Dear xxxx;

Taking a line from Jeff Bezos, “This isn’t business as usual; it’s a time of great stress and uncertainty… There is no instruction manual for how to feel at a time like this.” As your financial advisor, I am here for you. Whether you need financial guidance or someone to talk to, please know that I am available any time day or night. To better understand my personal views on the future of the US economy, I want you to be aware that I have spent this quarter investing more of my personal finances in the market and adjusting my own allocations to be more aggressive.

Before discussing the events that shaped the quarter, it is important to understand the overall performance of the market during the last three months. On March 3rd, the 10-Year US Treasury fell below 1% for the first time in history. By March 8th, the 10-Year US Treasury hit an intra-day all-time low of 0.318%. After a bit of stabilization in both the US equity and bond markets, the 10-Year closed the quarter at 0.677%.

While fixed income was up (+2.27%) this quarter, US Stocks (-21.25%), International Stocks (-23.86%), and Commodities (-42.34%) saw significant reductions in value. While the US market is higher than its March 23rd lows, it is still sitting in bear market territory from its all-time high reached in mid-February. This letter will provide an analysis of the major geopolitical and financial events that shaped the quarter.

Coronavirus

Originally called “2019 novel coronavirus” or “2019-nCoV” it is now called “coronavirus disease 2019” abbreviated as “COVID-19”. COVID-19 is essentially a new strain of a corona virus that has not previously been identified in humans. COVID-19 can be traced back to a shrimp vendor who developed a cold on December 10th at a meat market in Wuhan, China. On March 11th, the World Health Organization (WHO) declared COVID-19 a pandemic. A pandemic is defined as “the global outbreak of a disease.” COVID-19 has brought the world as we know it to a standstill. Citizens of countries across the globe are being asked to stay home, to work remotely or shut down their companies altogether, and to social distance when they are outside. Many jobs have been lost and will continue to be lost until this pandemic is under control. As of 9am on March 31st, COVID-19 has infected 803,650 individuals across the globe, killing 39,033. Companies and countries across the globe are racing not only to find a vaccine but also to produce protective equipment for all citizens of the world fighting this disease from the frontlines.

Federal Reserve Actions

During 2019, a gangbuster year for the markets, the Fed cut rates three times. During 2020, As COVID-19 spread across the globe, the Fed initially lowered rates by 0.50% and then by a further 1.00% placing the target rate between 0.00% and 0.25%.

As the economic fallout from COVID-19 grew, the Fed announced the following actions:

- Quantitative easing through the purchases of bonds in the open market
- $2 trillion of liquidity was added to the banking system enabling the banks to have more cash on hand

- Purchases of commercial mortgage backed securities (CMBS)
- Purchases of corporate bonds and bond ETFs
- Establish lending facilities for large companies to help with ongoing operations and new debt issuance
- Bringing back the 2008 recession Term Asset-Backed Securities Loan Facility (TALF) to support the flow of credit to consumers and businesses
- Providing liquidity to the municipal bond market
- Creation of a Main Street Business Lending Program to lend money to small and midsize businesses

It is very likely that the US is currently in a recession. Jerome Powell continues to indicate that he will do whatever is necessary to stave off a US depression. He has explained that if necessary, he will ask for congressional approval to purchase US equities and equity ETFs to help prop up the US stock market. While this does not represent free market capitalism, it may be necessary to prevent a true depression from taking hold.

Democratic Primary

In February, before COVID-19 dominated the news, the initial market shocks began because of the fear that Bernie Sanders would win the Democratic nomination. However, as Joe Biden gained momentum and Bernie Sanders faded off, the market quickly realized that neither Biden nor Trump would be inherently bad for the US economy and US businesses.

Fixed Income

On a macroeconomic level, equities and fixed income (bonds) are inversely correlated. This means that, typically, when the prices of equities go up, the price of bonds go down. This occurs because investors sell bonds to buy equities and vice versa. As bonds are purchased their price increases and their interest rates (yields) decrease.

As the US market collapsed in late February and early-to-mid-March, the US bond market uncharacteristically sold off in conjunction with the equity market. In fact, even gold and bitcoin, asset classes typically uncorrelated to the US stock market, sold off as well. Investors that had used leverage to profit on 2019's gains began facing margin calls. Forced liquidations pulled all markets lower. The US financial markets saw a substantial flight to cash. Equities are more liquid than bonds, so these positions were sold first. When investors sell bonds to meet margin calls, they can't worry about what price they are getting, all they know is they need to sell. In early March, as the selling of fixed income securities got more aggressive, both the prices of bonds, and their yields plummeted.

When both yields and prices fall it meant the bond market was dislocated. This dislocation was fixed when the Fed began purchasing bonds and stabilized the municipal bond market. March 20th marked the end of the dislocation in the fixed income market as it represented the first day in the market rout where bond prices moved inversely to equities.

Oil

The Organization of the Petroleum Exporting Countries (OPEC) was established in Iraq in 1960 with the mission of “ensuring the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry.” Countries and US producers need different oil prices to balance their budgets. These prices range from $40 per barrel for Russia to $200+ per barrel for Venezuela.

As the COVID-19 cases ticked upward, global travel and manufacturing screeched to a halt, and it became clear that global demand for oil would drop dramatically. In early March, Saudi Arabia and Russia met to discuss lowering production to increase the price of oil considering this projected decrease in demand. Unable to agree on a deal, both countries instead decided to ramp up production with the aim of outlasting the other country. This caused the price of oil to drop to $20/barrel, a price not seen since September 2001. (My understanding is that Saudi Arabia decided to push the price of oil down- to punish Russia- as Saudi Arabia has a much lower cost of production)

In early March, the US Energy Information Energy (EIA) predicted global demand for oil would fall by about 1 million barrels per day in Q1 2020 compared with the same period in 2019. By the end of March, banking analysts across the US began suggesting that true oil consumption would decrease by 10-25 million barrels per day. If these estimates become reality, the price of oil could fall to $10/barrel or below. Depending on the duration of over-production and COVID-19 reduced demand, these low oil prices will not only bankrupt US companies, but potentially bankrupt entire oil producing countries.

It is in the best interests of the US oil industry for President Trump to work on improving the dialogue between Russia and Saudi Arabia in order to better balance the global level of oil production with demand.

Global Fiscal Responses

As COVID-19 spread the globe, countries began releasing major stimulus programs to try to prevent their citizens and businesses from entering a depression. Countries worldwide have announced interest rate cuts and stimuli worth billions if not trillions of dollars to help their citizens and companies survive. In conjunction with the actions taken by the Fed, the US passed three stimulus measures in March.

On March 6th, President Trump signed a $8.3 billion bill to fund research on a vaccine, give states and local governments and allies funds to fight the virus. On March 18th, a $100b stimulus bill was passed which includes provisions for paid sick leave, free coronavirus testing, expanded food assistance, additional unemployment benefits, and requirements that employers provide additional protection for healthcare workers. On March 27th, the largest stimulus bill in the history of the US was signed into law.

The $2.2 trillion stimulus package has many complex features all aimed at supporting the citizens and businesses harmed by COVID-19. Highlights of the bill include:

- $367 billion Paycheck Protection Program (PPP). Forgivable loans for small businesses to help cover eight weeks of payroll, rent/mortgage, and utilities. Mark Cuban posted a very detailed explanation of this program on his LinkedIn profile.
- Expansion of unemployment benefits to include furloughed workers, gig workers and freelancers. These workers will receive $600/week in addition to traditional unemployment wages
- Direct payments to families of $1,200 per adult and $500 per child for households making up to $75,000.
- Over $130 billion to hospitals, healthcare systems, and providers
- $500 billion for loans to corporate America
- Cash grants of $25 billion for airlines, $4 billion for air cargo carriers, and $3 billion for airline contractors
- Ban on stock buybacks for large companies receiving government loans during the term of their assistance plus one year
- $150 billion to state and local governments
- Suspension of required minimum distributions for IRA accounts
- Penalty removed for withdrawals from pre-tax retirement accounts (highly discouraged)

There are two major drawbacks of this stimulus plan. First, depending on how long it takes to develop a vaccine for COVID-19 and get the world back to work, this $2.2 trillion program will not be enough money. In fact, congress is already prepping for phase four of the COVID-19 stimulus program. The second drawback is that it may be difficult for the average individual or small business to access the money they have been promised. Each state has a different process for dispensing the additional unemployment benefits. If you qualify for this assistance, make sure you have properly filed for both unemployment and Pandemic Unemployment Assistance with your state. As for the PPP, we have been unable to find any online applications for these loans.

It is our belief that the segment of the population who will benefit most from the PPP are owners of single member pass through entities that generate large annual profits. You may remember these same individuals were delivered the greatest benefit from the 2017 Tax and Jobs Act as well. These individuals can take large PPP loans and use the proceeds to pay themselves inflated salaries for eight weeks and then have these loans forgiven.

2020 Market Outlook

COVID-19 will continue to wreak havoc on global economies until the world can either get a vaccine developed or find a way to reduce the spread of the virus. Global stock markets will remain volatile during this period. Some sectors will report amazing earnings and revenue numbers (groceries, healthcare, technology) and some sectors will report terrible earnings and revenue numbers (hospitality, airlines, oil & gas). Unemployment numbers will peak in the tens of millions. Large numbers of people across the US and world will fall ill and many will pass away. However, humans are resilient, and we will persevere. We will grow stronger from this crisis and we will be better prepared for the next disruption.

We believe that by this summer economies will begin opening back up, travel will pick up, and the world will start getting back to a pre-COVID-19 version of normal. The US market as represented by the Wilshire 5000 began the year at 33,261. We believe the index will finish the year above 30,000 and above 35,000 by the end of 2021.

In conjunction with COVID-19 and the lower Federal Funds rate, US mortgage rates are down, however, they are not nearly as low as many people expected. We believe rates will continue to fall as we enter the summer months and world gets back to normal. If you are wondering what to do, be bullish, we certainly are.

Conclusion

Between February 19th and March 23rd, the US stock market tumbled more than 35% from its all-time-high to a multiyear low. It took just 20 days for the US to enter a bear market, making it the fastest bear market slide on record. Granted, the US market closed the quarter up 17.97% from the intraday low reached on March 23rd.

Stock markets around the world tend to move based on future projections and expectations. The worst is yet to come for the virus in the US, however, it is possible that as it relates to the stock market, the worst may be behind us. On Monday, March 23rd, Bill Ackman went on CNBC claiming that COVID-19 was worse than anticipated and would essentially destroy the US and world economy. As the US market hit intraday lows, Ackman exited his shorts and used his $2.8 billion profit to buy stock in US hotel chains. We believe this moment of "fear" signified a market bottom.

Our algorithm and your performance benefited from the volatility witnessed in the US stock and bond markets during the first quarter. While you may have seen an uptick in the number of trades processed this quarter, each of these trades enabled us to deliver improved performance over the long run. Also, it is important to remember that all trades are free. As markets fall, we buy and as markets rise, we sell. Our algorithm thrives on volatility. Your portfolio may be down, but you are doing better with us than had you used a traditional buy and hold strategy.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures on your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. I am always available to answer any questions you may have.

Best regards,

Gabriel

GA Pincus Funds
Gabriel Pincus, President
1574 Woodbury Court
Brentwood, TN 37027

www.gapincusfunds.com
m: 917-597-1450
e: gabriel@gapincusfunds.com