National
Investment Services

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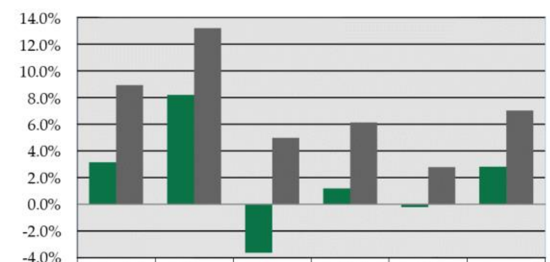
FIRST QUARTER, 2020 — INVESTMENT REVIEW

FIXED INCOME OVERVIEW

The COVID-19 pandemic rattled markets across the globe as concerns over the impending economic slowdown prompted massive and quick selling of risk. Funds and investors of all sorts found themselves unwinding holdings in a battle for liquidity with few willing buyers. The resulting prices ranged from not great to dreadful, with the only winning sectors being either agency-related or outright U.S. Treasury debt. For the quarter, the Bloomberg Barclays Aggregate Index gained a healthy 3.15% on a very pronounced flight to quality in the Treasury Market. Long Treasuries gained over 20% during the quarter, while the sector as a whole was up over 8%.

Index Sector Performance

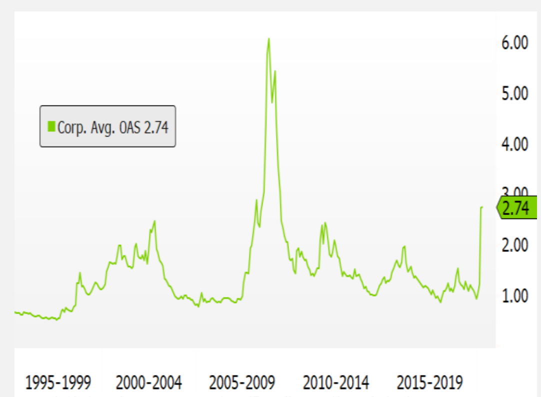


	INDEX	Tsy	Corp	CMBS	ABS	Agency MBS
Q1 '20	3.15%	8.20%	-3.63%	1.19%	-0.21%	2.82%
1 year	8.93%	13.20%	4.98%	6.13%	2.79%	7.03%

Source: Bloomberg

CREDIT SPREADS

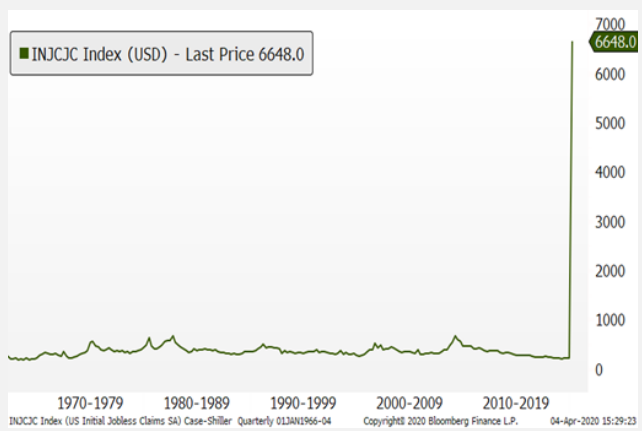
Nowhere was the performance dichotomy within investment grade credit so pronounced, as corporate bonds. Investors scrambled for cover as the virus spread quickly, leaders searched for answers and shelter in place orders became our collective reality. Health, safety, economic and market uncertainty became the only certainty and investors sold, sometimes indiscriminately because they had to. Further compounding corporate bond weakness was a ramping up of oil production in both Saudi Arabia and Russia, while demand was quickly evaporating and the price of oil cratered. Investment grade corporate bond spreads gapped as wide as 3.7% over Treasuries before settling around 2.8% over. These levels have not been seen since the financial crisis where spreads peaked around 5.5% over Treasuries.



THE ECONOMY

March marked the first month of U.S. job losses after 113 straight months of gains, the longest streak on record. A record 10 million people have filed unemployment claims in the last two weeks, with a surge of over 6 million filing the last week of March.

Hospitality, food service and travel-related employment has been especially hard hit, while manufacturing is only marginally better as growth expectations across most industries are ratcheted lower. There is little debate whether the United States will be in recession. It is now a question of how long, how deep and what might the recovery look like? Each a valid question, still an uncertain outlook.



FISCAL AND MONETARY POLICY

We do know, however, that central bankers both here in the U.S. and across the globe have been quick to respond. Early in March the Fed cut the fed funds rate by 50 basis points only to have to cut rates by another 100bps two weeks later, effectively lowering the rate to zero. They have also injected $2.0 trillion of liquidity to the banking system, instituted a quantitative easing with purchases of Treasuries, Agency MBS and CMBS, plus lending to investment grade corporations and buying corporate bonds. If that weren't enough, they also lowered capital requirements for banks, brought back TALF to support the asset backed lending market, extended money to support the SBA lending program and will likely work with small and medium size businesses on a new program. The Powell Fed certainly seems proactive and willing to do whatever is necessary.

Fiscal stimulus from Congress and the President has also been hitting the media tape but more importantly, we hope the pocketbooks of individuals and businesses. Notable among the measures was Phase 3 or the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Totaling over $2 trillion, it expands unemployment benefits, provides direct payments of $1,200 to many U.S. adults, aids small businesses, and provides money to the healthcare and airlines sector, along with many other provisions. Taken together, it is the largest rescue package in U.S. history. Extraordinary actions indeed.

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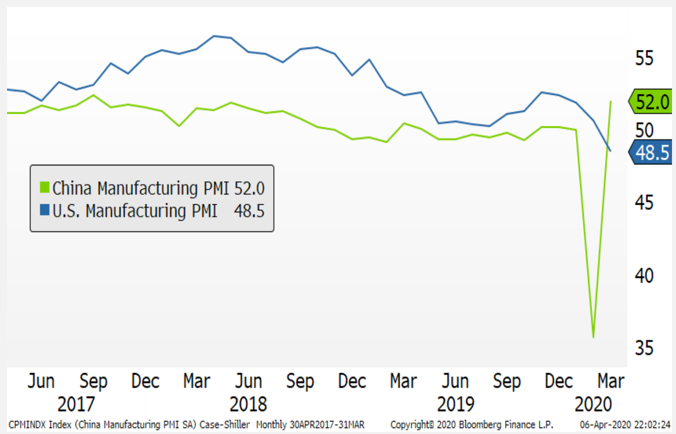
SCAN IT & GO

SECOND QUARTER STRATEGY

While we are expecting a flattening of the virus curve and lower market volatility in the months ahead, we cannot downplay the significant human, societal and economic havoc this pandemic has already caused. We are monitoring COVID-19, credit spreads, China and the consumer for clues to the fixed income future. While we realize that the U.S. in not China, it is somewhat encouraging that recent manufacturing there had indicated a quick upturn.



Source: Bloomberg, China Federation of Logistics, Markit

We are currently maintaining an energy underweight as the price of oil remains depressed with a lot of capacity waiting in the wings. We also continue to trim our bank and finance exposure as the low rate environment is difficult for banks. Broadly speaking, we feel that valuations are quite compelling across most sectors, so we balance attractiveness with liquidity, as the backdrop is still uncertain. One of the current bright spots within our purview is the new issue corporate bond market, where we have been active participants.

With regard to interest rates and duration, we feel the market may actually be underestimating the United States' ability to recover from the COVID-19 crisis. We are aware that the aforementioned Fed purchases of treasuries could tail off in the fall, leaving a vacuum of buyers and potentially higher interest rates, so we maintain a slight duration underweight relative to our respective indices.

We thank each of you for your fortitude and wish you all good health. Together, we will get through this.

Sincerely,

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*Performance is preliminary and gross of fees.

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