

2020 First Quarter Investment Market Report

Together, we just experienced the worst first quarter on record for the U.S. investment markets. We got through it by working together, refusing to give in to panic and staying with the long-term plan.

This last quarter was also the fastest, steepest, hardest roller coaster ride in market history, as measured by the VIX volatility index. Basically, that means that one day the markets were down at record or near-record levels, and then just as quickly, we experienced near-record one-day gains. And we did this again and again over the latter part of the quarter. Overall, the trend was a steep downturn with markets fighting back up off the bottom.

Just about every investment saw declines in 2020's first quarter. The widely-quoted S&P 500 index of large company stocks is down 19.6%, with 12.52% of that drop coming in the month of March. From its high in February through the end of the quarter, it was down 23.7%

International investors are in the same boat. The broad-based EAFE index of companies in developed foreign economies has lost 22.83% in the first quarter. Emerging market stocks of less developed countries, as represented by the EAFE EM index, fell 23.60% in dollar terms.

We look forward to a time after this pandemic when we have even more to be grateful for, including the safety of our loved ones and a return of our country's economic wellbeing.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 25.63% decline.

In the bond markets, the inversion in the yield curve has righted itself, though rates are at historic lows. Coupon rates on 10-year Treasury bonds have dropped to 1.50%, while 3 month, 6-month and 12 month bonds are now sporting coupon rates of 0%.

The social distancing and the closure of offices, malls, theaters, stadiums and anywhere else where people once gathered to work and spend has raised uncertainty about the extent of business disruption in the U.S. and world economies. With so much of our economy shut down until further notice, it is hard to imagine that we will avoid a recession in the first half of 2020.

On the other hand, there is every reason to believe that the U.S. will recover once people are allowed to return to work and leave their homes to shop. To stanch the bleeding, America's central bank is pouring more than \$3 trillion worth of loans and asset purchases into the U.S. financial system—an unprecedented commitment.

The newly-passed CARES aid package is worth an aggregate \$2.2 trillion more, to be used as follows:

- ◆ \$377 billion for loans to businesses that are having trouble meeting their payrolls while they sit on the economic sidelines
- ◆ \$560 billion for individuals and families
- ◆ \$500 billion in outright grants to large corporations
- ◆ \$340 billion set aside for state and local governments.

There are times when we all face challenges more important than the ups and downs of the markets, and this time certainly qualifies. Staying safe, staying well, staying alive and keeping our loved ones out of harm's way takes priority in this global pandemic. We are, of course, monitoring the markets. We believe that the traders who are making panic-stricken departures from the market are overestimating the long-term harm to Corporate America and their business counterparts around the world.

We all have much to be grateful for. We look forward to a time after this pandemic when we have even more to be grateful for, including the safety of our loved ones, seeing each of you in person, and a return of our country's economic wellbeing.

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Financial Planning News:

On March 27, the federal government passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. This package is aimed at providing relief for individuals and businesses that have been negatively impacted by the coronavirus outbreak.

This is a huge, complicated piece of legislation. In this space, we can offer only a summary of key provisions included in the bill and what that may mean for you:

Direct Payments to Taxpayers:

- ◆ \$1,200 for individuals; \$2,400 for married couples + \$500 per child under 17
- ◆ Phase-out based on income (AGI) from 2019 tax return; if the 2019 tax return has not been filed, based on AGI on the 2018 tax return
 - ◆ \$150,000 for married filing jointly (phase-out to \$0 at \$198,000)
 - ◆ \$75,000 for individuals (phase-out to \$0 at \$99,000)
- ◆ To be paid "as soon as possible"
 - ◆ Social Security recipients receive credit the same way they receive checks
 - ◆ Direct deposit to wherever the taxpayer received their 2018/2019 refund
 - ◆ Otherwise sent to last known address on file

Unemployment Compensation

- ◆ Eligibility extended beyond W-2 employees to self-employed, contractors and people who have been furloughed
- ◆ Elimination of the 1-week waiting period
- ◆ "Regular" state unemployment benefit increased by \$600/week for up to 4 months; paid by the Federal government
- ◆ Extension of benefits for additional 13 weeks

Distributions From Retirement Accounts

- ◆ Allows withdrawals from IRA's or employer retirement plans up to \$100,000 in 2020 if experiencing adverse financial consequences of COVID-19
 - ◆ Exempt from 10% early withdrawal penalty
 - ◆ Not subject to mandatory tax withholding
 - ◆ Eligible to be repaid over 3 years
 - ◆ Withdrawals are taxable; income can be spread over 3 years
- ◆ Loans from employer-sponsored retirement plans expanded
 - ◆ Maximum loan increased from \$50,000 to \$100,000
 - ◆ Repayments delayed for up to one year
- ◆ Required minimum distributions suspended for 2020
 - ◆ Applies to IRA's, 401(k) plans, 403(b) plans, 457 plans and Inherited IRAs
 - ◆ Required distributions already taken may be able to be "returned"
 - ◆ "Return" option is not yet available for beneficiaries of Inherited IRAs who have already taken their 2020 required distributions or for people who took their required amount in January 2020.

Relief for Student Loan Borrowers

- ◆ No payments required until September 30, 2020; no interest during the interim
- ◆ Must be proactive to stop payments; not automatic
- ◆ Employers can exclude student loan repayments from compensation



New "Above-the-line" Charitable Deduction

- ◆ There is a new "above-the-line" deduction for up to \$300 of qualified charitable contributions (for taxpayers who do not itemize)
 - ◆ Only applies to cash contributions
 - ◆ Must be made directly to a 501c (3) charity

Small Business Relief

- ◆ Virus-impacted businesses of up to 500 employees will be able to take out a loan of up to \$10 million which may be forgiven if that loan is used for payroll and other business expenses.
- ◆ The Act has also deferred the employer portion of the Social Security payroll tax to the end of 2020.

Paycheck Protection Program

- ◆ Loan that is fully guaranteed by the Small Business Administration (SBA)
- ◆ Issued by SBA approved lenders and others specially designated
- ◆ Must be applied for by June 30, 2020
- ◆ Maximum duration 10 years
- ◆ Good-faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19. Includes cost of qualified health care expenses allocable to wages.
- ◆ Proceeds may be used for:
 - ◆ Payroll costs
 - ◆ Group health insurance premiums and other healthcare costs
 - ◆ Salaries and/or commissions
 - ◆ Rent or Mortgage interest (excluding the amounts pre-paid)
 - ◆ Utilities
 - ◆ Other business interest incurred prior to February 15, 2020

Important Disclosure Information

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S&P 500, Russell 2000, Wilshire U.S. REIT, and Barclays U.S. Aggregate Bond indexes are reported using Total Return. Total Return assumes the reinvestment of dividends/interest. MSCI EAFE and MSCI EM benchmark performance is reported using Net Total Return. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

*Historical performance results for investment indexes, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Montis account holdings correspond directly to any comparative indices or categories. **Please Also Note:** (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Montis accounts; and, (3) a description of each comparative benchmark/index is available upon request.*