**Investment Update**
*First Quarter 2020*

Everyone from the Boston Family Office hopes that our clients and readers are healthy and safely navigating these bizarre times. We have been successfully operating remotely from our homes since the Ides of March, and all remain free of Covid-19 symptoms. There is nothing we can say about the global spread of this virus with any authority, or that you have not read elsewhere. With the benefit of hindsight there were missteps in many government's response, but there was no playbook for this situation, and we are hopeful the experience will provide valuable lessons for fighting the next virus. There will be massive economic consequences of social distancing, but an unprecedented scientific effort is underway to get the world back to some semblance of life as we knew it as soon as possible. Therefore, we are also hopeful this year's stock market performance will prove to be a painful blip in the longer-term charts.

| **Equity Markets (Total Return)** | **1Q'20** | **1-Year** | **3-Year*** |
|---|---|---|---|
| Dow Jones Industrials | -22.7% | -13.4% | 4.4% |
| S&P 500 | -19.6% | -7.0% | 5.1% |
| S&P Mid-Cap | -29.7% | -22.5% | -4.1% |
| S&P Small-Cap | -32.6% | -25.9% | -5.3% |
| MSCI All-Country World | -21.4% | -11.3% | 1.5% |
| MSCI Foreign Developed Markets | -22.8% | -14.4% | -1.8% |
| MSCI Foreign Emerging Markets | -23.6% | -17.7% | -1.6% |
| *annualized | | | |
| **US Bond Markets (Total Return)** | **1Q'20** | **1-Year** | **3-Year*** |
| Barclays US Govt/Credit Intermediate | 2.4% | 6.9% | 3.8% |
| Barclays US Govt/Credit Long | 6.2% | 19.3% | 9.7% |
| BAML Municipal Intermediate | -0.7% | 2.7% | 2.8% |

In our last investment update we dug up several topics from earlier in the recently closed decade that barely cross peoples' minds any more. It has only been three months, but do you remember that we started this year off with the U.S. and Iran exchanging missile strikes and Australia engulfed in flames? Or that we are supposed to be in the midst of a quadrennial event known as the Presidential election campaign? It is hard to even begin to summarize all that has transpired in the markets during the quarter as the coronavirus spread across the entire world. The situation seems to be changing every hour, yet events of last week somehow can feel like they happened months ago.

The stock market had had a strong start to the year, continuing a largely uninterrupted 17% increase in the S&P 500 from October 2nd through February 19th. Stocks were susceptible to a pullback at that point, regardless of the cause, as fundamentals had not improved commensurately, and a lot needed to go right to maintain the elevated valuations. Virus cases had just started to pop up outside China after plateauing there, and Apple became the first major company to alter their outlook because of the virus.

What followed was a stunningly rapid deterioration in market prices, with the S&P 500 falling 10% and then 20% faster than ever before, and eventually closing 34% lower on March 23rd. Every single publicly tradeable asset class except for short-term Treasuries got caught up in the cascade of selling and experienced dislocations in prices, market function, or both. The benefits of diversification temporarily proved elusive, with only cash worth holding its value. The investors selling in those moments were those who had to, and they were willing to accept what seemed like unreasonably low prices on even safer investments in order to avoid selling others at even lower or more distressed prices. We are pleased that for the most part our clients had sufficient cash reserves that we were not forced to sell in this market environment.

Markets calmed considerably late in March after the Federal Reserve announced its willingness to purchase unlimited amounts of bonds of nearly any kind, Congress appeared poised to pass a $2trillion stimulus package, and the G7 and other monetary and fiscal authorities also made clear that no expense would be spared to backstop the global economy. Stock prices rallied sharply but still remain well off the February all-time highs, appropriately so given the unknown economic fallout of fighting the virus. With all of the liquidity injected into markets, prices in most other asset classes have returned to more rational levels. We have no doubt that the health-related headlines could continue to deteriorate, and that the economic headlines will be astonishingly bad. However, even if the stock market once again heads lower, we believe that the panic selling on display in March is over, and that stocks already discount a considerable amount of bad economic news.

Three months ago, few would have argued with the idea of including a pandemic amongst potential black swan events that could affect the stock market, but the nuances and scope of the economic slowdown being brought on by widespread social distancing were hard to anticipate. For instance, drug development for anything not related to Covid-19 has slowed down sharply because patients are restricted from participating in trials, affecting an otherwise typically defensive sector of the economy. Businesses might expect to see their revenues fluctuate, but not go to zero. Against that backdrop, we continue to believe in our investment approach of buying stocks in individual companies. The current situation has required a reevaluation of how these companies will perform in such an unexpected environment, but we feel it is easier to reach a positive conclusion on a collection of stocks examined one by one and stay the course than it is to do so on "the market." The U.S. economy was in reasonably good shape before shuttering it became the primary means for arresting the virus' spread, until more effective and less disruptive solutions are developed. Clearly some industries will have a harder time recovering than others, but the economic downturn will, for most people, have been caused by an inability to spend, not a lack of willingness. The stock market is always looking forward to what is to come rather than what is happening in the moment, and it is hard to argue that we will not eventually return to normal, even if we have to have our temperature taken before going in to a museum or sporting event.



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