March 2020 will go down in history as the longest month on record. Or so it felt. As we turn the page to April, we find ourselves consumed with the COVID-19 outbreak that has plunged the planet into quarantine. We at the Webster Private Bank hope that clients and friends everywhere are healthy and safe.

### Capital Markets

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<tr>
<th>Asset Class</th>
<th>Category</th>
<th>Index</th>
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<tbody>
<tr>
<td>Equity</td>
<td>US Large Cap</td>
<td>S&amp;P 500</td>
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<tr>
<td></td>
<td>US Small Cap</td>
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<td>International Developed</td>
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<td></td>
<td>Emerging Markets</td>
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<td>Barclays US Agg</td>
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<td>US Inflation-Indexed</td>
<td>Barclays US TIPS</td>
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<td>US High Yield</td>
<td>Barclays US Corp High Yield</td>
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<td>-12.68</td>
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<td>Alternatives</td>
<td>Absolute Return</td>
<td>Credit Suisse Equity Mkt Neutral</td>
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<td>-.073</td>
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Source: Morningstar, FactSet
A paradigm shift of pandemic proportions

It is hard to believe that just three months ago in our 2020 Outlook edition of Market Insights we discussed a world view that has now been completely altered by this dangerous virus. Many of the primary geopolitical risks identified at the beginning of the year seem somewhat trivial now. Who would have thought that a global pandemic would bring the world to a screeching halt?

As investment advisors entrusted with a fiduciary responsibility in managing our clients' assets, our mission is to navigate difficult market environments and the unknown. Currently the level of the unknown is unprecedented, and markets have reacted violently.

From the stock market peak on February 19th, the global equity markets went into free fall as the spread of the virus became a pandemic. In 22 trading days the S&P 500 declined 30%. It was the fastest decline of 30% in history. On March 16th we experienced the largest single day percentage decline in the Dow Jones Industrial Average since the '87 crash and on March 24th we experienced the largest percentage gain since 1933.

Source: FactSet
An unpredictable pandemic. A prudent response.

Fortunately, the Federal Reserve and the Federal Government stepped in more quickly than previous market downturns. The massive monetary easing and fiscal stimulus is designed to support both the financial markets and Main Street USA. The pandemic itself was unpredictable but the market’s response was consistent with our expectation for a sudden unforeseen economic shock. As investors, we were pleased to see that the “plumbing” of capital markets also held up. We’ve been able to transact on behalf of our clients with little disturbance.

Our initial assessment (Market Insights: Coronavirus & Your Portfolio, February 27, 2020) was that markets would normalize over a 6-12 month period, once countries had a handle on the spread of the virus, as represented by a “flattening of the curve”. This would prevent the healthcare system from being completely overwhelmed and allow it to effectively care for the ill. In this issue of Market Insights, we take a look at developments during the month of March, as well as reposition the themes that we believe will drive market behavior over the coming months.

Moving targets: The epicenter crosses the globe.

One long month ago, we could count the number of coronavirus cases in the US on one hand. China was the epicenter, with approximately 45,000 total cases. Totals have exploded globally, with 882,751 total cases and 44,150 deaths as of March 31, 2020 with the epicenter moving during the month from China to Italy to New York. China appears to have flattened the curve, reducing active cases to 2004 (Source: www.worldometers.info/coronavirus/). South Korea appears to be following the same pattern, with Italy showing signs of slowing new cases despite stretching the healthcare system to the breaking point. The degree to which the US can emulate the patterns seen in these countries will have far-reaching implications for both society and the markets.
2020 Investment themes revisited

Predicting the spread of coronavirus is not where our expertise lies, but planning for uncertainty is. So, let’s take a look at the themes that we identified at the beginning of the year, and make some necessary changes.

 THEME 1: Recovery Not Recession. Now it’s Recession, then Recovery.

At the start of the second quarter, we foresee Recession Then Recovery. Q1 GDP will likely see a small down tick in growth with Q2 bearing the brunt of the damage. Q2 GDP forecasts vary widely, but we can likely expect that growth will be negative by approximately -10% to -20%. The large drop off in the second quarter will result from the full impact of global quarantines and social distancing efforts. Businesses such as airlines, casinos, cruises, sporting events, movies, theaters, and restaurants will post sharp earnings declines resulting in a negative quarter for both the US and global economy. A slow recovery might begin in Q3 2020 if containment efforts of COVID-19 are ultimately successful with growth accelerating further in subsequent quarters once a vaccine is in place. In the meantime, we are likely to continue to see negative economic news and continued market fluctuations.

A self-imposed slowdown on a fundamentally sound economy

For the week ended March 21 we got our first substantial piece of negative economic news, as unemployment figures came in at a record-breaking 3,283,000 new claims. This level of weekly unemployment claims shattered the October 1982 record of 695,000 (Source: Department of Labor website). This new record was obliterated the very next week, with initial jobless claims for the week of March 27th reported at 6,648,000. Subsequent employment reports in the months to come will likely be as eye popping.

We advise clients to not focus on these figures and keep their eyes on the longer term. Remember, this shutdown has been self-imposed in order to solve a health crisis. The genesis of the economic slowdown was not based on financial events as in past corrections. As a result, pent up demand as quarantines are lifted is likely to reignite the global economy and pull it out of recession. The economy will adapt and recover as the COVID-19 curve flattens.
THEME 2:  

To state the obvious, volatility has hit levels surpassing the Great Recession of 2008 and the Tech Bubble implosion. The Chicago Board Options Exchange (CBOE) Volatility Index, or the VIX, has hit its highest percentage increase in its history.

The CBOE Market Volatility Index (VIX) reached an astronomical 82.69 on March 16, the highest in its history, but has receded since. It closed at 57.08 on March 31, which is still historically high. We would expect additional volatility throughout the next several months as we all continue to monitor the change in coronavirus case rates both at home and abroad, as well as the level of economic fallout seen in data releases. A retest of the March 23rd market low (Dow 18,213) is likely as the news tells an alternatively pessimistic or optimistic story. Ultimately, markets will settle down, and a new bull run will begin.

THEME 3:  
Range-Bound Rates. Still the case.

Of the three themes, this requires the least adjustment. Much like 2008, governments across the globe have stepped in to provide liquidity and stimulus to markets and economy respectively. An aggressive Fed has slashed the fed funds rate to zero. Rates have declined across the curve, and fixed income markets continue to function properly. Rates are likely to remain low for an extended period, helping to stimulate the economy and ease borrowing costs.
**Actions we took to protect portfolios**

In the midst of the market collapse, we selectively sold equity positions in order to harvest capital losses in taxable portfolios. We reduced floating rate bond exposure with the realization that interest rates are highly likely to stay lower for longer, and swapped proceeds into the battered high yield market.

We have reduced exposure to passive index funds in favor of active management given the likelihood that winners and losers will continue to emerge over the coming quarters. In general, we have advocated “staying the course” for long term investors with the historical perspective that bear markets eventually end, and when they do, the positive market moves can be quick and surprising.

**The Outlook: The bull will rise again.**

Aside from the human toll of this global pandemic, our long-term outlook for financial markets is bullish. The global economy will struggle in the near term, experiencing recession across many countries. We expect this recession to unwind relatively quickly as pent-up demand fuels economic expansion once the “all clear” signal is received.

In March we saw the end of an 11-year bull market. The age of the bull had become an overhang on the market, as had the fear of recession. A perverse benefit from coronavirus may be a “clearing of the slate”, in that the fear of the bull market’s advanced age as well as the concerns over recession will eventually be in our rear view mirror. We believe that a new bull market run will begin in advance of a full economic recovery, based on expectations for improvement. The market is forward looking, with a current expectation for a deep global recession. Anything “less bad” than a deep recession will result in a relief rally. We’re clearly not out of the woods yet, and the market is likely to retest March lows as new C-19 cases spike and timelines for restarting the economy are missed.
Recovery: A vaccine may be the cure.

The ultimate solution to this situation is the development and widespread distribution of a vaccine. Attempts to handicap the timing of such a development are speculative at best. Until that happens, a full recovery cannot happen. So, while we have a certain degree of confidence regarding the future direction of markets, we cannot determine the timing of such a recovery. Our patience is currently being tested, in more ways than one. Hang in there!

As always, we are grateful for our clients and take the awesome responsibility for managing your assets very seriously. Our team is functioning well in this “new normal” of working from home. We hold regular conference calls, and interact on a continuous basis. Please be safe, and let us know if you have any questions.