CRUICE FINANCIAL ORGANIZATION

PLAN PROTECT PROSPER

To: Clients and Other Friends of CFO Capital Management

Subject: The 2020 First Quarter Impact of the Coronavirus [COVID-19] Pandemic on the Global Financial Markets

The CFO Capital Management team started 2020 with a positive outlook for the financial markets with the global economy on stable footing and led by the U.S. economy. Our Federal Reserve had made clear its intention to further reduce interest rates as necessary to support the U.S. economy over the course of 2020. The S&P 500 Index of U.S. stocks responded accordingly by reaching an all-time high on February 19, 2020. Then suddenly that all changed with the arrival of two, simultaneous black swan events. The first, the "mother" black swan, to arrive was the coronavirus [COVOID-19] that drove the S&P 500 Index down by over -12% during the last 5 trading days for February. Investors realized that COVID-19 was not going to be contained in China and Asia but would spread to Europe and the United States. The second black swan to arrive was the sudden oil price war between Saudi Arabia and Russia in response to rapidly falling demand for oil that had started in China and Asia as a result of their containment measures to prevent the spread of the COVID-19 virus. The 2020 plunge of -70% in the price of oil has been historic, and oil was briefly selling for a negative number this past week [less than free!]. Finally, the realization by U.S. investors that the necessary virus containment measures would bring the U.S. economy to an abrupt halt caused another violent selling wave that dragged the S&P 500 Index down by -34% from the February all-time high to the current bear market low of March 23, 2020. Similar to 1929, 1987 and 2008, and also driven by one or two horrific daily plunges, the S&P 500 has experienced a 2020 crash in just over one month's time. From a review of the chart below, the 2020 first quarter results for the financial markets can only be summarized as grim:

- The S&P 500 Index declined by -20% in Q-1 for its worst ever start to a new year. It only took 18 trading days for the 2020 decline to become the fastest collapse [-34%] on record from an all-time high into a bear market. It was also the worst Q-1 in the 120-year history of the Dow Jones Industrial Average. As the chart below shows, all major foreign stock market indices suffered major declines.
- There were few safe havens from the Q-1 plunge in the prices of stocks and other risk asset, and they were limited to U.S. Treasury Bills, U.S. Treasury Bonds, U.S. Agencies, the U.S. Dollar, Money Market Funds, and Gold.

| Index Returns for Asset Classes & Broad Market Index Averages (1) | 1st Quarter 2020 | Rolling 12 Months |
|---|---|---|
| 0-Day US Treasury Bills | 0.37% | 1.92% |
| Barclays Long-Term US Treasury Bond | 20.90% | 32.64% |
| Barclays US Aggregate Bond Index | 3.15% | 8.93% |
| S & P 500 Composite Price Index | -20.00% | -8.81% |
| Dow Jones Industrials Price Index | -23.20% | -15.47% |
| Wilshire 5000 Total US Stock Mkt Index | -19.90% | -9.37% |
| MSCI EAFE Index of Foreign Markets | -22.83% | -14.38% |
| MSCI Emerging Markets Index | -23.57% | -17.36% |
| MSCI Europe Index | -24.33% | -15.50% |
| MSCI Japan Index | -16.79% | -6.69% |
| MSCI China Index | -10.22% | -5.82% |
| SPDR GOLD Shares [GLD] | 5.54% | 23.71% |
| US Dollar ETF [UUP] | 3.42% | 5.16% |
| S & P GSCI (Commodity) Index | -42.34% | -41.01% |
| *(1) Source: MORNINGSTAR* | | |

On March 24, 2020 we sent our clients a special communication to update them on the impact of the COVID-19 pandemic, and our hedging tactics that we initiated beginning the last week of February through March 10 to protect client investment portfolios. Despite the numerous risk hedging tactics that we implemented, our stock and risk asset positions suffered as prices cratered another -25% before reaching the current March 23 bottom for this bear market. We also reported that the impact of the pandemic on the fixed income and bond [credit] markets, with the exception of most U.S. Government backed securities, was also rapid and materially negative as global investors dumped quality bond positions, owned on margin, causing widespread liquidity problems in the credit markets similar to the 2008 financial crisis. Beginning in early March, however, the Fed countered with a significant array of monetary policy measures that have helped to restore liquidity to the credit markets starting with the critical, short-term cash equivalents and money markets. The time-tested axiom, "Don't fight the Fed", has allowed our investor portfolios to participate in the stunning recovery of the financial markets, particularly stocks, since the March low. The $3Trillion question remains, however, as to whether the financial markets have seen their final lows for this bear market cycle, or to what extent the stock markets will retest those March 23 lows.

**CFO Economic and Financial Market Outlook**

The COVID-19 pandemic has been an exogenous shock that has been further exacerbated by the rapid and staggering plunge in oil prices. The global economy has ground to a sudden and unforeseen stop, with quarantine measures being implemented in all major economies to help contain the spread of COVID-19 and to provide necessary relief to stressed health care systems. The government policies and countermeasures have caused this recession, beginning in Asia before spreading to Europe, the U.S. and the rest of the world. Indeed, the tsunami like speed and decimation with which the dual black swan events have impacted the global economies in just three months have been unprecedented. Early projections are that U.S. GDP could decline by as much as -30% during the second quarter and by over -5% for all of 2020! Recent PMI data has been awful, and year-end unemployment is projected to be 12% or higher.

The unique nature of this "Great Shutdown", or policy-imposed recession, makes the macro outlook inherently uncertain, with regards as to how cautious households and businesses will be after having been blindsided by a pandemic crisis that rapidly wiped out revenue streams, employment prospects, and inflicted tremendous psychological stress regarding the risks associated with just catching the virus. The successful reopening of the global economy will be critically dependent upon the ability to contain the virus by implementing widespread testing and by contact sourcing policies that can limit another devastating wave of infections. It is likely that consumer habits and workplace environments will dramatically change, at least until there are widely available medical solutions. The path to U.S. and global economic recovery will be slow and uneven, with potential stops and starts, most notably for those State, local and foreign economies that are opened prematurely and suffer setbacks from a second round of COVID-19 infections. To reiterate however, the global economy was not in recession prior to this health crisis, which means it could revive more quickly once the COVID-19 pandemic is contained. The aggressive fiscal and monetary policies that are being implemented will play a critical role in providing life-support for many adversely impacted businesses, households and the overall U.S. economy. The recent moves by the Fed are very powerful and have been critical in unlocking the credit markets and increasing the year-over-year rate of growth of the U.S. money supply to over +12% during April, which will be critical to boosting the U.S. economy over the next several months. On April 24 in an interview with Chris Wallace of Fox News, Treasury Secretary Steve Mnuchin expressed optimism that the trillions of dollars that Congress is injecting into the U.S. economy in COVID-19 relief spending packages will allow the U.S. economy to recover as early as the beginning of the third quarter of 2020. That optimism notwithstanding, our bottom line is that any recovery will be a slow and uneven process until effective anti-viral and other medical solutions are developed and widely distributed to get us to the 70% plus herd immunity target that many epidemiologists believe is necessary.

The fiscal and monetary policy-driven rebound in stocks and numerous risk asset categories has been impressive, but the financial markets are approaching a critical juncture. When will the global economy be able to restart to adequately back-stop the current rally? We have only seen the tip of the iceberg of economic and earnings-related red ink that will flow from most all reporting for the second quarter. We believe there is a ways to go before this pandemic is under control, which means that stock and risk asset prices will remain volatile. Moreover, most recessionary equity bear markets suffer a retest of the lows reached during the meltdown phase. That possibility seems even more likely without early COVID-19 medical solutions that can make it safer to resume broad-based economic activity. It is unlikely that we will see a medical solution before July. Thus, we continue to exercise prudence by being under-weight equities and by being overweight in credit/ bonds and money market holdings where the Fed's support has been direct.

CFO Capital Management Team

April 26, 2020