risks becoming quickly outdated and insufficient, bringing the likelihood of more stimulus and intervention. Still, if and when the time comes, the country can get back to business quickly if the airlines, hotels and restaurants, as well as other sectors, are ready to rehire laid-off or furloughed workers. The surging jobless rate could then rapidly recede.

As we are all aware, this is a worldwide humanitarian challenge that policy makers are furiously trying to stem and stop from devolving also into a deep and prolonged global economic downturn. More than 180 countries have confirmed cases of the coronavirus so far and the epicenter has switched from China to Europe. In a sign of the mirror-image of the situation from only weeks ago, on March 26th China announced its borders will be closed to nearly all foreigners and inbound flights will be curtailed to quell reintroduction of the virus.

We could write whole separate reports on each impacted country's social and economic response to the common challenges but, with some exceptions and a range of magnitudes, broadly the same policies and tools are being employed as we see at home. Data is changing by the hour, and is quickly obsolete, and the effectiveness of different strategies and levels of enforcement will be measured in hindsight. Talk of dampening or flattening the curve of the virus spread has become everyday vernacular and there are some encouraging signs that this is achievable over periods of months, with most documented success in regions with large scale testing and tracing.

On a monetary front, the European Central Bank (ECB) and the Bank of England have launched similar asset-buying programs. The ECB announced an extra 750 billion Euros of bond purchases, to keep government borrowing costs down, especially for embattled Italy, where yields had spiked dramatically. In the U.K., Prime Minister Boris Johnson became the first world leader to test positive for COVID-19, and is now leading his government from self-isolation.

A sector that has been particularly hard-hit is energy. As Raymond James' Energy Analyst describes it, "the oil market is currently facing an unprecedented one-two punch: worldwide demand disruptions due to COVID-19 compounded by a price war between Saudi Arabia and Russia". He goes on to say that their current models for global demand could represent steeper declines than 2008 and 2009 combined. At the end of March, WTI crude dipped below $20 / barrel, and is still in the very low $20's. The timing and improvement in demand will be dictated when travel and economic life can return to some version of normalcy. The analyst, however, also noted that "the Saudi economy needs $70 per barrel Brent to balance its fiscal requirements", and that there is the political sensitivity of watching its recently floated national oil and natural gas company shares trade below their IPO price.

Economists are now divided on whether the downturn is short-term disruption or the start of a prolonged recession. Perhaps the most apt term seen so far applied to this uncharted period is the "Great Cessation". Can swathes of the economy be suspended in financial deep freeze but still emerge largely intact on the other side? Downturns typically reflect lost confidence and pessimism among businesses and investors, but this one is almost entirely a result of economic shutdown imposed by governments and local authorities, albeit for a valid reason. The reported change in GDP growth will likely be eye-popping since, as Raymond James' chief economist points out, even a 5% contraction in a

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single quarter (an example, not a projection) would be reported as a 22% annual rate of decline. But the massive change in the figure from the last quarter to this one, is situational, and hopefully not systemic. Still, JPMorgan economists recently projected that the global GDP will shrink 1.1% this year, only the second time it has contracted since World War II.

In a rare live television interview, Jerome Powell, the Federal Reserve chairman, recently conceded that the U.S. may already be in a recession, and the only force dictating the lifting of restrictions is the trajectory of the virus. But he also added that America's central bank would not "run out of ammo" in its efforts to support the economy through this "unique" crisis, but offered no assurances on how long the U.S. will be partially shut down, adding "We are not an expert in pandemics over here."

Here at Stolper Asset Management we a sticking to our investment principles and taking to heart the following reminder offered by Benjamin Graham, the father of value investing: "A stock is not just a ticker symbol or an electronic blip; it is an ownership interest in an actual business, with an underlying value that does not depend on its share price." While we continuously research, evaluate, and pivot within our investment philosophy discipline, we are not market timers. According to historical data, since 1900, 14 of the stock market's 20 best days have been during bear markets. Illustrating the recent extreme market volatility, and using data from the end of one trading day to the next, the largest point drop in history for the DJIA occurred on March 16, 2020 (-2,997), yet the largest point gain for the index (+2,113) occurred eight days later on March 24th. All of the top-5 one-day point drops for the Dow have been amid the current market fall, but likewise the top five gains have been during the same period.

It's been a very tough start to the investment year, but in the last full week of trading for the quarter the Dow recorded its best percentage gain since June 1938, and the S&P 500 its best since 2009. This doesn't reverse the losses, but conveys that optimism can prevail sometimes during uncertainty. Dr. Fauci, who is both the U.S. director of the National Institute of Allergy and Infectious Diseases, and probably the nation's most trusted medical voice at this time, perhaps sums it up best when he said, "You don't make the timeline, the virus makes the timeline." We greatly appreciate your patience and trust, and again hope, above all, you are keeping well and staying safe.

The S&P 500 is an unmanaged index of 500 widely held companies and over 80% of the U.S. equities market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 companies maintained and reviewed by the editors of the Wall Street Journal. The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of the investment adviser representatives of Stolper Asset Management and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Investing involves risk and you can lose principal. There is no assurance any strategy will be successful. There is no guarantee that any forecasts made will come to pass. Past performance may not be indicative of future results. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Dividends are not guaranteed and must be authorized by the company's board of directors.