DANN ASSET ADVISORS, LLC

First Quarter 2020 Update

April 10, 2020

1Q20 Highlights

- February into March represented the fastest ever 30%-plus decline for the stock market
- Panic permeated the markets the week of March 16 as stocks and bonds both fell
- Fed stepped up big time, reducing rates, buying debt and acting as a lender of last resort
- Fiscal stimulus from Washington enacted with more possible; delivery in early stages
- Steep economic contraction is here – key is how deep and long

The table below summarizes the performance of some key indices during the first quarter:

Market Performance	
Index	% Ch. 1Q20
S&P 500	-19.6
MSCI All Country World ex US	-23.4
MSCI Dev. Mkts. (ex US)	-22.8
MSCI Emerging Markets	-23.6
US Aggregate Bond	3.2
Liquid High Yield	-12.0

Source: Morningstar, iShares

Equities. The table and bullet points above illustrate the severity of the market's first-quarter downturn. At its nadir on March 23, the market was down just under 35% from the February 19 peak. Still, the market had a strong rebound over the last week and a half of March, with the S&P 500 closing the quarter up 18% from the March low and at roughly the same level as early January 2019. While the volatility was dizzying, the 20% decline for the quarter as a whole could have been worse. And while it seems years ago, it's worth remembering that the first quarter's decline came on the heels of 2019's very strong 31.5% positive return.

Despite the market's reversal, trends that have been in place since the second half of 2018 continued. Growth stocks handily beat value stocks, with the Russell 1000 Growth index of large company stocks falling "only" 14.1% compared to 26.7% for the Russell 1000 Value index. Small company stocks also continued to lag, with the Russell 2000 index down 30.6% and the value sector of that index down 35.7%. While the S&P 500 hit numerous new highs in 2019 and early 2020, the Russell 2000 never passed its August 2018 peak and closed the first quarter of 2020 34% below that level. Smaller companies may have a more difficult time than larger getting through the current downturn. International stocks again trailed the U.S. during the quarter.

Fixed income. Ten-year treasuries had a remarkably volatile quarter, with yields falling from 1.92% at year end 2019 to 0.50% in early March, then rising to 1.26% on March 18 before falling back again to 0.70% at quarter end. The initial decline was likely due to concerns over the coronavirus' impact on the economy and a flight to safety from falling stocks. The quick spike up stemmed from what we perceived as near panic in the markets as investors trying to raise cash sold treasuries, normally the most liquid and safest of securities. A series of liquidity and backstop actions by the Federal Reserve beginning on March 15 brought stability back to the treasury market.

The Barclays Aggregate Bond index – which in addition to U.S. treasuries includes mortgage backed securities and corporate bonds - is the most widely used index for U.S. investment grade debt. But for a better indicator of stress in the bond market during the first quarter, it's worth noting that the Barclays Investment Grade Corporate Bond index returned a negative 3.2% even with the significant decline in treasury yields. And as indicated in the table, noninvestment grade debt had a much tougher quarter.

Market sectors. Technology and healthcare were the two "best" performing sectors in the quarter, each down just over 13%. Healthcare traditionally has been a defensive sector given the need for its products and services, mostly regardless of economic conditions. Technology held up well as Apple and Microsoft, the two largest positions in the group, declined less than the market with Microsoft actually unchanged for the quarter. During a volatile period, investors seem to have been attracted to both company's strong balance sheets and in Microsoft's case, its rapidly growing cloud services business. Utilities was the third best performing sector.

The quarter's worst performing sector, by far, was energy, which declined more than 50% as oil prices collapsed due to Saudi-Russian disagreements over supply and reduced demand as economies slowed. Financials were the next worst sector, with banks being hurt by record low interest rates and increasingly likely higher loan loss provisions. Materials, also hurt by a lack of demand, were the third worst sector.

Portfolio Positioning

For clients with fixed income we reduced generally already small noninvestment grade exposures by 25%-50%, with most clients ending the quarter with 90% or more of their fixed income in investment grade funds. As at year end 2019, most clients with fixed income are 70% or more in short duration (which we define as three years or less) mutual funds.

We rarely comment on the performance of the fixed income portion of clients' portfolios, as under almost all conditions short-term investment grade debt holds up well when there's equity market turmoil. However, similar to 2008, investment grade corporate debt was under significant pressure in mid to late March, with the result that even the short-term investment grade funds owned by clients had modest negative returns of up to 1.5% for the quarter. As the Fed more aggressively supported the markets over the second half of March, this pressure began easing with investment grade fund prices beginning to rebound.

On equities, we did more than usual trading during the quarter. As stated in our fourth-quarter update, entering 2020 we believed that "the market currently seems to be priced for perfection." As a result, prior to the market peak in February, we sold one fund focused on larger company stocks and began selling another focused on smaller company, value stocks. Our goal was to upgrade the quality of client's stock holdings. Proceeds were put mostly into two new positions – one a large cap U.S. fund that has gone down less than the market in prior downturns (given generally conservative holdings) and the other an exchange traded fund (ETF) focused on a broad range of top technology companies.

General Comments

Given all the unknowns around the coronavirus and the unprecedented rapid, rolling shutdown of the world's economy, we believe it doesn't make sense to speculate on how bad the U.S. economy will get over the near term. What we do know is that the economy almost certainly already is in a recession, the severity and length of which will depend on: a) how long geographic regions and/or sectors of the economy are shut, and b) the success of monetary and fiscal policy responses.

In our opinion, the Federal Reserve acted quickly, strongly and appropriately to the virus' threat to the economy and functioning of the markets. To us, the week of March 16 was an especially concerning time as stock and U.S. treasury prices both declined significantly with businesses and investors seeming to sell anything with decent liquidity to raise cash. We believe that markets would have gotten worse absent the Fed's several actions, which included reducing interest rates; providing liquidity by committing to buy treasuries, mortgage-backed securities and investment grade corporate debt; and backstopping money market funds.

With respect to fiscal policy, clearly there are numerous priorities and many individuals and businesses need help. Congress already has passed three bills to mitigate the coronavirus' impact (the $2 trillion CARES Act being the largest), and we believe more may be coming. One of our biggest concerns is that the government has been moving too slowly in getting money to the small and large businesses that have been severely impacted by virus-related closures. We're afraid that once businesses are closed and jobs lost it may take a long time for an inclusive recovery to develop.

Looking out longer term – with no specific data or scientific background – we're optimistically guessing that life will return to a "new normal" sometime over the summer. This hopeful outlook is predicated on the government having a much greater testing capability in place by that time, with the result that healthy and not at-risk people will be able to return to work and begin socializing. Protections may still be needed for the more vulnerable. Risks to that optimistic outlook are that the government fails to deliver or that the virus proves more potent and/or can infect people more than once. Of course, we don't know.

Even if our optimistic scenario plays out, we believe it still will take time for the economy to recover. However, certain sectors likely will recover faster than others. For example, an even greater premium may be put on innovative technology and healthcare products and services, enabling these industries to rebound quickly. The virus-induced precipitous drop in consumer discretionary spending has accelerated a decline in many traditional retail formats, with a broader impact to be felt in commercial real estate (including office space if people work more from home). With the 60%-plus drop in oil prices during the quarter, a substantial shake out is likely in the energy industry. We believe that finding work for people in hard hit, changed industries will take time and prolong the period needed for full recovery.

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