CFO CAPITAL MANAGEMENT
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March 24, 2020

To: Clients and Other Friends of CFO Capital Management

From: Jay S. Cruice Jr., CFP, ChFC, CFS

Subject: The Coronavirus [COVID-19] Pandemic

Backdrop: What Has Happened

The CFO management team began 2020 cautiously optimistic with expectations that the broad global stock markets, led by the U.S., would move higher over the course of the year. The U.S. economy was on solid footing, supported by our Federal Reserve which had lowered interest rates while declaring its commitment to further reduce interest rates as necessary to support U.S. economic growth in 2020. Our position was briefly rewarded as the S&P 500 Index advanced to an all-time high on February 19, 2020. During the weekend of February 22/ 23, however, it became suddenly clear that the Coronavirus [COVID-19] was no longer just a China problem. The virus was not only spreading rapidly in China but the virus had also begun to spread with tsunami like speed to other countries. That stark reality set the stage for a panic selloff that drove the S&P 500 Index down by over -12% during the final five trading days of February. By last Friday, March 20, the major global stock market averages had collapsed at an unprecedented rate not seen since the decline of -20% on Black Monday of 1987. The 2020 year-to-date declines for all the major stock market averages have been fast and damaging in the short-term: S&P 500 Index [-28.3%], Dow Jones Industrial Average [-32.4%], and the MSCI EAFE [-32.2%] for foreign stocks. In recent weeks, the COVID-19 virus has emerged as the largest single risk to the global economy and financial markets since the financial crisis of 2008. It is first and foremost a human health tragedy of global proportions. The virus has created an enormous threat to U.S. and global economic growth as key global economies have come to a sudden halt. The flow of breaking news remains voluminous and very fluid. Investor sentiment is likely to worsen before it gets better, but as the attached chart shows, we believe this health crisis will also pass as have those that have suddenly materialized over the last 40 years.

How Has CFO Responded

As those CFO clients who have been contacting our office have been [at least somewhat] comforted to learn, is that our team is fully operational and prepared to respond to all client calls and service their needs as they may require. We initiated hedging tactics on February 25th, and have reduced risk exposure. We will make additional defensive moves that we believe are in the best interest of protecting our investors' capital. The factors that we are watching to confirm a sustainable bottom is in place include: [1] A decline in the number of new cases of the virus not only globally but most notably in the United States or when will we have this virus under control? [2] The impact of COVID-19 on the health of the global banking system, credit markets, and financial market liquidity; [3] The global policy responses both fiscal and monetary and overall global financial conditions; and [4] the long-term health and fundamentals of U.S. corporations and the U.S. economy.

Looking Forward: Where Do We Go from Here

The macro outlook is highly uncertain given the unprecedented health threat from COVID-19 virus "Black Swan" contagion, and all the public health responses and countermeasures by the world's governments. The rapid spread of COVID-19 across the globe has dramatically heightened investor uncertainty and rocked global financial markets. The unknowns make it hard to forecast the trajectory of the economy and financial markets. That uncertainty notwithstanding, we address some key investor questions below.

1. Will the COVID-19 outbreak get worse before it gets better? Yes, which is likely to keep market volatility elevated in the near run as financial market participants digest and price the news. However, greater clarity on the extent of the crisis is essential to begin the process of restoring confidence. Health care policymakers' forecasts vary widely, with some expecting new cases in the U.S. to peak in a few weeks and others saying it could be several months. Also, we don't even have a really good sense of how quickly testing will become widely available or what treatments might be effective.
2. Will COVID-19 cause a recession? Yes, we are starting a deep recession, but one that could be short in duration. After lagging trends in Asia, the U.S. and Europe have belatedly recognized the severity of the COVID-19 pandemic and are taking the harsh public health countermeasures which involve effectively shutting down their economies. This is not a typical recession and bear market environment, as it involves a premeditated shutdown in activity, with the attendant unknowns that will linger for some time. We are just starting to see reflections in the economic data, such as initial unemployment claims being up 70,000 last week and that could approach one million this week.
3. Are Fed rate cuts helpful? What about fiscal stimulus? No, monetary policy alone would be largely ineffective, but it has been critical to providing the necessary liquidity in the credit markets. A strong and swift fiscal policy response is mandatory for dealing with the human health symptoms and suffering. To reiterate, this is a health crisis, and the required policy response needs to be "whatever it takes" strategies for limiting the spread of COVID-19 and the associated health risks.
4. Are we in a sustained equity bear market? We are in a technical equity bear market, and there are real risks that this rout persists, even if not in a straight line. We believe that it is prudent to be cautious until there is a credible fiscal policy commitment, including strategies to stem the current health crisis and ultimately followed by the proof that those collective policies are working successfully.
5. What about the bond/ credit markets? Cash is currently "King"! Investors have been selling most any liquid investments to raise cash, putting a tremendous strain on credit conditions. The Fed has responded, but credit spreads have blown out and look similar to the 2008 financial crisis. Today's markets have actually moved ahead of economies in terms of pricing and risk. Credit markets have now priced in a recession. Markets are pricing in the higher defaults that we would typically see in most recessions. When credit market stability returns, it will likely be the first sign that the immediate financial panic is over.

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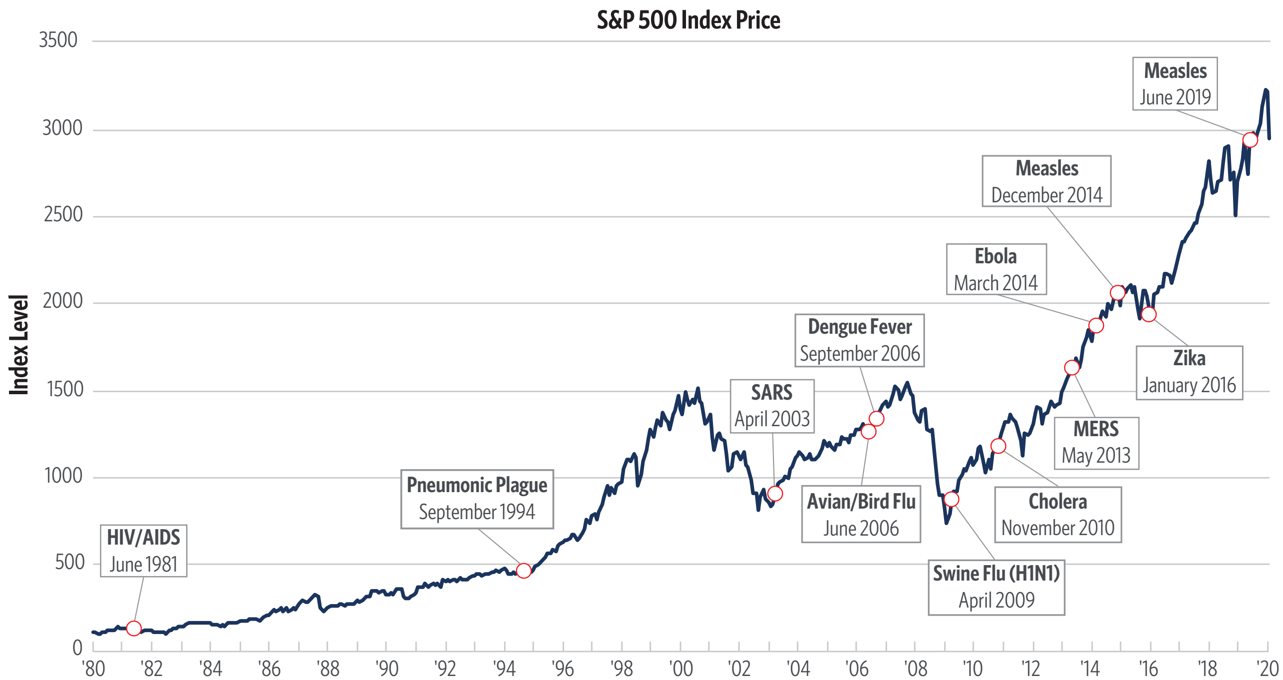
To summarize, the CFO management team believes that we need immediate and massive government policy reflation to calm the ongoing investor panic and resulting financial market volatility. However, short-term stock and bond market bounces are not likely to be sustained until there is real success in containing the virus in the U.S. and Europe, and no serious round two of infections elsewhere such as in China, Korea and Japan.

STOCK MARKET PERFORMANCE: THROUGH SICKNESS AND IN HEALTH

SINCE 1980

Many factors can create market volatility and limit returns in the short term, including epidemics. Investing for retirement requires long-term thinking. The chart below tracks the historical performance of the S&P 500® during several epidemics over the past 40 years. Don't let emotions and knee-jerk reactions guide your investment decisions. It's important to see the big picture and understand the potential benefits of sticking with your strategy.



Epidemic	Date	S&P 500 6-Month % Change	S&P 500 12-Month % Change
HIV/AIDS	06/81	-6.60%	-16.46%
Pneumonic Plague	09/94	8.22%	26.31%
SARS	04/03	14.59%	20.76%
Avian/Bird Flu	06/06	11.66%	18.36%
Dengue Fever	09/06	6.36%	14.29%
Swine Flu (H1N1)	04/09	18.72%	35.96%
Cholera	11/10	13.95%	5.63%
MERS	05/13	10.74%	17.96%
Ebola	03/14	5.34%	10.44%
Measles	12/14	0.20%	-0.73%
Zika	01/16	12.03%	17.45%
Measles	06/19	9.82%	-
	Average	**8.75%**	**13.63%**

For additional resources, contact your financial professional and visit transamerica.com

Source: Bloomberg, as of 2/24/20. Month end numbers were used for the 6- and 12-month % change. *12-month data is not available for the June 2019 measles. Past performance is no guarantee of future results.

The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Returns are based on price only and do not include dividends. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future.

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