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Q2 2020 – Market Overview Newsletter

Economic Update

Coming off one of the strongest economic environments, we currently face a rapidly evolving health care crisis that continues to have a severe impact on the economy and markets. The "temporary shut-down" due to the COVID-19 pandemic is a real threat to our economy. The longer this persists, the longer it will likely take our economy to recover. However, the passage of the CARES Act (Coronavirus Aid, Relief, and Economic Security Act) by the U.S. government along with the actions of the Federal Reserve could prevent a prolonged downturn and make this more of a temporary economic "stall" instead. The recovery may take some time, months or perhaps quarters, but we expect the economy and stocks will likely surge as a result of extraordinary government support. Although this economic downturn will be severe and historic, we anticipate it will be relatively short lived.

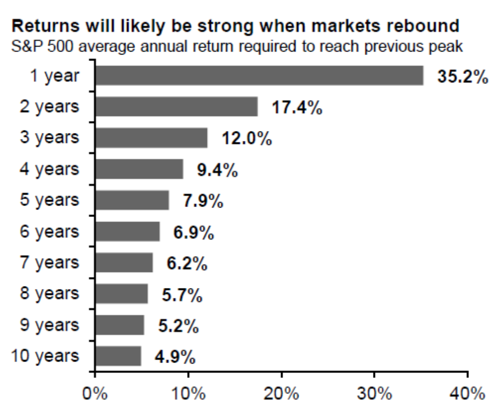
Still, after an eleven-year bull run, we are now experiencing a bear market. The recent U.S. equity market decline and volatility has been unprecedented. Market returns that we generally see over three to six-month periods have become one day swings. Investors have vivid memories of 2008 and may correlate that environment to the probable recession we are currently experiencing. The current bear market, however, is much different from 2008! Twelve years ago, our economy was on the brink of collapse driven by significant structural issues. Today we are experiencing an event-driven recession with a strong economic backbone, which is another reason we anticipate a faster recovery.

Stock markets react quickly, sometimes overreacting, and the best and worst days tend to be within two weeks of each other. To provide historical perspective, the table to the right illustrates just how much the S&P 500 recovered 12 months following each of the previous seven market declines.

Dates of S&P's biggest declines	Black Monday 8/25/87-12/4/87	Gulf War 7/16/90-10/11/90	Asia Monetary Crisis 7/17/98-8/31/98	Tech Bubble 3/27/00-10/9/02	Financial Crisis 10/9/07-3/9/09	US Credit Downgrade 3/10/11-10/3/11	Trade War 10/3/18-12/24/18
U.S. stocks	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%

Source: BlackRock, Stay the Course Amid Market Volatility. Morningstar as of 2/28/20. Returns are principal only not including dividends. U.S. stocks represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can't invest directly in an index.

We don't know how long it will take for the markets to recover, but regardless of the length of time, the gains achieved from current levels will likely be substantial. This chart indicates the strength of potential returns over various lengths of time by showing the average annual return required to reach the February 19th S&P 500 peak. For example, if it takes three years to achieve previous peak levels from the quarter-end, this will equate to 12% annualized returns.



Source: Standard & Poor's, Factset, J.P. Morgan Asset Management. Assumes 2% dividend yield throughout. Data are as of March 27, 2020.

We may experience more downward movement, but timing the markets is nearly impossible. We encourage patience while maintaining a long-term focus. If you have any questions or would like to discuss your investments, we welcome your phone call any time. Thank you for your continued confidence!

With the importance of the CARES Act and the impact it will have on most Americans, enclosed is a summary outlining many of its important details.

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For more market details from the last quarter, see the IM&R Market Review in the commentaries page on our website at www.langdonshaw.com/commentaries