ROUND TABLE
WEALTH MANAGEMENT

QUARTERLY REVIEW
FIRST QUARTER 2020

Dear Clients,

First and foremost, we hope you and your families are safe and healthy. These are indeed unprecedented times and unprecedented actions are being taken to combat the societal and economic impact of the COVID-19 pandemic. As people across the U.S. practice social distancing and "sheltering in place," we understand the emotional and financial stress this may create. Please know we are actively reviewing your portfolios for opportunities as well as passing along any non-financial information that may be of assistance to you.

The equity market's first quarter decline and the entry into a bear market was the most rapid in history (23 days). Daily price movements in both individual stock prices and equity indices reflected the near certain negative impact from Federal and State governments temporarily closing non-essential businesses and mandating shelter in place for its citizens. Furthermore, and more importantly, the time frame for containing the COVID-19 virus remains uncertain and will continue to be a driver of market volatility, both down and up, over the near term.

We are often asked where and when the markets will "bottom." In short, we don't know, and no one will know until after it has occurred. Rest assured, however, that all bull and bear markets have a beginning and an end. This bear market will end too and the race to contain the virus is a key part of that ending. We believe that the tireless pursuit of the healthcare industry to find a vaccine and medication to lower the severity of the virus will ultimately occur; a number of trials are underway and the FDA has been very open to fast-tracking the approval process. In addition, testing for the virus and antibodies for those that may have been asymptomatic and recovered will help to contain the outbreak. Ultimately, businesses will re-open and consumer spending will resume. As we discuss below, Federal and State actions to provide stimulus payments and capital to individuals and businesses are designed to bridge the economy until emergency measures are eased, which will help the country return to normalcy.

Our investment views remain focused on the future and the markets ultimately recovering. Post-quarter end U.S. equity markets have exhibited some optimism as the infection curve is showing some early signs of peaking. Historically, these types of rallies occur during bear markets and we could see additional market volatility. We believe client portfolios are properly positioned to temper (but not eliminate) market volatility and furthermore to capture appreciation when the next market cycle begins.

Benchmark Returns through March 31, 2020

	QTD	YTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500	-19.6%	-19.6%	-7.0%	0.9%	5.1%	6.7%	10.5%
Russell 2000	-30.6%	-30.6%	-24.0%	-11.9%	-4.6%	-0.2%	6.9%
MSCI World Ex. US Index	-23.1%	-23.1%	-14.4%	-8.7%	-1.6%	-0.3%	2.9%
MSCI Emerging Markets	-23.6%	-23.6%	-17.4%	-12.4%	-1.3%	0.0%	1.0%
iShares Core U.S. Aggregate Bond ETF	3.1%	3.1%	8.6%	6.6%	4.8%	3.3%	3.8%
iShares National Muni Bond ETF	-0.4%	-0.4%	4.1%	4.4%	3.7%	2.8%	3.7%
iShares iBoxx High Yield Corporate Bond ETF	-11.6%	-11.6%	-6.3%	-0.1%	0.8%	2.1%	4.7%
FTSE Nareit All REITs	-25.4%	-25.4%	-18.2%	-0.9%	-0.9%	1.5%	8.2%

Source: Bloomberg. *Periods greater than one year are annualized.

The Big Picture

Most macroeconomic forecasts and data issued prior to the U.S. COVID-19 outbreak are less relevant today as our world has changed. Since that time, an estimated 17 million Americans have lost their jobs, the Federal Reserve has reduced interest rates to zero and commenced quantitative easing, and Washington passed a $2.2 trillion CARES Act. The U.S. is currently in a recession; there is no need to wait two quarters for the official data. We expect that economic fundamentals such as employment will continue to worsen in the near-term as companies faced with great uncertainty either furlough or terminate employees.

Current year estimates of U.S. and global economic growth range from modestly to deeply negative and are all uncertain. A recent report by The Conference Board illustrates the wide dispersions in economic projections, each of which are COVID-19 dependent. In the most favorable outcome, the “May Re-Boot” suggests a rapid recovery after an April COVID-19 containment allowing for a 2020 GPD decline of about 1.6%. In their second and third scenarios titled “Summertime V-shape” and “Fall Recovery,” the COVID-19-related economic contraction continues through 2Q and 3Q, respectively. In those scenarios, it is projected that 2020 U.S. GDP contracts 5.5% and 6.0%, respectively. In the event the COVID-19 spread continues into the fall without any meaningful healthcare remedies, these scenarios could prove too optimistic. It is because of these economic scenarios that Washington has moved quickly to approve monetary and fiscal plans to help individuals and businesses survive the next three to six months.

The CARES Act is an acronym for the Coronavirus Aid, Relief, and Economic Security Act (The Act). The Act’s stimulus amount is intended to “fill in” the economic loss created by business closures, unemployment and shelter in place protocols. In essence, it is a strategy to maintain the financial solvency of both individuals and businesses; it’s a move to keep a healthcare crisis from becoming a financial crisis. The Act’s total value has been estimated at about 9% of America’s annual economic output. While estimates vary, the Act can bridge about one month of the U.S. economy or about three months if economic activity drops by about 1/3 each month for the next three months. It is worth noting that the House of Representatives is developing additional stimulus legislation with a continued focus on small businesses and individual direct payments. Whether this is enough is dependent on managing, containing and eliminating the virus. This uncertainty is a major factor in the wide dispersion of potential economic outcomes discussed above.

Summary of Allocation Recommendations

Asset Class	Recommendation	Comments
U.S. Large Cap	Neutral	Reduced valuations for high quality stocks; tactical shift to growth
U.S. Small & Mid Cap	Neutral	Post-COVID-19 economic rebound should benefit small caps
Non-U.S. Developed	Underweight	Economic growth was already challenged prior to COVID-19 pandemic; recovery will be more challenging; favor U.S. over other developed regions
Emerging Markets	Neutral	Emerging Asian countries expected to recover from pandemics sooner
Fixed Income	Neutral	Maintain short duration and quality; reduced allocation due to rebalance back to U.S. equities
Tactical	Neutral	Thematic active management
Alternative	Hedge Funds & Private Equity	For appropriate allocations; liquid hedge strategies in ETF format; private credit funds and private equity

The Outlook

We improved our U.S. Large Cap Equity allocation to neutral. We are not anticipating the start of a new bull market in the near term but prefer to be well positioned when it occurs. Importantly, within large cap equities we have shifted to a more balanced allocation between value and growth-style investments. Previously we held a lower allocation to growth-style investments due to historically high valuations. Consequently, as a result of the market decline, we believe valuations are more favorable to long-term growth prospects and, importantly, that the growth sectors in which portfolios have exposure are geared toward sectors such as technology-enabled businesses. Furthermore, our active value and growth-style managers have re-positioned their respective portfolios with a greater concentration of higher quality stocks that were previously too expensive in their view. We have eliminated hedged S&P 500 ETF exposure within the large cap allocation as those investments served their intended purpose and current risk/return dynamics favor pure passive exposure to the S&P 500.

We maintain our neutral view to small caps but have complemented exposure with mid caps and growth to gain higher quality exposure. The drawdown experienced by the small cap asset class has resulted in historically attractive valuations, which we anticipate will help mitigate further downside. While the asset class will not be immune to earnings contraction, the degree of the drawdown has likely been reflected in much of this decline. Debt levels of small caps remain a concern as the halt in business activity will likely impact small caps more so than large caps. However, not all debt is created equal and there are many aspects to consider like maturity, interest coverage, covenants and business models. As such, we have focused our investments within SMID cap to active managers that place a high degree of importance on balance sheet health. This focus is aimed to avoid troubled areas within the asset class while gaining exposures to companies that could gain market share and emerge from this crisis as market leaders.

In contrast to our outlook in U.S. equities, we recommend an underweight allocation to international equities, predominantly focused in developed markets. We believe Europe, specifically, will remain under pressure as the region was already combatting stagnant economic growth and negative interest rates. European countries such as Italy, Spain, France and Germany have experienced the highest number of COVID-19 cases per capita of any countries in the world, leading to restrictive lockdown protocols. This has crippled economic activity as evidenced by the Euro area's PMI reading in March of 29.7, the lowest historical reading on record. This level of contraction in economic activity is a strong indication that the region is already in a recessionary environment. Similar to the Federal Reserve, the European Central Bank has increased monetary stimulus and asset purchases to support the regional economy, however, it is widely believed that more needs to be done from a fiscal perspective by the individual countries themselves or collectively to aid in crisis recovery.

Within emerging markets, we recommend a neutral allocation with a focus toward Asia. While the Coronavirus originated in China, it is also one of the first countries to see a levelling off in new cases. Similar scenarios are being reported throughout Asia in countries such as South Korea and Taiwan. While we believe the near-term outlook is more favorable within emerging markets, the risk remains, particularly in China, that resuming normalized working conditions and lifestyles too soon could lead to a relapse in the transmission of the virus prior to proper containment.

We reduced our fixed income exposure towards the end of the quarter from an overweight to a neutral allocation. While there was a record level of volatility in rates during the quarter, the allocation served the purpose of capital preservation when equity markets were in a free fall. The reduction was driven in part by rebalancing back to long-term asset allocations and in part by more favorable views in equities due to more attractive entry points. In addition to reducing the overall asset class allocation, we took steps to reposition exposures given dislocations and opportunities that presented themselves. This included rotating short-term taxable exposure into short-term municipal bonds, where appropriate, as unfavorable technicals drove relative

yields of municipal bonds to record-high levels. Similarly, we repositioned our leveraged finance allocation by reducing our public floating rate loan exposure and added to private floating rate loans to take advantage of discounted prices that we view as unjustified given underlying exposures.

Our Tactical recommendation continues to include investments in an active thematic investment manager. The manager holds a portfolio of companies in businesses engaged in sectors perceived to have significant growth potential such as cybersecurity, robotics, healthcare and the Internet-of-things.

Tax and Financial Planning News

The passage of the CARES Act provides relief opportunities for taxpayers and businesses most impacted by the COVID-19 pandemic. Benefits include individual stimulus payments, forbearance of mortgage payments and even the waiving of IRA required minimum distributions in 2020. We encourage you to read our summary of the various provisions to learn how they may benefit you: **"The CARES Act Key Provisions: Government Stimulus in Response to the COVID-19 Pandemic"**. In addition, we recommend reviewing many aspects of your financial plan that may have been affected recently such as your cash flow, income taxes, survivor liquidity, and insurance needs. Lastly, the reduction in mortgage rates may have created a refinancing opportunity. We encourage you to contact your Round Table Wealth Advisor to review your specific situation and discuss next steps.

Firm News

Please join us in congratulating Lauren Gooding and her husband Matt on the birth of their son, Maverik!

Respectfully submitted,
Round Table Wealth Management