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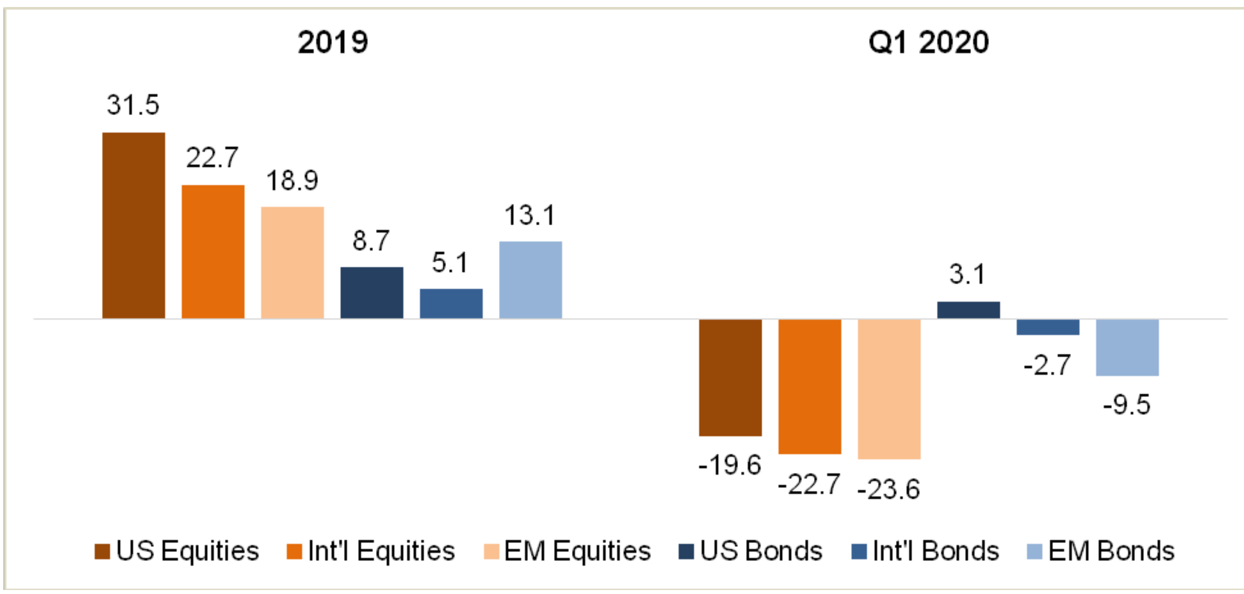
Dear Clients,

The first quarter of the year marked an unprecedented period globally not only for equity markets but for humanity. We hope that all are healthy, safe and receiving the support they need. The market was exceptionally weak this first quarter, abruptly ending a decade long bull market and offering a humbling reminder that one never knows what event will mark the end of an economic cycle. The quarter initially started with continued hope that easing credit conditions and financial policy loosening by global central banks would ultimately lead to accelerating global economic growth later in 2020. The emergence of Covid-19 abruptly changed the landscape. Equity markets took their fastest tumble in history from a record high. In 18 trading days the US equity markets fell more than 30%. US equity markets, for the full quarter, returned negative 19.6%, marking its worst start to the year in history.[1]



Global governments began to ramp up fiscal policy efforts to stymie the blunt force of rising unemployment, fund inadequately equipped health care systems and provide cash flow to individuals and businesses that have been impaired by the containment efforts. The CARES Act, Coronavirus Aid, Relief and Economic Security Act, was signed into law on March 27, 2020 and is a broad-based attempt to deal with the economic impact of Covid-19. Some of those portions that may be of interest to folks, but not wholly inclusive, include:

- Extension of the deadline for filing and paying 2019 individual income taxes to July 15, 2020
- Recovery rebates for individuals – eligible individuals will receive a check for $1,200 per person plus an additional $500 per dependent under age 17. Phase out starts at AGI of $75k for individuals and $150k for married couples.

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1. Source: AssetMark

- Required Minimum Distribution (RMD) relief for 2020. They do not have to be paid out from your defined contribution plans (profit sharing, 401(k), 403(b), 457, SEP IRA, SIMPLE IRA or IRA). It also includes beneficiary IRAs. Please contact us if you wish to discuss a change to your current distributions.
- Covid-19 impacted individuals, under age 59 ½, can withdraw up to $100,000 from their IRAs or employer plans without a 10% premature distribution penalty. There are specific guidelines to qualify, please contact us to discuss further if need be.
- Small Business Payroll Protection Act provides small businesses with interest free, unsecured loans to cover payroll and benefits, as well as rent, utilities and mortgage interest. Specifics apply, please contact us to discuss further if need be. [2]

Comparison to Great Depression and Moving Forward

We can look to the lessons learned from the Great Depression and the early days of the Great Recession. The Great Depression was caused by a negative demand shock from loss of confidence after the market crash of 1929 and by a decline in money supply due to bank failures. The depression was exacerbated and extended by policies that further contracted money supply, and cuts in federal spending as the government tried to maintain a balanced budget. Trade barriers and tariffs were a factor as well. Capital was essentially lost in the early days and never redeployed. Contrast that to today's response where the Federal Reserve has reduced the federal funds rate to close to 0% and is implementing extensive quantitative easing, while the federal government is rolling out multiple fiscal stimulus packages to individuals and small businesses. Additionally, many automatic stabilizers that did not exist in 1929, such as unemployment insurance, food programs and Medicaid, help provide a fast response to recessionary pressures. For all these reasons, a comparison to the Great Depression is not entirely meaningful, especially if fiscal stimulus can help preserve confidence and capital while Covid-19 is contained to allow demand to return afterward. For example, industrial production is returning, albeit slowly, to Wuhan, the epicenter of the outbreak.

Economic indicators will continue to worsen, at least in the short term. Last week, 6.6 million people in the US filed for unemployment, bringing the total to about 17 million since mid-March, or about 10% of the US workforce. The US Federal Reserve announced an additional $2.3 trillion financing package for businesses and municipalities. The Trump administration and Congress continue to work on a second $1 trillion fiscal support package that could include direct payments to individuals, extended unemployment insurance and new small business loans. [3]

Below is a link to an interesting interview with economist Campbell Harvey on how this could play out and possible pitfalls.

https://www.politico.com/news/magazine/2020/04/13/why-this-recession-will-be-different-and-how-to-keep-it-mild-169427

Thank you for the trust you have placed in us and we will continue to work hard to navigate the challenges and opportunities on your behalf. We look forward to discussing your evolving financial goals, as well as reviewing the mixture of asset allocation approaches within your portfolio, as we seek to keep your investment plan aligned with your needs.

Sincerely,

Kadi

Kadi F Hinz
Financial Planner*, MSFA

2&3. Source: Advisor Group