50 Congress Street, Suite 900
Boston, MA 02109
(617) 557-7407
www.minotdeblois.com

1st Quarter 2020 Investment Commentary
April 2020

The longest bull market in U.S. history ended abruptly in the 1st quarter of 2020, driven by the unprecedented impact of the novel coronavirus and compounded by an oil price dispute between Saudi Arabia and Russia. Stock declines were so sharp and the market so volatile that on multiple occasions exchanges activated rarely-used mechanisms[1] to halt trading. U.S. large cap stocks as measured by the S&P 500 declined 20% in the first quarter, with the vast majority of the drop occurring in the month of March.

While seeing the S&P 500 rapidly decline from its all-time high reached in February 2020 is certainly disconcerting, this drop comes after a tremendous run. We are pleased to have entered the most recent equity market downturn with our strategic stock weightings at their most conservative levels in more than a decade, which we had been incrementally lowering for several years as the bull market lengthened. In addition, in this bear market traditional defensive sectors (e.g., consumer staples and health care) have held up well relative to the broader market. These sectors are well-represented in almost all portfolios. Besides sector exposure, companies with other characteristics emphasized in our investment philosophy of "defensive growth" – including high-quality businesses, strong balance sheets, lower Beta stocks, and large capitalization – have been more resilient during the market decline, in line with historical patterns.

Major Asset Class Indices[2]	Total Return Q1 2020	Total Return 2019 Year
S&P 500 (U.S. Large Cap Stocks)	-19.6%	+31.5%
MSCI EAFE (Foreign Developed Large Cap Stocks)	-22.8%	+22.0%
Bloomberg Aggregate Bond Index (U.S. Investment Grade Bonds)	+3.2%	+8.7%
US Short-Term Treasury Bills (Money Market Fund)	+0.5%	+2.1%

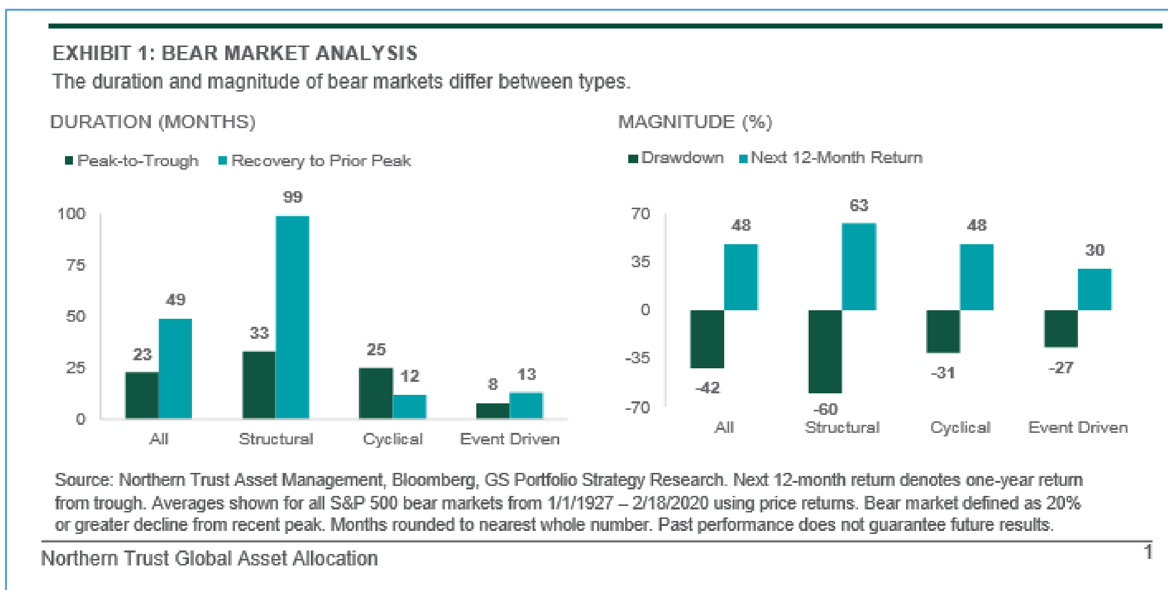
Looking back just a few short months, as we highlighted in our year-end letter, stocks around the globe performed exceptionally well in 2019, and the S&P 500 continued to grind almost 5% higher for the first six weeks of 2020, reflecting improving economic indicators, a strong U.S. consumer, and continued global government support – both monetary and fiscal. In our 2020 outlook piece, we recommended that investors consider taking gains early in 2020 as a prudent strategy to preserve wealth and reposition portfolios. While we certainly didn't predict an economic and market crisis, we did believe that the 10+ year bull market was in a late stage, though we have been surprised by both the cause and rapidity of the market decline.

The coronavirus quickly went from an Asian contagion impacting international supply chains to a global pandemic that has brought many businesses to a standstill. This pandemic will result in a global recession. While the magnitude and duration of the current crisis are yet to be determined, we believe that modern societies, economies, and capital markets have a remarkable ability to adapt and recover following unexpected disasters. The next several months will be challenging as economic activity continues to slow meaningfully as consumers and businesses spend less. The timing and rapidity of an economic recovery will likely be determined by when the coronavirus abates and upon the effectiveness of fiscal and monetary stimulus. Regardless of the timing, we do not expect a stock market recovery to be linear, and investors should be prepared to see further declines and continued market volatility as businesses and investors incorporate new information into their forecasts.

[1] Circuit breakers halted trading of the S&P 500 for the first time since 1997, while volatility measures returned to levels last seen in 2008-2009.
[2] The S&P 500 Index is a broad measure of U.S. large capitalization stocks; the MSCI EAFE Index (Net) is a broad measure of mid-large capitalization stocks in developed international markets; the Bloomberg Barclays U.S. Aggregate Bond Index is a broad index of U.S. investment grade bonds; the 90-Day U.S. Treasury Bill represents short-term government money market funds. Returns are provided by sources deemed to be reliable but are subject to change or revision.

With the economic situation continuing to evolve rapidly – along with the governmental, medical, and industry responses to the novel coronavirus – as wealth managers and investors we believe that the best strategy is to maintain an objective, analytical, and long-term focus and to recognize that volatile times often create opportunities. A market decline like the one we are now experiencing highlights the importance of rebalancing portfolios vis-à-vis their recommended equity weights. That is, generally we were selling stocks last year – when equities rose above strategic weights – and with markets having fallen in 2020 we should be prepared to add-to equities in keeping with our long-term asset allocation views. In addition to regular rebalancing, we have also taken the first incremental step in raising our strategic stock weighting back toward a neutral level for each investment objective, thus taking advantage of the downturn and the sell-off in many high quality securities to add modestly to equity exposure.

While adding to stocks at such an unsettled time can be difficult, disciplined periodic rebalancing both within equities and between stocks and bonds has historically provided better risk-adjusted returns by enforcing the discipline of selling high and buying low. In this context, where the purchase of individual equities is applicable there are a number of high-quality stocks that we would like to own for the long-term that are now trading at lower and more attractive prices. This is not to say that the companies will be unaffected by the pandemic's economic impact, but we are given comfort by our assessment of these companies' long-term prospects and – in aggregate – their strong financial positioning. We are thus following our disciplined practice in making investment changes now to prepare portfolios for the next stage of the market cycle, which will surely come.



As our parent firm, Rice, Heard & Bigelow, approaches its 240th year of prudent management of trusts for individuals, families, and charities, we are confident in the resilience of our investment approach and our ability to focus on the long-term goals of our clients through challenging times. We hope that you and your loved ones are healthy, safe, and well under these unique and difficult circumstances. Please be assured that our firm is fully functioning remotely, and that we remain committed to continuing to provide the highest level of investment advisory service to our clients, now and in the future. We acknowledge these are uncertain times for an investor and we encourage clients to reach out to us with questions or concerns.

Gregory Gullickson CFA

Zachary Bourque CFA

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