Vertex Planning Partners LLC

Quarterly Market Review

Q1

First Quarter 2020

Economy

Monetary Policy

What's Happening:

- Due to the unprecedented nature of a forced economic shutdown, the Fed has been rapid in their response through both lowering interest rates, but also in actively engaging in markets to provide liquidity and expanding their balance sheet by over $1.7 trillion in assets YTD (Fig 1).
- To put in this in prospective, at the height of the financial crisis the fed expanded their balance sheet approximately $1.25 trillion. However, after learning key lessons from the financial crisis, their actions have been swifter (backstopping money markets, providing dollar liquidity to international central banks), and more widespread (intervening in not just in treasury markets, but in municipal markets as well as investing in corporate bonds and key industries).

What does this mean?

By providing an immense amount of liquidity, the Fed is focused on keeping markets operating at a time of great uncertainty given the potential shock to corporate and government revenue.

Economy

Fiscal Policy

What's Happening:

The US Government has enacted a number of legislative acts in March as a response to the coronavirus pandemic, including additional funding for emergency response healthcare, culminating in the C.A.R.E act; a $2 trillion stimulus plan aimed at businesses and workers effected by the mandated shut down as a response to social distancing (Fig 2).

What does this mean?

The fiscal response has been nothing short of extraordinary, pushing deficit spending to levels not seen since the 1940s. With hopes of bridging the gap between shutdown and recovery, the aim of these legislative actions are to limit the negative impacts of mass layoffs and business inactivity in the service sectors (primarily travel, lodging, hospitality) and markets that depend on their cash flow (real estate, credit, etc).

Geopolitics

What's Happening:

2020 has been dominated by the spread of COVID-19, the exponential impact across the globe, and governmental responses to "bend the curve" of infection rates by implementing drastic measures.

What does this mean?

Global trade, travel and interactions have come to a grinding halt as responses have struggled to get ahead of the infection rate. At this time it is difficult to calculate the true extent of the impact, as the quality and accuracy of the reporting is not universal.

Economy

GDP

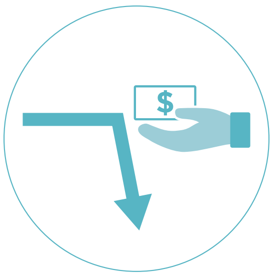
What's Happening:

Domestically we are still waiting to see what the true impact of the government impose shutdown of "nonessential" business will be, but we are fairly certain that it will be greater than at any other time in modern economics, with Q1 and Q2 contracting anywhere between mid-single digits to possibly outlier of twenty to thirty percent (annualized).

What does this mean?

The US economy is witnessing a coordinated effort to slow human interactions in order to save lives, assist our healthcare system, and provide the best opportunity to reboot. Unlike traditional recessions/ depressions that are caused by a buildup of excesses, the current situation is the conscious effort to halt the spread of a disease, and preserve the health of US citizens. The ability to restart economic activity is still a fluid situation that will be dependent on the success of containment, coupled with progress on therapeutic solutions for the most severe cases, in order to have large numbers of people re-engage in the economy.

Markets



Equity

As a sharp contrast to 2019, 2020 has witnessed sharp selloffs in global equity markets as uncertainty surrounding the severity and length of the impact the virus will have an economic shut down. Although all markets have experienced losses, the most severe pullbacks have focused on energy, transportation, hospitality and lodging as social distancing policies have mandated businesses to close their doors.

Fixed Income

Much akin to the equities markets, bond markets have also been extremely volatile, as investors grapple with evaluating cash flows ranging from Airlines all the way to local municipalities, and borrowers abilities to maintain their debt payments (income for bond holders). Even treasuries have experienced extreme price movements, as safety, interest sensitivity and marketability cause wild swings in normally sanguine markets.returning high single digit to low double digit returns. As yields have fallen, risks have risen in the bond market as the low coupons on today's treasury bonds and longer dated provided low compensation for their price risk if inflation begins to build due to rising prices of goods and services.

Current Strategy

Reasons To Be Optimistic

History teaches us that global health emergencies are eventually transitory. Although the impact has been swift and profound on economic activity, the reaction by central banks and the federal government have been equally unprecedented. Although daily life may take time to heal, valuations look attractive within segments of both equities and fixed income, with prices not seen since 2008 or even 2000. The volatility in the markets should remain for the next couple of quarters as investors digest the impacts to GDP and corporate earnings, but with the amount of accommodations and low interest rates provided by the fed, and a government that is looking to backstop against the worst possible outcomes, risk assets have the environment to recover if consumer sentiment rebounds.

Reasons To Be Cautious

We have little historical data in which to compare this event, as it has both the swiftness in impact of 9-11 (although on a broader scale), as well as the depth of the Global Financial Crisis. Since there hasn’t been a modern day parallel, it is more difficult to gain a handle on the extent of the impact, nor which industries are better able to rebound versus ones that might be permanently impaired. Do to the breadth of potential outcomes, it will be difficult for markets to have proper price discovery, and consequently a large amount of volatility.

Current Strategy

Strategy for 2020

We continue to tilt towards lower volatility equity strategies (particularly in international assets) as well as firms with high quality balance sheets. On the asset class level, we have actively paired back our risk in bonds, real assets and equities.

Beginning in January, we have made several changes to our fixed income allocations, transitioning from higher yielding assets to government securities or higher quality corporate bonds, as well as upgrading our stock holdings from smaller companies to larger corporations with stronger balance sheets. We paired back and eventually transitioned from our equity Real Assets (Real Estate and Infrastructure), to Gold, Inflation-Protected Treasuries, and government bonds as volatility began to rise.

These proactive modifications were aimed at reducing the volatility within the portfolios, as well as provide a stable asset base in preparation for the second rebalance of the calendar year.

(Fig 1)

Recent balance sheet trends

The Federal Reserve's balance sheet has expanded and contracted over time. During the 2007-08 financial crisis and subsequent recession, total assets increased significantly from $870 billion in August 2007 to$4.5 trillion in early 2015. Then, reflecting the FOMC's balance sheet normalization program that took place between October 2017 and August 2019, total assets declined to under $3.8 trillion. Beginning in September 2019, total assets started to increase.

Source: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm
Charts are generally updated at noon ET the day following the publication of the H.4.1, which is typically published at 4:30 ET on Thursdays.

*All Liquidity Facilities includes: Term Auction credit; primary credit; secondary credit; seasonal credit; Primary Dealer Credit Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Term Asset-Backed Securities Loan Facility; Commercial Paper Funding Facility; Money Market Mutual Fund Liquidity Facility; and central bank liquidity swaps.

**Support to Specific Institutions includes: Maiden Lane LLC; Maiden Lane II LLC; Maiden Lane III LLC; and support to AIG.

***Support to AIG includes: credit extended to American International Group, and preferred interests in AIA Aurora LLC and ALICO Holdings LLC.

(Fig 2)

Legislative Actions

H.R. 6074: Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 —

Enacted March 4, 2020. Provided $8.3 billion in emergency funding for federal agencies to respond to the coronavirus outbreak related to developing a vaccine, medical supplies, grants for public health agencies, small business loans, and assistance for health systems in other countries. Allowed for temporarily waiving Medicare restrictions and requirements regarding telehealth services.

H.R. 6201: Families First Coronavirus Response Act —

Enacted March 18, 2020. Guaranteed free coronavirus testing, established paid leave, enhanced unemployment insurance, expanded food security initiatives, and increased federal Medicaid funding.

H.R. 748: Coronavirus Aid, Relief, and Economic Security Act —

Enacted March 27, 2020. A $2 trillion coronavirus relief bill, which will send $1,200 to each American making $75,000 a year or less, add $600/week to unemployment benefits for four months, give $100 billion to hospitals and health providers, make $500 billion of loans or investments to businesses, states and municipalities, and $32 billion in grants to the airline industry, and more.

Source: https://www.govtrack.us/covid-19

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. The economic forecasts set forth may not develop as predicted. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. No strategy assures success or protects against loss and there is no guarantee that their objectives will be met. **Securities offered through LPL Financial, Member FINRA/SIPC. Investment advice offered through HighPointAdvisor Group, a registered investment advisor. HighPoint Advisor Group and Vertex Planning Partners are separate entities from LPL Financial.**