



Dear Client,

This is a letter about treacherous times and hope for the future. It is intended to put into perspective much of the pandemic-fueled volatility we have experienced over the last several weeks and reiterates the importance of having a current financial plan and accompanying investment objective as a navigational Baedeker. Both roadmaps are based upon the observation that markets rise more than they fall – and will continue to do so.

It has been a difficult month for investors. Since the February 19th peak, the S&P 500 Index has shed 34% to its most recent low (St. Louis Federal Reserve). That's roughly in line with the average bear market pullback, with bear markets being defined by at least a 20% sell-off.

However, the rapid decline in the major stock market indexes has been unsettling. The 34% drop occurred in just over one month. It's unprecedented.

But what we are seeing in the economy is without precedent, too. There is an enormous amount of uncertainty. Many industries that require person-to-person interactions are being shut down. And many of the service-related companies that remain open have seen a significant drop in traffic.

Since there is no modern precedent on which to model economic forecasts, the second-quarter projections for GDP have been incredibly wide. If we connect the dots, the economic uncertainty has translated into earnings uncertainty which in turn has translated into incredibly volatile markets.

A government-induced economic coma

In order to slow the spread of the pandemic, the government has encouraged social distancing, and several states have ordered lockdowns or strict shelter-in-place mandates. You may go outside to exercise or head to the grocery store, but there is a ban on social gatherings, which would spread the virus.

While social distancing will slow the spread of COVID-19, the economic impact has been unparalleled. In a way, the government is putting key sectors of the economy in a coma, as it hopes to stem the spread of the virus. When health and safety dictate, the goal is to bring the 'patient' out of the coma.

But policymakers aren't expecting the economy to bounce back on its own. If shutdowns are encouraged or enforced, policy is being put into place to revive the patient when the time comes.

The government response to soften the expected economic blow has been extraordinary and goes well beyond what we saw during the 2008 financial crisis.

The Federal Reserve has not only dropped the fed funds rate to zero, but it has implemented several programs designed to support Treasury bonds, investment-grade corporate bonds, commercial paper (short-term IOUs issued by the largest corporations), money market funds, mortgage-backed securities and municipals.

Further, a new program designed to support small- and medium-sized businesses has been implemented.

During the financial crisis, the Fed's focus was on Wall Street and critical credit markets. Today, the scope of support extends well beyond Wall Street and into Main Street.

Meanwhile, Congress has passed and the President has signed a \$2 trillion stimulus bill.

In addition to mitigating some of the damage from surging layoffs, the Federal Reserve and the Federal government are trying to put a foundation in place that will support a robust economic recovery.

Will it work? Much depends on the duration and severity of the recession and the path of the virus.

Road to recovery

There are four steps that are important.

1. A massive response by the Federal government and the Federal Reserve. I think we can check that box. While continued volatility is likely, a modest rebound from March's low was fueled by the Fed and the \$2 trillion stimulus plan.

Other pieces of the recovery puzzle include:

2. A peak in new U.S. cases and subsequent decline.
3. An effective treatment and vaccine.
4. Clarity on the economic data. What will be the steepness and duration of the recession?

We initiated several steps during the first quarter to position portfolios more conservatively as well as to position for opportunities. These included modestly reducing equity allocations toward the lower bound of their Investment Objective ranges, along with modest additions to fixed income. Minimum volatility and Quality factor equities were increased while Momentum strategies to capture market rotations were generally

maintained. Non - U.S. equities were trimmed, durations of fixed income portfolios were lowered, and high-yield positions were reduced or eliminated.

These adjustments proved beneficial to portfolio returns. We are now re-allocating back to neutral targets while maintaining a "stay-at-home" U.S.-centric, high-quality tilt.

There will not be an all-clear signal. Collectively, markets attempt to price in future events. Given the wide range of outcomes, volatility has been the rule.

Your financial plan and accompanying investment objective serve as the roadmap in good times and bad. Episodes like the current one highlight the importance of these goals and documents.

This pandemic eventually will pass, and the underlying fundamentals of the U.S. economy remain strong. Resilience and ingenuity are part of our national DNA. We will persevere and we will recover.

Please do not hesitate to reach out with your questions, comments and concerns.

Best wishes,

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Key Index Returns		
Index	MTD%	YTD %
Dow Jones Industrial Average	-13.7	-23.2
Nasdaq Composite	-10.1	-14.2
S&P 500 Index	-12.5	-20.0
Russell 2000 Index	-21.9	-30.9
MSCI World ex-USA*	-14.6	-23.9
MSCI Emerging Markets*	-15.6	-23.9
Bloomberg Barclays US Aggregate Bond TR	-0.6	3.2