DISCLAIMERS: Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for investment, accounting, legal and tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only.

The views expressed are those of Strategic Asset Alliance. They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.
The spread of Covid-19 profoundly affected global markets in the first quarter. Equities suffered steep declines as uncertainty rocketed higher causing investors to flee toward safe-haven assets and their perceived safety. Governments and central banks announced unprecedented support programs for businesses, households and the financial system, helping to stabilize markets late March.

GLOBAL FINANCIAL MARKETS – EQUITIES & COMMODITIES

- Shares fell across developed markets as coronavirus spread and countries went into lockdown to try to contain the outbreak.
  - US equities declined significantly over the quarter as the coronavirus outbreak spread. Confirmed US cases of Covid-19 rose from 150 to over 100,000 between 4 March and 27 March, and the economic impact grew clearer. Jobless claims rocketed by over three million in the last week of March and economic indicators suggest more pain will follow.
  - Eurozone equities experienced a sharp fall in Q1 due to the spread of coronavirus. Italy and Spain became some of the most severely affected countries. Nations across Europe took steps to restrict the movement of people and shut down parts of the economy in an effort to slow the spread of the virus. Growth in Europe was already fragile - the eurozone economy grew by just 0.1% in Q4 2019, with Germany registering zero growth. A sharp economic downturn is expected.
  - Emerging market (EM) equities also tumbled, slightly underperforming developed markets as a strong US dollar proved to be an additional headwind.

- In commodities, oil prices plunged as the spread of coronavirus weakened the outlook for demand, at the same time as there was a breakdown of an agreement between oil producers to constrain supply. Industrial metals also fell, led by copper, as the demand outlook deteriorated. The agriculture component posted a negative return with cotton and sugar prices falling heavily. Conversely, precious metals generated a small gain, aided by an increase in gold prices.
The spread of Covid-19 profoundly affected global markets in the first quarter. Equities suffered steep declines as uncertainty rocketed higher causing investors to flee toward safe-haven assets and their perceived safety. Governments and central banks announced unprecedented support programs for businesses, households and the financial system, helping to stabilize markets late March.

**GLOBAL FINANCIAL MARKETS – FIXED INCOME**

- Government bond yields declined over the quarter, meaning bond prices rose, as higher risk assets such as shares saw heavy declines amid rising fears over the Covid-19 pandemic. Investors favored the perceived safety of government bonds due to the growing likelihood of a deep global recession. The moves largely occurred in late-February and March as numerous countries went into lockdown in response to the pandemic, seriously depressing economic activity. This resulted in severe declines and extreme daily swings in assets prices on a scale comparable to the crises of 2008 and 2011.
  - The US 10-year yield dropped from 1.92% to 0.63% over the quarter, while the two-year yield dropped from 1.57% to 0.23%. Jobless claims rocketed by over three million in the last week of March with an additional thirteen million through the second week of April.
  - The German 10-year yield fell from -0.19% to -0.49%, France’s from 0.12% to 0%. The Italian 10-year yield rose from 1.41% to 1.57%. Spain’s increased from 0.47% to 0.71%. The UK 10-year yield fell from 0.82% to 0.32%
  - Corporate bonds, and emerging market debt and currencies declined significantly, mainly in March, and underperformed government bonds, with moves exacerbated by a sharp tightening in liquidity. For several days, companies were unable to issue bonds although this improved later in the month. US investment grade bonds ultimately saw a record month of issuance in March, as the Federal Reserve announced it would buy corporate bonds.
## Capital Markets’ Performance

<table>
<thead>
<tr>
<th>Index</th>
<th>Asset Class</th>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
<th>Q1’20</th>
<th>Trailing 1 Yr</th>
<th>Trailing 3 Yr</th>
<th>Trailing 5 Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-Year US Treasury</td>
<td>U.S. Treasury</td>
<td>3.71%</td>
<td>3.62%</td>
<td>4.16%</td>
<td>11.93%</td>
<td>18.25%</td>
<td>7.27%</td>
<td>4.08%</td>
</tr>
<tr>
<td>Merrill Lynch US Treasury Master</td>
<td>U.S. Fixed Income</td>
<td>2.56%</td>
<td>2.73%</td>
<td>3.26%</td>
<td>8.80%</td>
<td>13.92%</td>
<td>6.08%</td>
<td>3.79%</td>
</tr>
<tr>
<td>5-Year US Treasury</td>
<td>U.S. Treasury</td>
<td>1.83%</td>
<td>2.07%</td>
<td>2.62%</td>
<td>6.66%</td>
<td>10.88%</td>
<td>4.74%</td>
<td>2.96%</td>
</tr>
<tr>
<td>Barclays U.S. Government/Credit</td>
<td>U.S. Fixed Income</td>
<td>2.38%</td>
<td>2.09%</td>
<td>-1.11%</td>
<td>3.37%</td>
<td>9.82%</td>
<td>5.17%</td>
<td>3.54%</td>
</tr>
<tr>
<td>Barclays Capital U.S. Aggregate</td>
<td>U.S. Fixed Income</td>
<td>1.92%</td>
<td>1.80%</td>
<td>-0.59%</td>
<td>3.15%</td>
<td>8.93%</td>
<td>4.82%</td>
<td>3.36%</td>
</tr>
<tr>
<td>Barclays Intermediate U.S. Government/Credit</td>
<td>U.S. Fixed Income</td>
<td>1.42%</td>
<td>1.41%</td>
<td>-0.44%</td>
<td>2.40%</td>
<td>6.88%</td>
<td>3.79%</td>
<td>2.76%</td>
</tr>
<tr>
<td>Barclays U.S. Treasury: U.S. TIPS</td>
<td>U.S. Fixed Income</td>
<td>2.10%</td>
<td>1.38%</td>
<td>-1.76%</td>
<td>1.69%</td>
<td>6.85%</td>
<td>3.46%</td>
<td>2.67%</td>
</tr>
<tr>
<td>Citigroup 3-month T-bill</td>
<td>Cash/Cash Equivalent</td>
<td>0.13%</td>
<td>0.13%</td>
<td>0.13%</td>
<td>0.39%</td>
<td>2.04%</td>
<td>1.74%</td>
<td>1.12%</td>
</tr>
<tr>
<td>Citigroup WorldBIG Index</td>
<td>World Fixed Income</td>
<td>1.43%</td>
<td>0.71%</td>
<td>-1.78%</td>
<td>0.33%</td>
<td>4.94%</td>
<td>3.90%</td>
<td>2.78%</td>
</tr>
<tr>
<td>Barclays Capital Municipal Bond</td>
<td>U.S. Fixed Income</td>
<td>1.80%</td>
<td>1.29%</td>
<td>-3.63%</td>
<td>-0.63%</td>
<td>3.85%</td>
<td>3.96%</td>
<td>3.19%</td>
</tr>
<tr>
<td>Barclays Capital U.S. Corporate Investment Grade</td>
<td>U.S. Fixed Income</td>
<td>2.35%</td>
<td>1.34%</td>
<td>-7.09%</td>
<td>-3.63%</td>
<td>4.98%</td>
<td>4.20%</td>
<td>3.36%</td>
</tr>
<tr>
<td>Barclays Capital U.S. Corporate High Yield</td>
<td>U.S. Fixed Income</td>
<td>0.03%</td>
<td>-1.41%</td>
<td>-11.46%</td>
<td>-12.68%</td>
<td>-6.94%</td>
<td>0.77%</td>
<td>2.78%</td>
</tr>
<tr>
<td>S&amp;P/LSTA US Leveraged Loan Index</td>
<td>U.S. Fixed Income</td>
<td>0.56%</td>
<td>-1.32%</td>
<td>-12.37%</td>
<td>-13.05%</td>
<td>-9.16%</td>
<td>-0.78%</td>
<td>1.14%</td>
</tr>
<tr>
<td>BofA Merrill Lynch US Convertibles</td>
<td>U.S. Convertible Bond</td>
<td>2.81%</td>
<td>-2.82%</td>
<td>-13.54%</td>
<td>-13.62%</td>
<td>-3.52%</td>
<td>4.75%</td>
<td>4.71%</td>
</tr>
<tr>
<td>S&amp;P Composite 1500 Growth</td>
<td>U.S. Equity</td>
<td>1.96%</td>
<td>-7.28%</td>
<td>-10.60%</td>
<td>-15.48%</td>
<td>-3.91%</td>
<td>8.61%</td>
<td>8.82%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>U.S. Equity</td>
<td>-0.04%</td>
<td>-8.23%</td>
<td>-12.35%</td>
<td>-19.60%</td>
<td>-6.98%</td>
<td>5.10%</td>
<td>6.73%</td>
</tr>
<tr>
<td>S&amp;P Composite 1500</td>
<td>U.S. Equity</td>
<td>-0.30%</td>
<td>-8.34%</td>
<td>-13.08%</td>
<td>-20.57%</td>
<td>-8.51%</td>
<td>4.22%</td>
<td>6.15%</td>
</tr>
<tr>
<td>MSCI World Index</td>
<td>U.S. Equity</td>
<td>-0.58%</td>
<td>-8.41%</td>
<td>-13.17%</td>
<td>-20.93%</td>
<td>-9.87%</td>
<td>2.49%</td>
<td>3.83%</td>
</tr>
<tr>
<td>MSCI EAFE Index</td>
<td>International Equity</td>
<td>-2.08%</td>
<td>-9.03%</td>
<td>-13.25%</td>
<td>-22.72%</td>
<td>-13.92%</td>
<td>-1.33%</td>
<td>-0.13%</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
<td>U.S. Equity</td>
<td>-0.89%</td>
<td>-9.75%</td>
<td>-13.62%</td>
<td>-22.73%</td>
<td>-13.38%</td>
<td>4.42%</td>
<td>6.86%</td>
</tr>
<tr>
<td>MSCI EAFE (Net)</td>
<td>International Equity</td>
<td>-2.09%</td>
<td>-9.04%</td>
<td>-13.35%</td>
<td>-22.83%</td>
<td>-14.38%</td>
<td>-1.82%</td>
<td>-0.62%</td>
</tr>
<tr>
<td>MSCI World Ex. US Index</td>
<td>World Equity</td>
<td>-1.92%</td>
<td>-8.86%</td>
<td>-14.02%</td>
<td>-23.15%</td>
<td>-14.42%</td>
<td>-1.56%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>MSCI EM (Emerging Markets)</td>
<td>World Equity</td>
<td>-4.66%</td>
<td>-5.27%</td>
<td>-15.38%</td>
<td>-23.57%</td>
<td>-17.36%</td>
<td>-1.25%</td>
<td>0.01%</td>
</tr>
<tr>
<td>S&amp;P Composite 1500 Value</td>
<td>U.S. Equity</td>
<td>-2.84%</td>
<td>-9.60%</td>
<td>-16.08%</td>
<td>-26.29%</td>
<td>-13.82%</td>
<td>-0.70%</td>
<td>2.98%</td>
</tr>
<tr>
<td>Dow Jones U.S. Select REIT</td>
<td>U.S. Real Estate</td>
<td>0.42%</td>
<td>-8.41%</td>
<td>-22.28%</td>
<td>-28.52%</td>
<td>-23.96%</td>
<td>-4.28%</td>
<td>-1.42%</td>
</tr>
<tr>
<td>S&amp;P MidCap 400</td>
<td>U.S. Equity</td>
<td>-2.61%</td>
<td>-9.49%</td>
<td>-20.25%</td>
<td>-29.70%</td>
<td>-22.51%</td>
<td>-4.09%</td>
<td>0.56%</td>
</tr>
<tr>
<td>S&amp;P SmallCap 600</td>
<td>U.S. Equity</td>
<td>-3.97%</td>
<td>-9.61%</td>
<td>-22.40%</td>
<td>-32.64%</td>
<td>-25.89%</td>
<td>-5.34%</td>
<td>0.45%</td>
</tr>
<tr>
<td>S&amp;P GSCI Commodities</td>
<td>U.S. Equity</td>
<td>-10.82%</td>
<td>-8.39%</td>
<td>-29.43%</td>
<td>-42.34%</td>
<td>-41.01%</td>
<td>-13.33%</td>
<td>-12.82%</td>
</tr>
<tr>
<td>Alerian MLP</td>
<td>Master Limited Partnerships</td>
<td>-5.61%</td>
<td>-14.05%</td>
<td>-47.23%</td>
<td>-57.19%</td>
<td>-60.95%</td>
<td>-28.91%</td>
<td>-20.66%</td>
</tr>
<tr>
<td>S&amp;P GSCI Crude Oil</td>
<td>U.S. Equity</td>
<td>-15.36%</td>
<td>-13.48%</td>
<td>-54.72%</td>
<td>-66.84%</td>
<td>-65.97%</td>
<td>-26.04%</td>
<td>-23.62%</td>
</tr>
</tbody>
</table>

Indices sorted high/low by Q1-2020 performance.

Source: Zephyr StyleAdvisor
Coronavirus Pandemic

❖ KEY THEME - A global health natural disaster is the catalyst for a global financial crises, which assures that capital market and societal uncertainty will remain high for the next few weeks...

March 10, 2020

Over 110,000 Cases of COVID-19 Confirmed Worldwide
Locations by number of confirmed COVID-19 cases*

* As of 10 March, 2020 at 10:00am CET
Source: Johns Hopkins University

April 9, 2020

The Coronavirus is Almost Everywhere
Locations by number of confirmed COVID-19 cases

Source: statista.com
KEY THEME – For the time being, unprecedented monetary and fiscal stimulus measures have helped bolster investor confidence across the U.S. equity markets (the VIX level of 82.69 on March 20, 2020 briefly surpassed the high of 80.86 experienced on November 20, 2008). Although markets are forward looking and anticipate abysmal results for Q1 earnings season, expect volatility to continue as the markets absorb/react to fast moving information flows regarding COVID-19.

Source: Bloomberg
KEY THEME – For the time being, unprecedented monetary and fiscal stimulus measures have helped bolster confidence across the U.S. capital markets. Although capital markets are forward looking and anticipate an abysmal short/intermediate term outlook, expect financial conditions’ volatility to continue as the markets absorb/react to fast moving information flows regarding COVID-19.

Source: Bloomberg
KEY THEME – For the time being, unprecedented monetary and fiscal stimulus measures have helped bolster confidence across the European capital markets. Although capital markets are forward looking and anticipate an abysmal short/intermediate term outlook, expect financial conditions’ volatility to continue as the markets absorb/react to fast moving information flows regarding COVID-19.

Source: Bloomberg
Navigating Uncertainty

- **Restarting the Economy**
  - COVID-19 Containment vs. World Economic Carnage
    - Impact within the U.S.
  - Debt, debt, and more debt
    - Plenty of time to be concerned with long-term inflation, but not for awhile yet...
  - Global poverty

- **Credit Markets**
  - Market liquidity and the refinancing window
  - Downgrades – any more room at the junk yard?

- **Strategic Asset Allocation & Investment Policy**
  - Confirm and/or reexamine investment risk appetite and liquidity needs allowing for any potential use(s) of your organizations’ surplus in support of COVID-19 considerations.
## World Economic Outlook (Base Case)

### Growth Projections

The COVID-19 health crisis will have a severe impact on economic activity in 2020.

<table>
<thead>
<tr>
<th>Economy Type</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Economy</td>
<td>2.9</td>
<td>-3.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Advanced Economies</td>
<td>1.7</td>
<td>-6.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Emerging Markets &amp; Developing Economies</td>
<td>3.7</td>
<td>-1.0</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: IMF
Uncertainty Reigns For Now - How to restart the economy?

Disparate Measures
Number of states that have implemented:

- Statewide school closures: 50
- Stay at home orders
- Business closures
- Mask policies, recommendations: 29
- Travel restrictions: 27
- State, local curfews: 15
- All: 5

Source: National Governors Association

KEY THEME -
- With approximately 25%-30% of the $22T U.S. economy currently on “COVID-19” hold, the challenges and pressures to restart the economy will rise.
- $60B per day equals approximately $1.8T per month. Contrasted with the most recent fiscal stimulus of $2T, the amount, although huge, is not, perhaps, huge enough...
Unemployment Projections (High Uncertainty But Trending This Direction)

Predicted Unemployment Higher Than Great Depression

Highest unemployment rates in U.S. history

- 23.6% (1932)
- 24.9% (1933)
- 21.7% (1934)
- 20.1% (1935)
- 19.0% (1938)
- 17.2% (1939)
- 32.1% (2020*)

46M Jobs

* Projected unemployment rate as of March 2020

Sources: CNBC, The Balance

KEY THEME -

- Hard to contemplate as a result due to 25%-30% of the $22T U.S. economy on “COVID-19” hold.
- Before the $2.2T fiscal stimulus was enacted, the chart to the left captures the St. Louis Fed’s dire estimate that the U.S. could see as many as 47 million people lose their jobs as a result of the coronavirus-driven shutdown.
- Spillover effects across generations as politics and/or consumer behavior patterns changes in response to COVID-19 over the short and long term?

Restaurant Industry Collapses In Major U.S. Cities

Year-over-year change in seated diners at restaurants on the OpenTable network

- Chicago
- New York
- San Francisco
- Los Angeles
- Houston
- Boston

* Incl. online reservations, phone reservations, and walk-ins. For year-over-year comparisons, OpenTable compared each day to the same day of the week from the same week in 2019.

Source: OpenTable

An unemployment view from one sector: Estimated US Restaurant Employees May 2019 was 13.5 million.

Source: statista.com
Debt, Debt, and more Debt...

KEY THEMES:

- Supply and Demand imbalances depending on an investors point-of-view support higher or lower yields?
- Expect even higher debt level as additional worldwide governmental stimulus plans will be required to support the global economy as it emerges from the pandemic. However, these higher governmental debt amounts are expected to be materially offset by Central Bank QE purchases...
Annual inflation rate in the US fell to 1.5% in March of 2020 from 2.3% in February and slightly lower than market expectations of 1.6%. It is the lowest inflation rate since February of 2019, mainly due to a 10.2% slump in gasoline costs (5.2% in February) and a 1.6% drop in apparel prices (vs -0.9%). Prices of shelter also slowed (3% vs 3.3%) while food inflation edged up (1.9% vs 1.8%). On a monthly basis, consumer prices fell 0.4%, after a 0.1% gain in February and worse than expectations of a 0.3% decline. It is the largest monthly drop since January of 2015, mainly due to a 10.5% slump in gasoline prices while decreases in airline fares, lodging away from home, and apparel also contributing. In contrast, increases were seen in prices of food, medical care, used cars and trucks, motor vehicle insurance, and education. Core consumer prices rose 2.1% year-on-year but fell 0.1% month-over-month, its first monthly decline since January of 2010.

Given the economic suppression impacts of COVID-19, the inflation Rate in the United States is expected to be 0.50 percent by the end of this quarter, according to Trading Economics global macro models and analysts’ expectations. Looking forward, we estimate Inflation Rate in the United States to stand at 0.40 in 12 months time. In the long-term, the United States Inflation Rate is projected to trend around 1.00 percent in 2021 and 1.30 percent in 2022, according to our econometric models.
Coronavirus Pandemic – Poverty Spike

**Covid-19 Could Push Half A Billion People Into Poverty**

Additional people in poverty due to a 20% income drop caused by a Covid-19 recession*

- **East Asia & Pacific**: 239.8m
- **South Asia**: 128.8m
- **Latin American & Caribbean**: 54.3m
- **Middle East & North Africa**: 44.9m
- **Sub Saharan Africa**: 44.6m
- **Europe & Central Asia**: 30.5m
- **Other High Income**: 4.7m

Total: 547.6m

* Poverty level - people earning below $5.50 per day
Source: Oxfam

**KEY THEME -**

- As the developed world focuses inward, the developing economies are projected to suffer the most from COVID-19 effects, both direct and indirect.

- How might this generate spillover effects across generations as politics and/or consumer behavior patterns change in response to COVID-19 over the short and long term?

Source: statista.com
 CORPORATE DEBT MATURITIES, BY RATING – NEXT FIVE YEARS

KEY THEME - As compared to 2008/2009, quick monetary and fiscal policy stimulus actions have provided broad and deep liquidity support, thus far, and help bolster investor confidence levels across the global credit markets, which face high maturity volumes over the next two years (as seen in the graphics above and right).

Credit research teams will be poised to earn their pay navigating these markets with due diligence and stress testing.

In SAA’s opinion, expect many sectors of the economy to undergo material transformations and/or dislocations in response to changes in prospective consumer behavior as a result of COVID-19.
Credit Downgrades & Default Expectations

KEY THEMES:

❖ Forced economic suppression due to COVID-19 mitigation strategy stressing corporate balance sheets; especially BBB-rated companies. Already for 2020, over $120B of initially-rated investment grade credits have fallen to below investment grade (i.e. speculative grade, high yield or junk bond status).

❖ Moody’s (a well-known provider of corporate bond default research and projections) has speculative grade annual default rates rising materially from 3.1% (current) to 7.7% to 22% depending on the severity of COVID-19 impacts.

❖ Again, credit research teams will be poised to earn their pay over the next 12-24 months as they navigate these markets with due diligence and stress testing.

Source: Financial Times & Moody’s Investor Services