COVID-19 and Market Performance Update

March 20, 2020

Good afternoon,

We want to provide an update on the impact COVID-19 is having on the financial markets since our previous email. Our entire team would also like to send out our sympathies to those families who have been affected by this virus. We stand with you and offer our support in any way that we can.

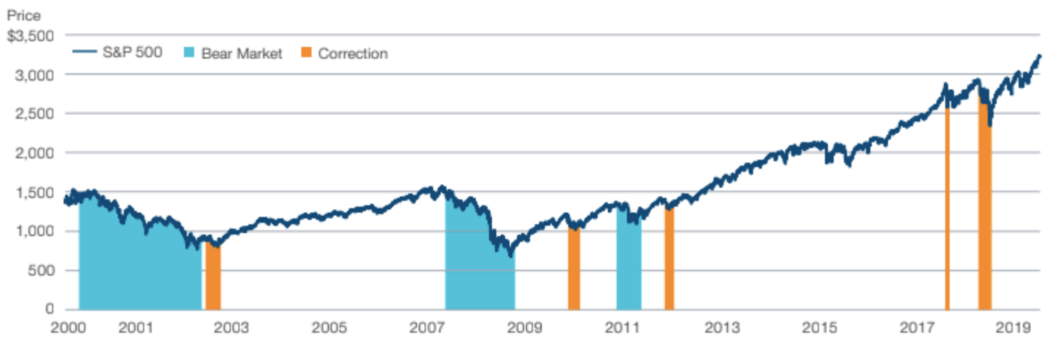
While we have seen continued volatility over the last couple of weeks with big moves in each direction, putting “risk-on” in terms of equities is setting up to be an attractive risk/reward scenario based on valuation at these levels. While we don’t think we are out of the woods completely, as new infections are likely to continue to rise substantially over the next several weeks (especially as testing will increase), the market is a leading indicator and will reverse the moment we see health policy working effectively. Facts are changing rapidly, but we remain vigilant in monitoring the latest developments and how it effects our investment position.

We view the required response to this as a three-legged stool...the first leg being the Federal Reserve, which has been extremely aggressive in trying to pump liquidity into the system by purchasing Treasuries, backstopping the money market and opening up credit facilities to provide stability. Today, the tax-filing deadline was extended to July 15 to give taxpayers additional time to file due to present circumstances. The second leg is substantial fiscal policy, which could perhaps be as large as a $1 trillion stimulus. Included in this legislation are provisions to get money directly into the hands of ordinary Americans over the next few weeks to prevent a “hard landing” for the economy. We view it as a positive that the government is trying to throw the proverbial “kitchen sink” at this virus by offering cash payments to those effected.

The third leg is significant progress on the health front. While economic disruption and layoffs are likely to be increasing over the coming weeks as companies are temporarily closing, we view these steps as good health measures to blunt the impact of the virus. In addition, it is also highly important for stabilizing the market. Although, it’s tough to determine exactly when we will see the infection curve flatten, we are certainly heading in that direction with the dramatic efforts that are currently taking place, including a rush to develop an effective vaccine. The aforementioned steps will determine how quickly the markets will fully recover. Our opinion is that this will happen by the second half of 2020.

More than anything, it’s important to look at the sell-off over the last few weeks from a historical perspective and be less fearful...that’s what we want to continue to emphasize. If historical trends hold true, a recovery will happen, so it’s important to not let volatility change your long-term plans as indicated in the chart below.

BEAR MARKETS AND CORRECTIONS JANUARY 2000–DECEMBER 2019

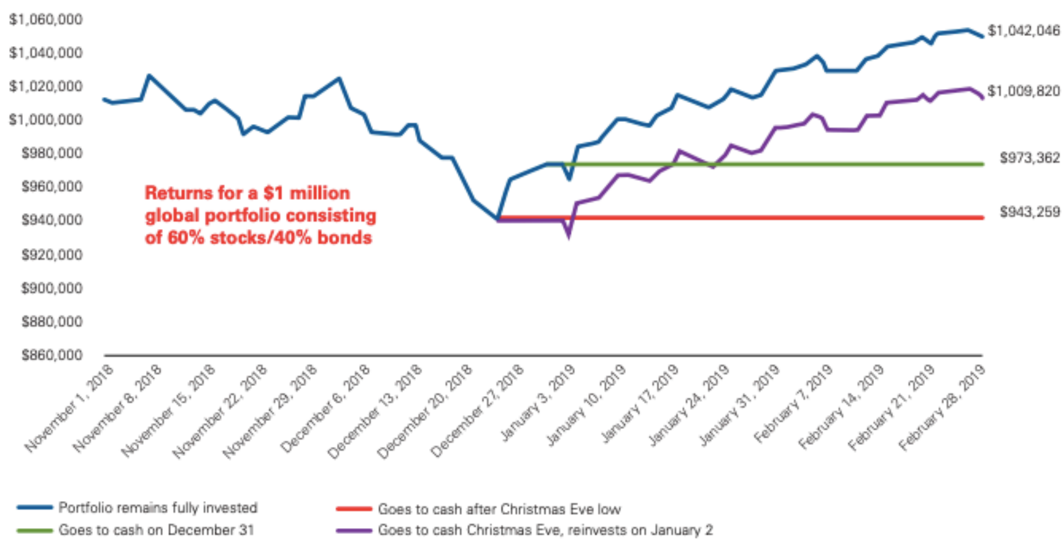


Event	Date	Duration	% Drop	Recovery	% cumulative gain after trough		
					1 Year	3 Years	5 Years
Tech Bubble Crash	4/7/00–10/9/02	2.5 years	-48.77	5 years	33.73%	52.86%	101.50%
Pre-Iraq War	11/27/02–3/11/03	3.5 months	-14.71	2.5 months	38.22	60.37	64.93
Global Financial Crisis	10/9/07–3/5/09	1.5 years	-56.39	4 years	66.83	99.89	174.53
Greek Debt Crisis/Flash Crash	4/15/10–7/2/10	2.5 months	-15.61	4 months	30.83	57.84	103.09
Debt Ceiling Debate/S&P Downgrade	4/29/11–10/3/11	5 months	-19.39	3 months	32.00	79.03	96.61
Post QE/China Growth Slowdown	8/10/15–2/11/16	6 months	-13.07	4 months	27.29	48.15	N/A
Jan/Feb 2018 Correction	1/26/18–2/8/18	0.5 months	-10.16	6.5 months	4.92	N/A	N/A
Q4 2018 Sell-Off	9/20/18–12/24/18	2 months	-19.78	4 months	37.10	N/A	N/A

As a result, we look at this as a generational buying opportunity. We feel that too many are underestimating the resiliency of the American spirit and are discounting a scientific response to COVID-19. It is extremely important to stay invested, as panic selling is not a prudent investment strategy. The lessons illustrated in the chart from staying the course in regard to the global stock market selloff in Q4 of 2018 reinforce this belief. Short-term pain will lead to long-term gains.

Staying the course can pay off; abandoning course can be costly

The global stock market drop in late 2018 offered a lesson in investor behavior



Sources: Vanguard calculations, based on data from FactSet, as of February 28, 2019.

Our position remains steadfast, we view the recent market turmoil as giving disciplined and calm investors an opportunity to put cash that's on the sideline to use with a long-term perspective. We have been very active trying to convey this message to clients over the last several weeks and are confident that being proactive and sticking to our "investing in all cycles" philosophy will be rewarded.

If you have any questions, please don't hesitate to reach out.