ROCKLAND TRUST | Investment Management Group

There is no question that the coronavirus is unchartered territory for us and has resulted in unpresented action that none of us saw coming or have ever experienced before. We've witnessed the fear of this global pandemic end the longest bull market in history which lasted almost 11 years, and put us into a bear market with lingering concerns of a recession (bear markets are typically defined as declines of 20% or more from the most recent high, and bull markets are increases of 20% or more from the bear market low). Uncertainty will remain at least until we start to see a flattening of the curve, meaning there is a slowing in the spread of the virus, but amidst these uncertain times we are also seeing extraordinary unity among our corporations and within our communities. From our first responders, nurses and doctors caring for the significant influx of patients, to our pharmaceutical companies trying to abate the spread with accelerating the mass production and distribution of promising drugs to fight the virus, there is no shortage of resilience among our people. Recently relief has come from some of our retailers (ex: Bauer, a sports equipment company and Brooks Brothers, a clothing company) contributing by using their warehouses to create masks and gowns for our hospital workers. Within our own communities, people are coming together to help those struck by the virus, families in need of resources and food especially for their children, and creative ways to stay active. Although it's not clear how deep or long-lasting this might be, this *will* end and we *will* recover.

I wish I was reporting better results, but March alone resulted in the worst month in the stock market since October 2008 as investors struggled to assess what impact the coronavirus may have on the economy. If you are losing sleep over volatility driven by a cascade of disheartening news, it may help to remember that the stock market is historically cyclical. There have been 10 bear markets (prior to this one) since 1950, and the market has recovered eventually every time. The economic trajectory that seemed reasonable even a few weeks ago is not going to be the trajectory for months - the unanswered question, of course, is how long the disruptions last and how deep they go.

Below you will find a look back on our markets and economy over the first quarter of this year. For additional in-depth analysis, you may view recordings of our team as they share insights on various local and national media outlets, as well as our latest monthly Market Watch at www.RocklandTrust.com/Wealth&Investments.

Key Takeaways from Q1 2020:

- $2 Trillion CARES Act enacted provides aid for unemployed individuals, small businesses, and industries affected by the crisis, and strengthens unemployment insurance, and increases health-care funding
- Severity of COVID-19 and increased social distancing reduces demand in several industries and reduces estimates on earnings growth
- Record-breaking unemployment claims filed in the US - 3.3MM on March 21st and 6.6MM on March 28th; the last two counts alone shatter the Great Recession peak of 665,000 in March 2009 and the previous all-time mark of 695,000 in October 1982

What are we doing?

- Reviewing each client's particular situation and rebalancing in areas that make the most sense
- Examining the balance sheet and cash flow situations of each of large cap company in our recommended portfolio and making changes in those with greater forward potential
- Reviewing diversified funds used to complement the core positions

US Economy

The US economy remained strong as we entered the first month of the quarter. The stock market was continuing its bull rally and we were comfortably in our 11th year of the economic expansion. However, the music stopped in February, as the rapidly spreading COVID-19 virus brought various sectors of our economy to a complete standstill. US equities plunged greater than 20% into bear-market territory, government bond yields fell at a rapid pace as investors piled into safer fixed income securities, and oil prices plunged as tensions between Saudi Arabia and Russia increased. This forced the Federal Reserve and US government to quickly spring to action, as significant monetary and fiscal stimulus measures needed to be implemented immediately.

While economic forecasts for Q1 widely vary at this point, it is likely that Q1 GDP will not be as severely impacted by the virus as the subsequent quarters. However, consensus economic forecasts all seem to agree that we will be entering a recessionary period, which will put an end to the longest expansion in US history. Store closures were weighted towards the end of the quarter and the lagging effect of job losses will likely show up in the Q2 GDP numbers. In addition, there was a huge pull-forward in demand as consumers rushed to pantry-stock, buying food and necessities at extremely elevated levels, which will help offset some of the impact in the near-term.

The economic pullback will have very significant impacts on the travel, leisure, entertainment, food service, and retail sectors. While these sectors are less significant in terms of GDP or corporate earnings, they still play a significant role in our economy and account for over 20% of US employment. The unemployment application numbers were released on April 2nd, and indicated that a staggering 6.6 million Americans applied for unemployment benefits last week, which is double the amount of claims two weeks ago. This indicates that we are likely to see a large spike in the unemployment rate and many economists believe that this could lead to double-digit declines in GDP next quarter. What is challenging is that we must not only consider the depth of the economic decline, but also the pace of the eventual recovery, which remains clouded by the complexities of COVID-19.

Traditional Asset Class Returns Q1 2020

Asset Class	Benchmark	Q1
US Stocks	S&P 500	-19.60%
US Gov't Bonds	BbgBarc US Govt Intermediate	5.18%
Cash	BbgBarc US Treasury Bill 1-3 Mon	.47%

US Stocks

By mid-march, the COVID-19 outbreak had progressed into a significant economic shock, as governments across the globe began to enact strict containment policies across borders, schools, universities, workplaces, restaurants and more. Uncertainty around the duration of the virus threat, the potential for further containment measures, and the potential effects on corporate earnings caused investors to panic and de-risk their portfolios. The Dow Jones Industrial Average entered bear market territory (down greater than 20% from the peak) in just 20 trading days, the fastest such slide in its history. Q1 also marked the 5th worst quarter on record for US equity markets in the past 75 years and March was among the most volatile months on record, with average swings of +/- 4% per day. On March 16th, the Dow lost 2,997 points (-12.93%), which was the steepest single day drop since the Black Monday crash in October of 1987.

The S&P 500 fell -19.60% on a total return basis in Q1. All of the 11 S&P 500 sectors posted negative returns in the quarter. Information Technology and Healthcare were the best performing sectors, returning -11.93% and -12.67%, respectively. Within Technology, companies that stand to benefit from the stay-at-home environment, such as Citrix (+27.95%) and Microsoft (+0.33%), remained positive. In Healthcare, biotech and pharma companies, such as Gilead Sciences (+16.10%), held up well as the market continues to speculate on which companies will come to market first with effective vaccines and/or treatment for the COVID-19 virus. The laggards for the quarter were the Energy and Financials sectors, returning -50.45% and -31.92%, respectively. The Energy sector fell, as oil plunged -66.53% amid concerns around Saudi Arabia and Russia's oil price war, while the Financials sector fell over concerns around the impact of lower interest rates and the impending recession.

From a market capitalization perspective, Small Cap stocks (Russell 2000: -30.61%) significantly underperformed Large Cap stocks (S&P 500: -19.60% QTD). From a style perspective, Growth stocks (Russell 3000 Growth: -14.85% QTD) outperformed Value stocks (Russell 3000 Value: -27.32% QTD).

US Bonds

The fixed income markets were not immune to the coronavirus pandemic which shook the equity markets starting mid-February and for the rest the first quarter. Indeed, we saw wide swings amongst the various fixed income asset classes. Historically low yields occurred across the US Treasury interest rate curve while the credit and municipal bond markets witnessed significant yield increases versus the Treasury securities.

In response to the financial panic, the Federal Reserve has taken many proactive and drastic steps to try and prevent the US economy from spiraling into a recession. On March 3rd, the Fed announced an emergency interest rate cut of 50 bps which was the biggest single cut in more than a decade. The Fed took further emergency action on March 15th, cutting the target interest rate nearly back to zero. It then reintroduced Quantitative Easing in several forms of large scale purchasing programs to help stimulate the investment and maintain liquidity throughout fixed income markets.

At the start of the 1st quarter, the 10-year US Treasury was yielding 1.92%. We finished the quarter at 0.67% (a decline of 1.25%). Investors moved away from riskier asset classes including stocks which drove down interest rates across the Treasury curve. This is the first time in history the 10-year Treasury has ever fallen below .90%, touching its lowest level on March 9th at .31%. We saw widespread selling pressure across the corporate and municipal markets as investors feared the magnitude of how COVID-19 could negatively impact both corporations and state municipalities. As a result of this selling pressure and liquidity issues, we experienced sharp and extreme rate increases. There was somewhat of a reversal in the trend as we approached quarter-end thanks to the government's stimulus package and Federal Reserve's new liquidity programs.

There was a dispersion in absolute returns for the quarter with the dislocation in rate movements across the various fixed income asset classes (bond yields move inversely to prices). US Government bonds posted positive returns, while we saw nearly all of the other fixed income asset classes including Investment Grade Credit, High Yield, Municipal, and Foreign bonds all post negative returns.

Diversifying Asset Classes

Diversifying asset classes struggled to add value in Q1. Despite the decline, the S&P 500 remained one the best performing equity asset classes in the drawdown. Diversifying equity asset classes such as Precious Metals and Managed Futures were beneficial to own. However, MLPs which were impacted by oil price declines were a significant detractor to relative returns. On the fixed income side, investors piled into safe government securities. Fixed income asset classes with higher credit risk potential, such as High Yield Bonds and Floating Rate Loans, were significant underperformers in the quarter.

Asset Class	Benchmark	Q1
Foreign Stocks	MSCI EAFE	-22.83%
Emerging Markets Stocks	MSCI Emerging Markets	-23.60%
US Mid Cap Stocks	Russell Mid-Cap	-27.07%
US Small Cap Stocks	Russell 2000	-30.61%
REITs	MSCI US REIT	-26.99%
Commodities	Bloomberg Commodity	-23.29%

Asset Class	Benchmark	Q1
MLPs	Alerian MLP	-57.19%
Managed Futures	Credit Suisse Managed Futures	-1.48%
Foreign Bonds	FTSE WGBI Non-USD	-1.88%
Emerging Market Bonds	JPM EMBI Global	-11.76%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	1.69%
Floating Rate Loans	Credit Suisse Leveraged Loan	-13.19%
US High Yield Bonds	BbgBarc US Corp High Yield	-12.68%
Convertible Bonds	ICE BofAML Convertible Bonds	-13.62%

Conclusion

Markets are barometers, but can often be misleading because of their reactions to moments of heightened sensitivity and because they usually integrate worst case scenarios. The moment there is some sign of markets stabilizing will be the first indication that we are closer to the end of this global crisis. Neither the ups nor the downs last forever, even if they feel as though they will. In history, during the worst downturns, there were short-term rallies and buying opportunities. And in some cases, people have profited over time by investing carefully just when things seemed bleakest. If you're reconsidering your current investment strategy, a volatile market is probably the worst time to turn your portfolio inside out. Dramatic price swings can magnify the impact of a wholesale restructuring if the timing of that move is a little off. A well-thought-out asset allocation and diversification strategy is still the fundamental basis of a good investment strategy. Changes in your portfolio don't necessarily need to happen all at once. Try not to let fear derail your long-term goals. Whatever our short-term future holds, our team is always available to answer any questions and remain committed to ensuring your investments are appropriately positioned and well-diversified so you can meet your long-term financial goals.

Sincerely,

David B. Smith, CFA
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