MEMORANDUM

Another tough week in the markets. We started the weekend with Saudi Arabia flooding the oil markets with supplies causing Brent oil futures to drop 25% by the open on Monday. By mid-week we reached bear market territory (down 20% from peak on February 19th). The VIX (measure of volatility) spiked to levels last seen in the Financial Crisis. This week the bond market showed signs of stress with gaps in bids on investment grade and high yield bonds (due in particular to the large amount of high yield energy paper) down 6-7% respectively.

This week we have seen the response of governments and businesses to the coronavirus. The closure of events, meetings, schools, and general activity will negatively impact the economy. It is important to understand that this is a health-driven crisis, where duration is the key determinant of the magnitude and that is not known. HOWEVER, this event will have a duration and is NOT a financial crisis. Unlike 2008, potential systemic concerns such as the health of banks and financial institutions are not the issues.

As we write this the markets have bounced back likely due to the hopes for the upcoming stimulus packages from Congress that seem imminent. This fiscal stimulus combined with monetary stimulus we are seeing around the Globe, should help to mitigate the downturn. The Federal Reserve has been supplying liquidity to the markets each day this week, and they stand ready to continue.

These markets are not easy to live through and are truly unsettling to people. Please remember that in times like this, NOT making major changes and/or decisions is most often the best scenario. We have seen rough patches before. Below is a chart detailing market declines including declines related to health events. After each decline the markets have rebounded.

We will continue to update you as things unfold.