GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
1st QUARTER 2020
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The coronavirus pandemic has spread across the globe and markets responded. The S&P 500 Index (large-cap U.S. stocks) reached a high on February 19, 2020 and rapidly fell in tandem with all equity asset classes over the following month. As of early April, we seem to have found some near-term market support.

Portfolios holding bonds benefited from this diversifying asset class when compared to equities. In light of the recent market turmoil, we believe it is helpful to view these returns in the context of what portfolios have achieved over the prior market cycle as well. Challenging year-to-date 2020 returns are following not just strong 2019 equity and bond market returns, but also an eleven-year bull market (almost to the date) for equities following the 2008-2009 Financial Crisis. After a solid start to 2020 through mid-February, as of quarter-end, most balanced portfolios holding bonds are still posting positive 15-month returns, including 2019.

Equity Index	**1Q 2020**	**2019**
S&P 500 (Large Companies)	-19.6%	31.5%
S&P 400 (Mid-sized Companies)	-29.7%	26.2%
Russell 2000 (Small-sized Companies)	-30.6%	25.5%
MSCI EAFE (Europe, Australia & Far East)	-22.7%	22.7%
MSCI Emerging Markets	-23.6%	18.9%
MSCI ACWI (All Country World Index)	-21.4%	26.6%

Fixed Income Index	**1Q 2020**	**2019**
Bloomberg Barclays U.S. Aggregate Bond	3.2%	8.7%
Bloomberg Barclays 1-3 yr. U.S. Treasury	2.8%	3.6%
U.S. 3-month T-Bills	0.6%	2.3%
Bloomberg Barclays U.S. Corporate High Yield	-12.7%	14.3%
Bloomberg Barclays Municipal Bond	-0.6%	7.5%
Bloomberg Barclays Municipal 5-year	-1.0%	5.5%

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Realistically we expect draconian economic data in the near term. Unemployment will easily and quickly jump to 10-15% by April, and GDP is likely to be worse than -10% for the second quarter. From all we have learned from our resources, economists are also expecting a challenging third quarter, albeit better, and the start of a rebound in the fourth quarter. We believe these expectations are already priced into current market levels. While infection and mortality rate headlines to come will be shocking and heartbreaking, the economic toll this virus will inflict in the near term has been digested by investors to an extent. Further downside risk to the markets now lies in whether the U.S. begins tiptoeing back into normal life again over the summer. If social distancing continues at its current intensity, we anticipate markets will price in further economic toll. We are prepared for that possibility and will continue to adjust portfolios accordingly. On the other hand, we are already seeing opportunities that look attractive relative to some of the worst market environments, such as 2008 and 2001.

We also want to share with you some of the highlights of the recently passed CARES Act. This $2.3 Trillion bill is the third round of federal support aimed at providing relief from COVID-19 for individuals and businesses. It was passed on March 27, just after our last communication, and there are a number of impactful elements to this historic stimulus package that are relevant to our clients:

- **Direct Payments:** Americans who have paid their taxes will receive a one-time payment that is based on income limits. Individuals with adjusted gross incomes up to $75,000 ($150,000 for married joint filers) will receive $1,200 (married joint filers $2,400). Families with children (under 17) will receive $500 per child as well. For AGI over $75,000 but less than $99,000 (married joint filers $150,000 to $198,000) a reduced amount will apply. The rebate phases out at $50 for every $1,000 of income earned above those thresholds. Those earning incomes of $99,000 or higher ($198,000 married) will not receive a payment. People on Social Security or disability will be eligible to receive payments if they are under these limits. The IRS will use your 2019 return if you have already filed. Otherwise, your 2018 AGI will be used.
- **Changes to Retirement Accounts:**
  - **2020 Required Minimum Distributions (RMDs) Waived: <u>There will be no requirement to take distributions from retirement accounts (IRA, 401k, 403b, etc.) or Inherited IRA accounts in 2020.</u>** If you are not relying on your required distributions for living expenses, we recommend that you leave the 2020 RMD in your account. You will NOT be required to take "a double" RMD next year. While we are actively reaching out to clients who are withdrawing their RMDs throughout the calendar year, it would be helpful for our team to hear from you regarding your wishes for your RMD. If we do not hear from you, we will be reaching out to confirm your directions. There may be opportunities to "repay" funds already taken this year, although this option is not available for Inherited IRAs. If you would like to consider returning money to your account that has already been distributed, please contact us.
  - **10% early withdrawal penalty waived:** For those under age 59.5, you may take up to $100,000 from your retirement accounts penalty-free for "Corona-virus connected purposes" retroactive until January 1st. These withdrawals will still be taxed, and you will be allowed to spread the tax consequences over three years.
  - **Loans from your 401-k:** The bill has increased the maximum loan amount from your 401-k from $50,000 to $100,000 and repayment is permitted over three years.
  - To qualify for the early withdrawal and loan provisions, individuals need to fall into one of two main categories. You, your spouse or a dependent is diagnosed with COVID-19. Alternatively, you qualify if you have experienced adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care or closures related to the coronavirus pandemic.

- **Small Business Relief (Paycheck Protection Program):** The PPP provides $350 Billion for small business relief for companies under 500 employees. This program provides eight weeks of cash flow assistance and is a first come first serve program. Businesses are to apply through their business bank, and the first day for applications was April 3. If this is something you are considering for your business, we recommend you contact your bank immediately.

- **Payroll Taxes:** The CARES Act allows employers to delay their payment of 2020 payroll taxes until 2021 and 2022.
- **Unemployment benefits expanded:** Workers filing for unemployment will receive an additional $600 per week for four months, on top of what state programs pay. This also applies to self-employed and independent contractors.

If you have questions about elements of the CARES Act that may apply to you and your family or your business, please reach out to us. We understand this is a challenging time for many families, and we wish to be a resource for you as needed.

Regarding your investments, we remain focused on the assets that you have entrusted to us to protect and grow. The highest quality bonds, U.S. Treasuries, successfully played their role in client portfolios already this year. We added this position in mid-2019, and while stocks were falling, the U.S. Treasury strategy appreciated 8.3% in the first quarter. While we continue to hold this position in these uncertain times, we are trimming some of the profits. Recently we have found appreciation opportunities in the fixed income markets within corporate credit. We view this sector of the market as a mid-way point in terms of risk between the highest quality bonds and equities. The Federal Reserve's stimulus has breathed fresh air into bond markets that were struggling with liquidity only a few weeks ago. We connected with several of our fixed income managers over the past two weeks, and those with experienced and deep analyst teams are finding historically attractive investments at this time. Within equities, while opportunities exist, we remain cautious at this time until we have more clarity on when the U.S. will return to a version of normal economic activity. We continue to remain focused on protecting capital while remaining invested in strategies that will participate with recovering markets.