

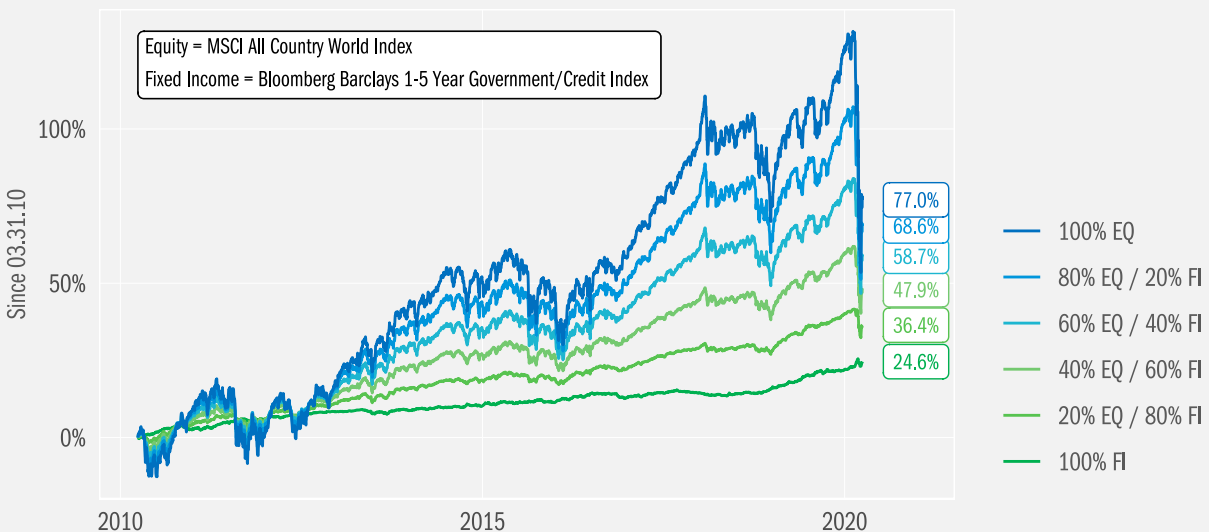
IN THE THICK OF IT

Through the end of March in a pretty remarkable turn of trends, the domestic equity market rebounded 15% over the course of six trading days after the Federal Reserve let loose a rainbow of market support mechanisms and the U.S. Congress passed legislation worth more than \$2 trillion in budgeted relief for U.S. businesses and workers. With peak-COVID in the U.S. likely still in the future, and with the macroeconomic impact still only very vaguely estimable, it's easy to think up reasons to believe the rebound has gotten a bit ahead of the fundamentals. Even so, with the market still well off its February peak, we think history will show that patience amidst heightened volatility was rewarded over time.

Markets Are Here...

Often foremost in our minds when reporting on the effects of market volatility on client wealth is make all reasonable attempts not to come across as Pollyannaish. Blind optimism—either near peaks or troughs, mind you—affords little in the way of comfort. And if we've learned anything during past market cycles, providing comfort through information should be our primary focus. So we will begin this month's commentary with one version of the, "You Are Here" chart, a 10-year perspective on market performance through the lens of the range of hypothetical portfolio allocations to global stocks and U.S. investment-grade bonds.

Figure 1: Cumulative Ten-Year Total Return of Hypothetical Asset Allocations



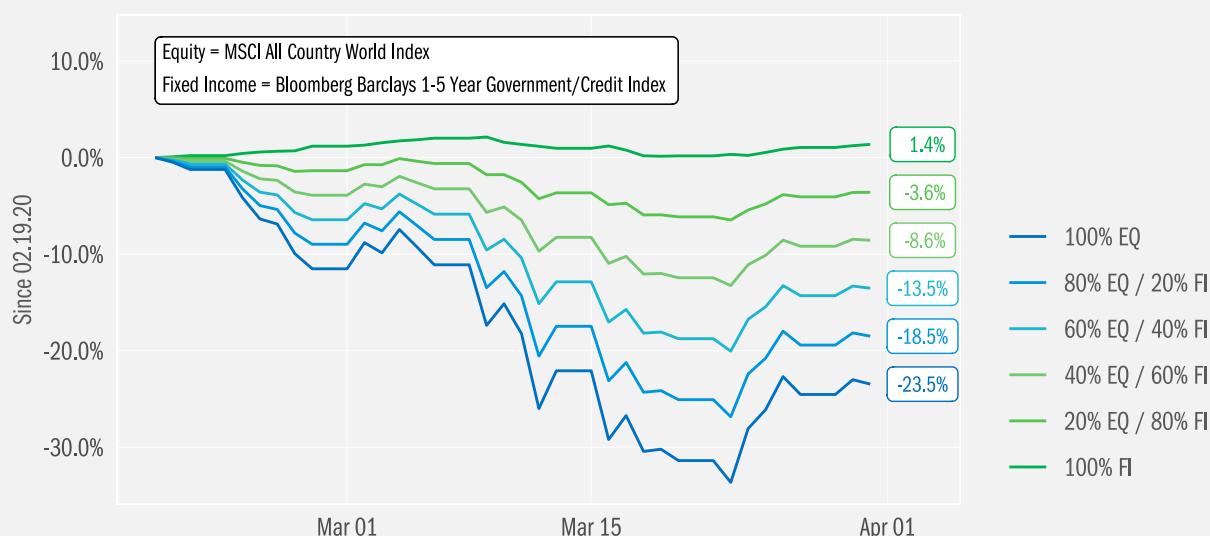
From 03.31.10 through 03.31.20. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. The equity index used for this presentation is the MSCI ACWI Index, which captures large- and mid-cap representation across 23 Developed Markets countries and 23 Emerging Markets countries. The fixed income index used for this presentation is the Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index, which includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Those allocations are actually reflective of several of the benchmarks we use for portfolios we manage to similar splits between equity and fixed income. We include a global view on the equity side, as we maintain such exposures in most of our accounts that include equity. The gist of the story the chart tells is one hopefully familiar to readers of our commentaries. Stocks can be a source of strong long-term return, but returns in the meantime can be volatile, often quite so. And bonds can provide ballast to dampen the returns of stocks in a portfolio, whether shares are rising or falling. The chart also suggests investors should focus on longer-term performance, even as shorter-term trends draw attention closer in. And finally, we can see that it often requires patience through periods of market turmoil (e.g., 2011, 2016, 2018 and this latest bout) in order to achieve the outcome intended from a particular investment strategy.

...And Here, Zoomed In

Speaking of patience with nearer-term performance, last week provided another example of the potential for better outcomes through perseverance (at least in the short term). In Figure 2, we trim the earlier chart to just the performance since the U.S. market peak on February 19. The chart shows the softening effect that fixed income exposures had on the equity decline, even as returns for many sectors within the corporate bond space also were pressured from early March through the equity market bottom. Also distinguishable in the individual lines is the reasonably strong bouncing about these series have experienced so far during this crisis. That increased variability—both up and down—is a reminder that we tend to see large up days around the same periods we see large down days. That observation bolsters the idea that it’s very difficult, perhaps impossible to time market moves and emphasizes the impetus to stay true to an existing investment approach, so long as the factors that influenced the choice of that approach have not materially changed.

Figure 2: Cumulative Total Return of Hypothetical Asset Allocations Since 02.19.20

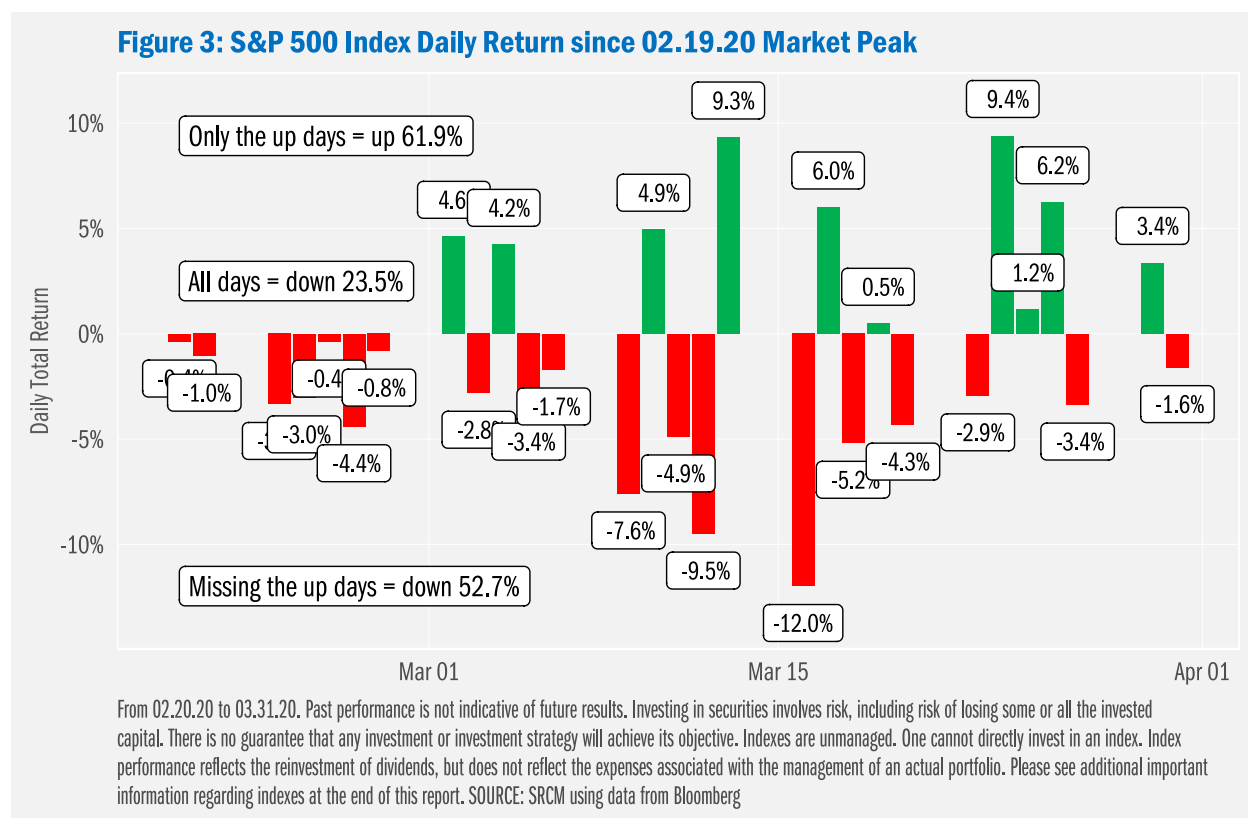


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Big Ups & Big Downs

The next chart shows those wild swings in the equity markets with a bit more detail. From the U.S. stock market peak on February 19, the S&P 500 had fallen by near 34% through March 23. That index has since jumped 15%, recovering more than a third of that decline. Just as we noted in our Market Update on March 15, as the equity market becomes more volatile, we likely will experience larger daily changes in both directions, not just the downside. While the week of March 15 was pretty hard to stomach, the week that followed provided some justification for staying grounded in the pursuit of an existing strategy.

Of note with regard to our investment approach, value-oriented and small-cap stocks have substantially underperformed through the downturn, as have shorter-term corporate bonds. These factors will have reduced our performance relative to these benchmark presentations. We will cover these details more thoroughly in our quarterly portfolio positioning and performance update.



Bracing for What May Come

But we don't want to get too far ahead of the fundamentals. There's still a ways to go to recover the remaining gap to the prior peak in the U.S. stock market. It might be best to steel the nerves against further market volatility and potential further downside from here as the world continues to battle the coronavirus pandemic. Those who remain anxious about those potential outcomes should reach out to advisors for additional perspective, guidance and discussion.

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The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.