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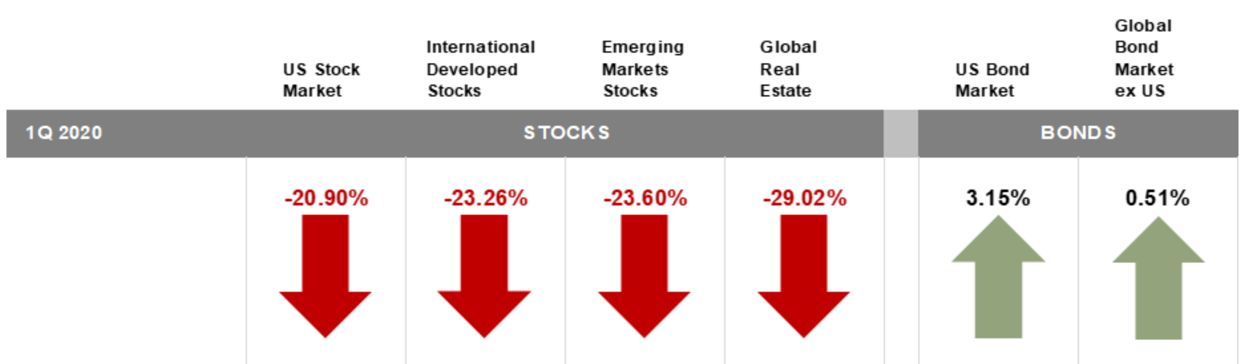
"While we may have more still to endure, better days will return. We will be with our friends again, we will be with our families again, we will meet again." Queen Elizabeth

The first quarter of 2020 is a period that we will all remember. There is no modern precedent for what we are currently going through. The COVID-19 pandemic has affected us all, and for now presented us with a new normal of daily life.

In addition to the very real global health tragedy that continues to unfold daily, the economic impact from COVID-19 is already starting to be felt. A significant amount of global production and consumption has come to a sudden halt over a period of only weeks. The result has been a swift and severe selloff across almost all asset classes as markets attempt to discount the future economic and earnings fallout from the crisis. Asset prices are likely also reflecting the need for liquidity and changes in investor risk tolerance, both second order effects of the selloff. Finally, an oil price war between Saudi Arabia and Russia has put added pressure on the energy sector.

The current lows registered by the major U.S. indices occurred on March 23rd, marking a decline of approximately 35% from the February highs. This compares to the average bear market drawdown of 41%. The chart below shows selected YTD index returns for the first quarter of 2020.

Q1 Market Index Returns



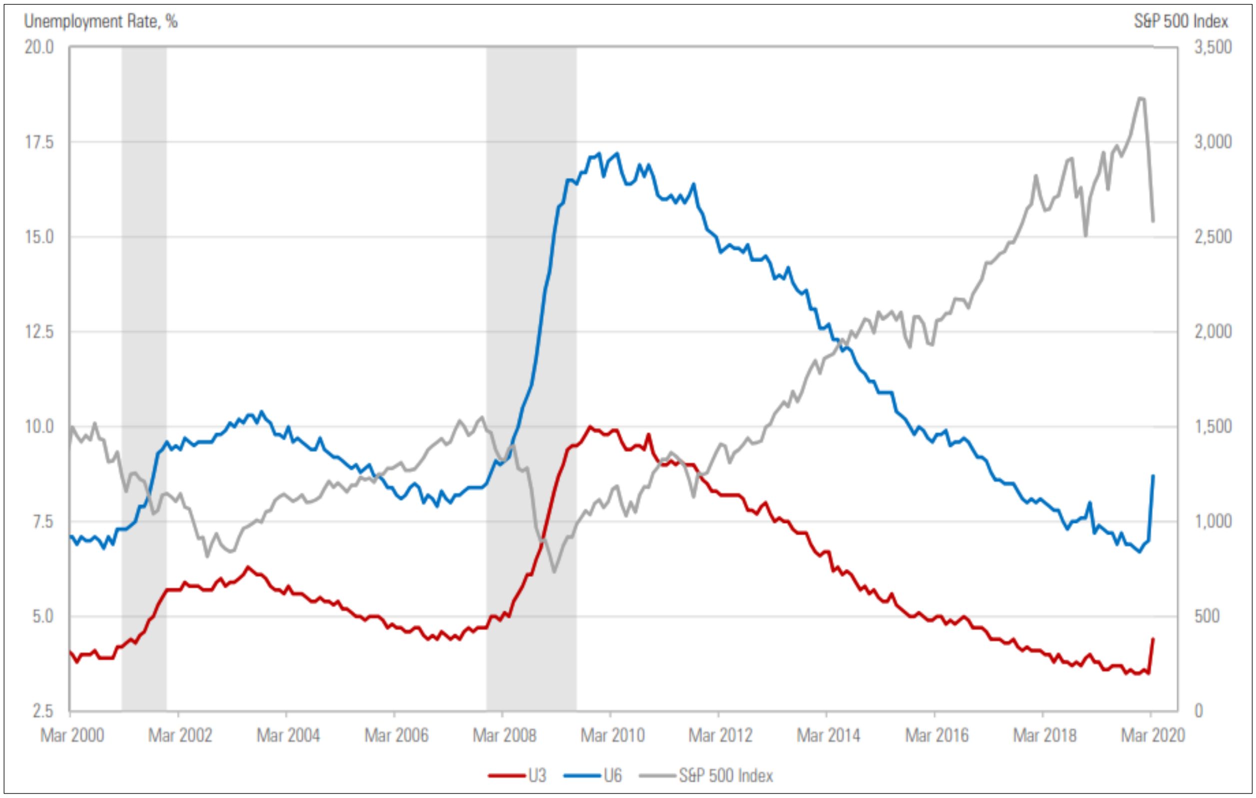
Source: Dimensional Fund Advisors. US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

In response to the COVID-19 crisis, both the Federal Reserve and Congress have already enacted unprecedented levels of monetary and fiscal programs, with more likely on the way. These policy initiatives are designed to ensure short term solvency for those most impacted by COVID-19, and bridge the gap between today and the undetermined time in the future when conditions normalize. The significant backstop that is now in place provides essential liquidity to capital markets and may help us to avoid extreme "left-tail" events such as high levels of business failures, bankrupt cities or states, and massive consumer delinquencies. The market's initial response to these programs has been positive, perhaps pricing in a lower risk of these negative scenarios playing out.

Weekly claims for unemployment insurance (UI) provide one of the better real time indicators of current conditions and the economic impact of COVID-19. In the past 3 weeks there have been 16 million new UI claims, a level far exceeding previous recession periods and a reflection of the dramatic shutdown of significant parts of the service economy in a very short period. Workers across industries have been displaced, with concentrations seen in obvious areas such as restaurants, hotels, and discretionary retail.

If we add the cumulative UI figures from the last 3 weeks (through 4/9) to the existing number of unemployed, we get an estimated U3 unemployment rate of about 14% versus the latest monthly reading of 4.4%. At the current pace, that level could quickly get to 20%, with some economists expecting U3 unemployment rates as high as 30% before conditions moderate. For context, during the 2008 financial crisis, the official U3 unemployment rate topped out at 10% and the broader U6 measure reached a peak of 17.5%.

U.S. Unemployment Rate measured by U3 (Red) and U6 (Blue) vs. S&P 500 Index



Source: BLS, Bloomberg, Springtide Partners. U3 is official unemployment rate calculated as total unemployed as a percent of the civilian labor force. U6 includes discouraged workers and those working part time for economic reasons.

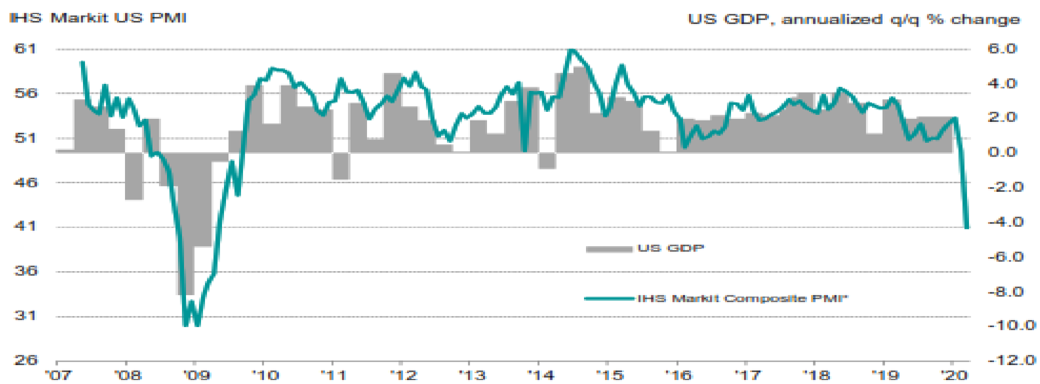
As a leading indicator, the stock market has discounted the potential for huge unemployment numbers this year. Consider that the U.S. market sold off 35% between Feb 20th and March 23rd. This occurred before any significant deterioration was reported in the labor market.

Markets also tend to lead economic data on the way up. Using 2008 as the most recent example, the stock market bottomed in early March 2009, UI claims (also a leading indicator) peaked 2 weeks later, and the unemployment rate (a lagging indicator) peaked 7 months later in October 2009. By this time, the S&P 500 had improved close to 50% off its bear market lows. This can be seen in the chart above.

The market's recent uptick may imply a forward view that unemployment will improve at the margin. An improvement in the rate of change (data is less bad) tends to be more significant in signaling a potential turning point than an improvement in absolute levels. This is something we will be watching closely in the coming weeks, especially as it relates to the high frequency UI data.

It's almost certain that both the U.S. and global economies are at the beginning of a recession. The amount of economic destruction that is currently taking place is difficult to estimate, but will start to become more clear during the second quarter. The latest reading for the U.S. Composite PMI, which includes both the services sector and manufacturing, implies that U.S. economic growth may decline by -4% this year.

U.S. Composite PMI and Implied GDP

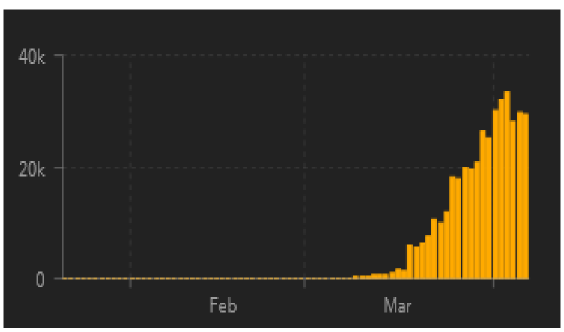


Source: IHS Market

This estimate matches the current consensus forecast for 2020. On a quarterly basis, economists expect significant contraction to occur in the first half of the year, followed by improvements in the third and fourth quarters. Similar to the unemployment rate discussion above, markets have already been pricing-in much of this outcome and may now be looking past the second quarter numbers. In past periods stocks have led the trough in economic output by an average of 4 to 8 months.

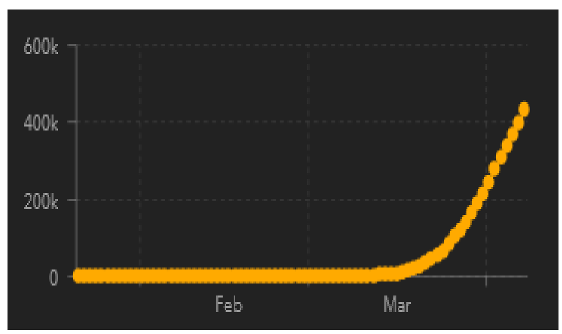
The current path out for both the market and the economy will ultimately rely on a decline in the number of new COVID-19 cases and progress on effective treatments or a vaccine. As of April 3, the daily number of new COVID-19 cases had started to decline, both globally and in the U.S. While the data could continue to ebb and flow in the short term, this initial change in trend is encouraging. The continued fall in new cases will eventually flatten the curve of total cases. This has been the experience in China.

U.S.COVID-19: Daily Number of New Cases



Source: Johns Hopkins, data as of April 8, 2020

U.S COVID-19: Cumulative Confirmed Cases



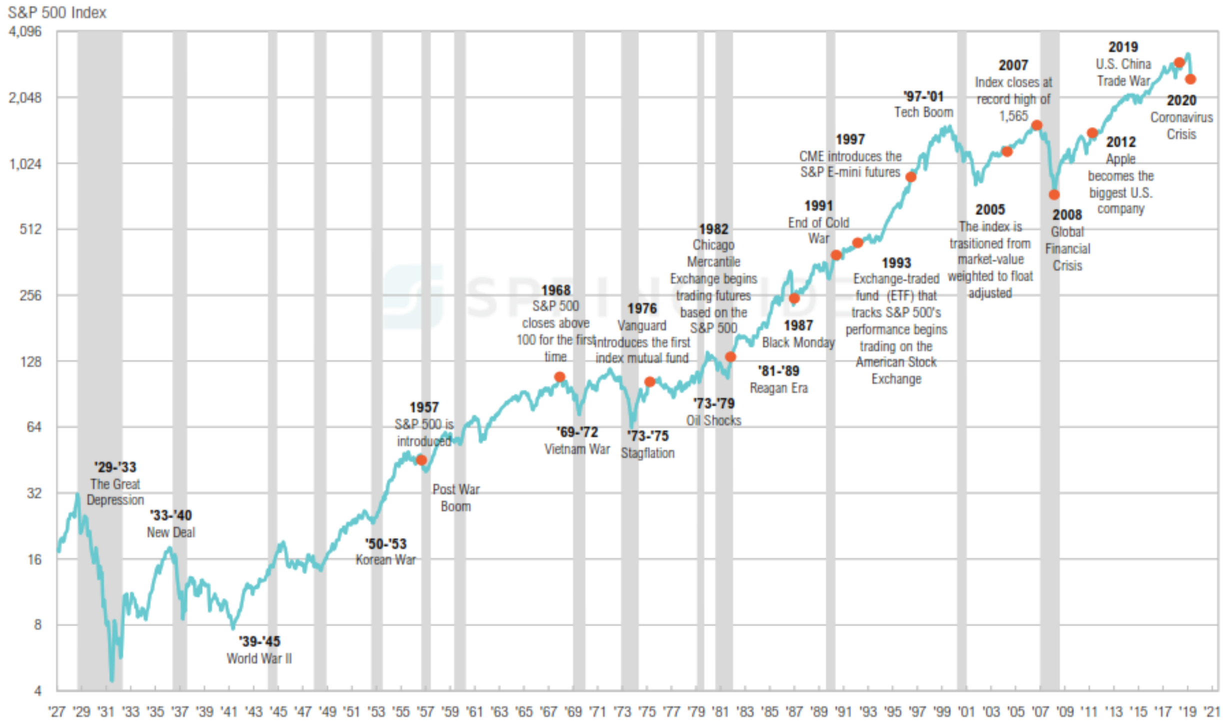
Source: Johns Hopkins, data as of April 8, 2020

As new cases continue to decline and recoveries increase, the focus will begin to shift to when and how to restart segments of the economy, how quickly we can safely resume higher risk activities, and what our new way of life looks like. Strategic testing may help the transition, but a viable vaccine will likely be key. Most experts estimate a credible timeline for commercial vaccine development to be at least 12-18 months. Until we gain better visibility on that front, a natural tension will exist between fighting the virus spread and resuming normal economic activity—the more successful we are at one, the more risk there may be to the other. The uncertainty this creates means that higher market volatility is likely not going away anytime soon.

Periods of extreme adversity are difficult to endure for individuals, businesses, and societies. But tough times often lead to improvements in the underlying weaknesses that contributed to a given crisis. Potential positive outcomes following COVID-19 include the drafting of a national pandemic playbook, better healthcare system preparedness, improvements in public health safety, greater investment in life sciences and technology, more diversified supply chains, changes in inventory management, essential industry stress tests, and higher savings rates.

Markets have recouped some of the losses experienced in March, but could retest the recent lows in the coming weeks or months as conditions evolve. We will only recognize the bottom with the benefit of hindsight. At some point, the COVID-19 crisis will be behind us. Challenges will not go away, but our expectation is that capital markets will, as they have done historically, continue to reward disciplined investors over time (see chart below).

S&P 500 Index: 1928-2020



Source: Bloomberg, Springtide Partners

Sincerely,
The Private Capital Management Team

By the numbers…

Index	2020
S&P 500	-19.50%
Dow Jones Industrial Average	-22.73%
Russell 2000	-30.62%
MSCI EAFE	-22.86%
MSCI Emerging Markets	-23.60%
Barclay's US Aggregate Bond	3.15%
Bloomberg Commodity	-27.46%

Source: Morningstar as of 03/31/2020