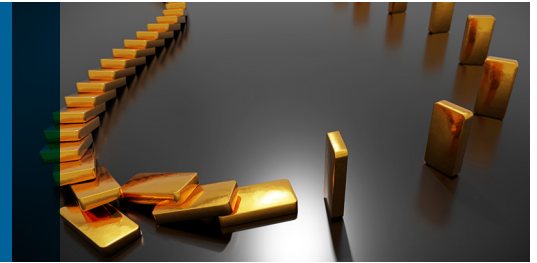


Navigating through a pandemic that stopped the world



LOOKING TO THE PAST FOR GUIDANCE

- The state of the world shifted dramatically during the first quarter from a growing global economy, with its typical pockets of ups and downs, to a pandemic-induced global economic coma.
- Before reviewing the economy and markets, we would like to take a moment to recognize and acknowledge our investors' concerns for not only the health and safety of friends, family and co-workers, but also for the possibility of a reduced level of available financial support for their missions located in both local and foreign geographies.
- Experience can serve as a guide and, while it's a bit stunning that we are living through a crisis occurring relatively soon after the Global Financial Crisis (GFC), the fact that the GFC wasn't very long ago allows all of us to reflect on how we got through that period and importantly, that we did get through.
- We at CBIS recently did just that; we reflected on the past and have borrowed what worked well in order to develop a comprehensive, broad-based plan that we believe will allow us to not only navigate through the COVID-19 crisis and financial volatility, but also will make us stronger when we emerge on the other side of this crisis.

RECAP: WHAT JUST HAPPENED?

- The economic environment shifted from healthy to a pandemic-induced economic sudden stop, which will likely lead to a significant slowdown in first and second quarter global GDP.
- The culprit, COVID-19, a highly contagious coronavirus, has put enough pressure on the healthcare system to force human quarantine, causing a dramatic reduction in global economic activity.
- To reduce the number of people contracting the disease and to slow the speed at which it spreads, commonly referred to as "flattening the curve", the practice of "social distancing" is being broadly implemented across the globe.



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THE ECONOMY:

A PANDEMIC INSPIRED ECONOMIC PAUSE

- With each passing day, it's becoming more and more likely that the COVID-19-inspired pause in global economic activity will lead to a sharp drop in GDP and a meaningful recession.
- Except for certain necessary businesses, like hospitals, grocery stores, pharmacies, and health-related manufacturing and services, for the most part the service and manufacturing sectors have pressed pause.
- Goldman Sachs recently forecast quarter-on-quarter annualized growth rates for the US of -9% in Q1, -34% in Q2, +19% in Q3, and +12% in Q4. Note the sharp decline in Q1 and Q2 followed by increased economic activity. The full year forecast is -6.2% on an average annual basis and -5.4% on a Q4/Q4 basis.
- The growth forecast for Europe is similarly dire.
- The US stock market went from a bull market to a bear market in a mere 20 days, the fastest in history, and thereby ended the longest-running bull market in US history.
- While we at CBIS don't have a crystal ball and can't predict the depth or breadth of the likely downturn, it's notable that there is a positive correlation between the length of time it takes for the stock market to move from peak to trough and the length of the subsequent recovery.
- Will the financial recovery be swift as well?
- On a global scale, both monetary policies and fiscal stimulus are needed to help slow the deteriorating global economy.
- The US Government recently launched the CARES Act, a \$2 trillion fiscal stimulus package aimed to provide an economic bridge for both individuals and businesses, both large and small.
- On the monetary front, the Federal Reserve has acted swiftly and pulled all the tools out of its toolbox.
- The Fed lowered the overnight borrowing rate to a zero-lower-bound, the first time since 2008, and initiated lending facilities to provide loans to organizations.
- Additionally, the Fed initiated an aggressive bond buying program that is not only without limit, but includes government and government agency-backed debt (Treasuries and mortgage-backed securities) as well as commercial mortgage backed securities and bonds issued by corporations, including below investment grade bonds.
- This bond buying program differs from that of 2008, when the Fed limited the scope of the program to a limited amount of government and mortgage-backed securities.
- Other economies are also responding in a similar fashion. For example, the ECB introduced the Pandemic Emergency Purchase Programme which initiated an increase in their bond buying program to €750 billion. The 25-member governing council indicated they are prepared to expand the emergency program as events unfold.
- The Bank of England lowered its short-term rate and signaled it would take further action to mitigate damage from the virus.
- It's notable that governments are reacting quickly. History suggests that timeliness matters: the sooner monetary and fiscal policies infiltrate the economy, the sooner the global economy and financial markets can find their collective footing.

A GLOBAL STRATEGY:

STEPS TO MITIGATE ECONOMIC EROSION

- While "social distancing" is imperative to help "flatten the curve", reduce the number of ill, and help the medical community manage this pandemic, it also increases the chances for a deeper recession.

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PORTFOLIO IMPLICATIONS AND MAINTAINING A LONG-TERM PERSPECTIVE

- In an environment like the current one, when there’s a lot of uncertainty, human emotion and computer-generated program trading cause dramatic increases in trade volume and large swings in asset prices.
- We have seen the negative impacts on portfolio returns as securities issued by corporations, both stocks and bonds, have suffered.
- As economists, we have been trained to analyze business cycles, credit events, and even one-time exogenous shocks (e.g., hurricanes and war). This global pandemic has now been added to the list. While this is a new shock, we need to be cautious about the phrase, “this time is different.”
- History teaches us that in the short-term, markets can move in very dramatic ways as human behavioral tendencies dominate. Ultimately, markets normalize (recall the fear in 2008 after the Lehman Brothers bankruptcy) and investors who can remain focused on the long-term, avoiding emotion-based decision making, will benefit.
- The chart below illustrates the length of 16 significant market downturns and subsequent recoveries between the dates of 1929-2019. The average length of a downturn is 12 months and of a recovery is 23 months. Excluding 1929, the average length of a downturn is 10 months and of a recovery is 14 months. Importantly, the length of recovery is directly correlated to the length of the downturn! Proactive monetary and fiscal policies have the potential to mitigate this downturn.

Market Downturns and Recoveries

DOWNTURN %LOSS				RECOVERY
34 mos.	-83.4	Sep 1929-Jun 1932	Jul 1932-Jan 1945	151 mos.
6 mos.	-21.8	Jun 1946-Nov 1946	Dec 1946-Oct 1949	35 mos.
7 mos.	-10.2	Aug 1956-Feb 1957	Mar 1957-Jul 1957	5 mos.
5 mos.	-15.0	Aug 1957-Dec 1957	Jan 1958-Jul 1958	7 mos.
6 mos.	-22.3	Jan 1962-Jun 1962	July 1962-Apr 1963	10 mos.
8 mos.	-15.6	Feb 1966-Sep 1966	Oct 1966-Mar 1967	6 mos.
19 mos.	-29.3	Dec 1968-Jun 1970	Jul 1970-Mar 1971	9 mos.
21 mos.	-42.6	Jan 1973-Sep 1974	Oct 1974-Jun 1976	21 mos.
14 mos.	-14.3	Jan 1977-Feb 1978	Mar 1978-Jul 1978	5 mos.
20 mos.	-16.5	Dec 1980-July 1982	Aug 1982-Oct 1982	3 mos.
3 mos.	-29.6	Sep 1987-Nov 1987	Dec 1987-May 1989	18 mos.
5 mos.	-14.7	Jun 1990-Oct 1990	Nov 1990-Feb 1991	4 mos.
2 mos.	-15.4	Jul 1998-Aug 1998	Sep 1998-Nov 1998	3 mos.
25 mos.	-44.7	Sep 2000-Sep 2002	Oct 2002-Oct 2006	49 mos.
16 mos.	-50.9	Nov 2007-Feb 2009	Mar 2009-Mar 2012	37 mos.
3 mos.	-13.5	Oct 2018-Dec 2018	Jan 2019-Apr 2019	4 mos.

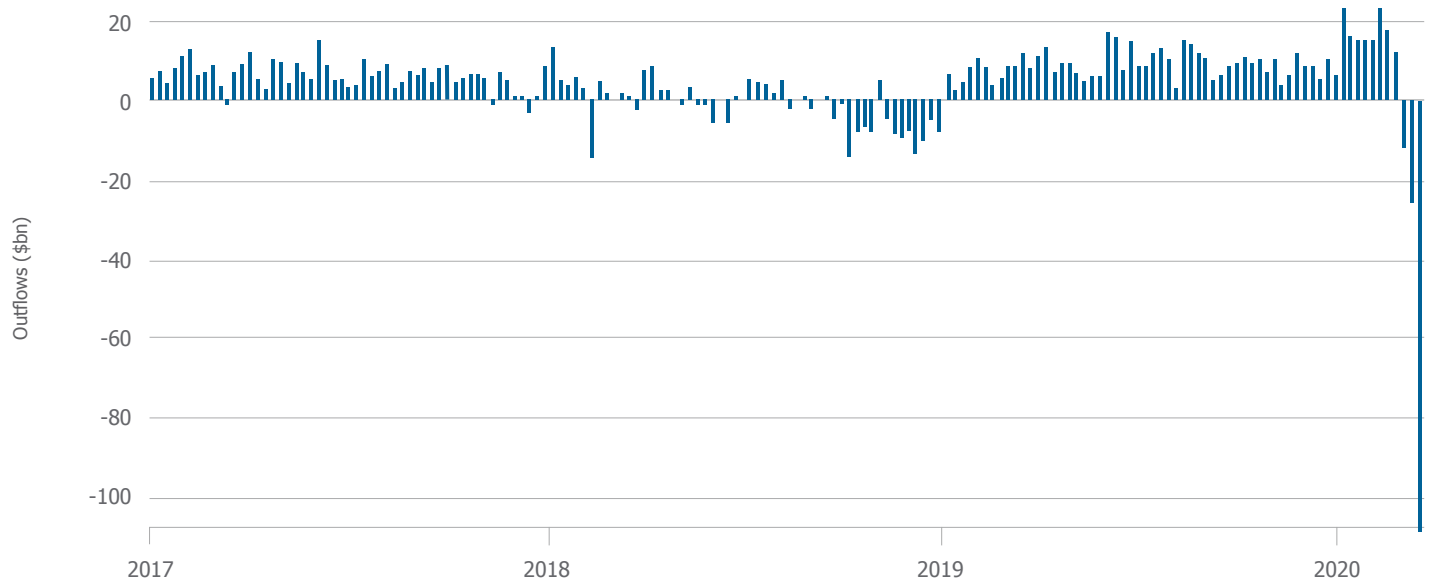
Source: Morningstar

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- Several people have asked about why the bond market isn't acting like a "safety-net". It's important to note that high quality bond sectors, like US government bonds, have had positive performance year-to-date.
- However, corporate bonds and other non-Treasury securities have suffered, and while uncertainty around the economy has had an impact on bond prices, other factors, such as liquidity and large-scale selling, have arguably had a bigger influence on downward corporate bond price pressure.
- Outflows from bond funds have been remarkable as illustrated in the following chart, which shows global bond outflows from mutual funds and exchange traded funds (ETFs).

Bond Funds Suffer Record Outflows

Weekly mutual and exchange traded bond fund flows (\$bn)



Source: EPFR Global

- The policies announced by the Federal Reserve will commence in April, lending support to credit markets.

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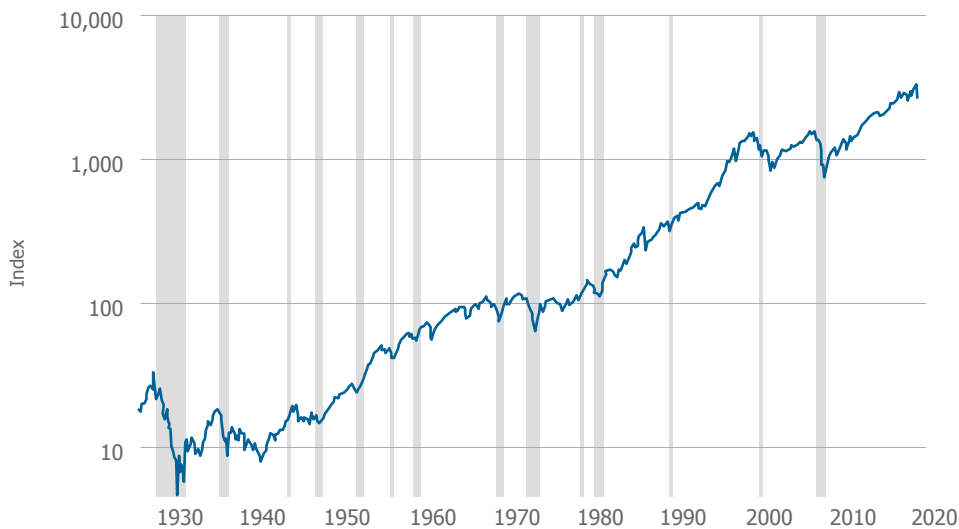
ICE BofA US Corporate Index Option



- Investors have focused on the swift decline in the equity markets. The widening of corporate spreads, and hence under performance of this sector, has been just as swift.

Source: Ice Data Indices, LLC Shaded areas: Indicate U.S. recessions

S&P 500 Index - 90 Year Historical Chart



Source: Macrotrends LLC Shaded areas: Indicate U.S. recessions

- Jeremy Siegel, Professor of Finance at the Wharton School, penned "Stocks for the Long Run" in 1994. Yes, stocks are risky, even for long-term investors, though as long as the economy rewards ingenuity and efficiencies, stocks remain the choice of return over the long run.

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CBIS CONCLUDING THOUGHTS

- From a financial perspective, we are monitoring the situation closely and are in frequent contact with our managers on how the outbreak is impacting their portfolios, as well as their business operations, and how they are responding
- We suggest that investors
 - Take a long-term perspective and prepare for increased volatility in the short-term
 - Avoid the temptation to market time and address volatility by following a disciplined rebalancing policy

We will continue to provide information as events progress.



John W. Geissinger, CFA
Chief Investment Officer, CBIS



Disclosure

Opinions are subject to change and may not reflect the actual performance results of the markets and/or CBIS products.