The Cobblestone Advisor

Investment Brief

April 3, 2020

COBBLESTONE CAPITAL ADVISORS

These Unprecedented Times

First and foremost, we hope that this letter finds you and your loved ones well. These are certainly unprecedented times we live in.

The COVID-19 global pandemic is rapidly evolving, leading to a state of flux in global financial markets and economies. The ongoing fluidity of the situation makes it increasingly important to assess in real-time, so we have increased our external communications in recent weeks, including several emails covering Investment Updates, Planning Alerts, and Frequently Asked Questions to address common issues being raised by our clients. We encourage you to review these communications if you haven't already, and to share your questions with us by sending them to your Cobblestone Relationship Manager or directly to CCAInvCommTeam@cobblestonecap.com.

First Quarter Review

Following an exceptionally strong year for US equity markets in 2019 (+31.5%), the longest bull market in history ended in March after an 11 year run. Domestic stocks ended the first quarter down -19.6%, marking the worst first quarter for the S&P 500 on record, and the worst quarter since the final three months of 2008 during the depths of the Global Financial Crisis. Small cap stocks (-30.6%) and international equities (-23.4%) experienced similarly poor performance, as did nearly all risk asset classes.

Bonds continued to act as a buffer in multi-asset class portfolios, with the Bloomberg Barclays US Aggregate Bond Index—a measure of broad US fixed income markets—up +3.1% for the quarter. Fixed income performance was largely driven by US government bonds (+8.2%), with investors preferring higher quality, longer duration securities over corporate credit (-3.6%).

Viewing first-quarter market dynamics in hindsight, the pain experienced by investors in risk assets does not come as a surprise, though perhaps what was surprising was the swiftness of the market reactions. A flight to quality was back in vogue, as a notable percentage of the global population began quarantining, which essentially brought economic activity and risk-taking to a grinding halt.

To counteract the related effects of the quarantine, monetary and fiscal policymakers acted quickly by rolling out programs and legislation designed to support individuals, businesses, and critical market functions. In aggregate, stimulus measures enacted by the Federal Reserve and US government to date dwarf those put forth during the Global Financial Crisis (see exhibit on following page). In addition to being larger in scale, the measures were broader in scope and came together much more quickly. In light of the rapid deterioration in financial markets and economic conditions that resulted from the spike in uncertainty surrounding COVID-19 and the draconian measures put in place across the globe to slow the spread of the virus, we view the countermeasures thus far as appropriate. While unlikely to prevent a notable hit to the US economy, the actions taken should help cushion the blow and allow the US economy to stay afloat through the crisis. Please see our March 27th FAQs email for more specifics on the monetary and fiscal policy response.

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Total Return (%), Ending 3/31/2020				Annualized		
	Qtr	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Stock Index	-19.60	-19.60	-6.97	5.09	6.71	10.51
Russell 2000 (Small Cap Stocks)	-30.61	-30.61	-23.93	-4.64	-0.25	6.90
MSCI EAFE (International Stocks)	-22.83	-22.83	-14.34	-1.82	-0.62	2.71
MSCI EM (Emerging Markets)	-23.60	-23.60	-17.64	-1.62	-0.37	0.68
Bloomberg Barclays US Aggregate Index	3.15	3.15	8.91	4.82	3.35	3.88
Dow Jones US Select REIT	-28.52	-28.52	-23.90	-4.28	-1.42	6.88
Consumer Price Index (% Chg over Period)	0.23	0.23	1.95	2.05	1.88	1.77

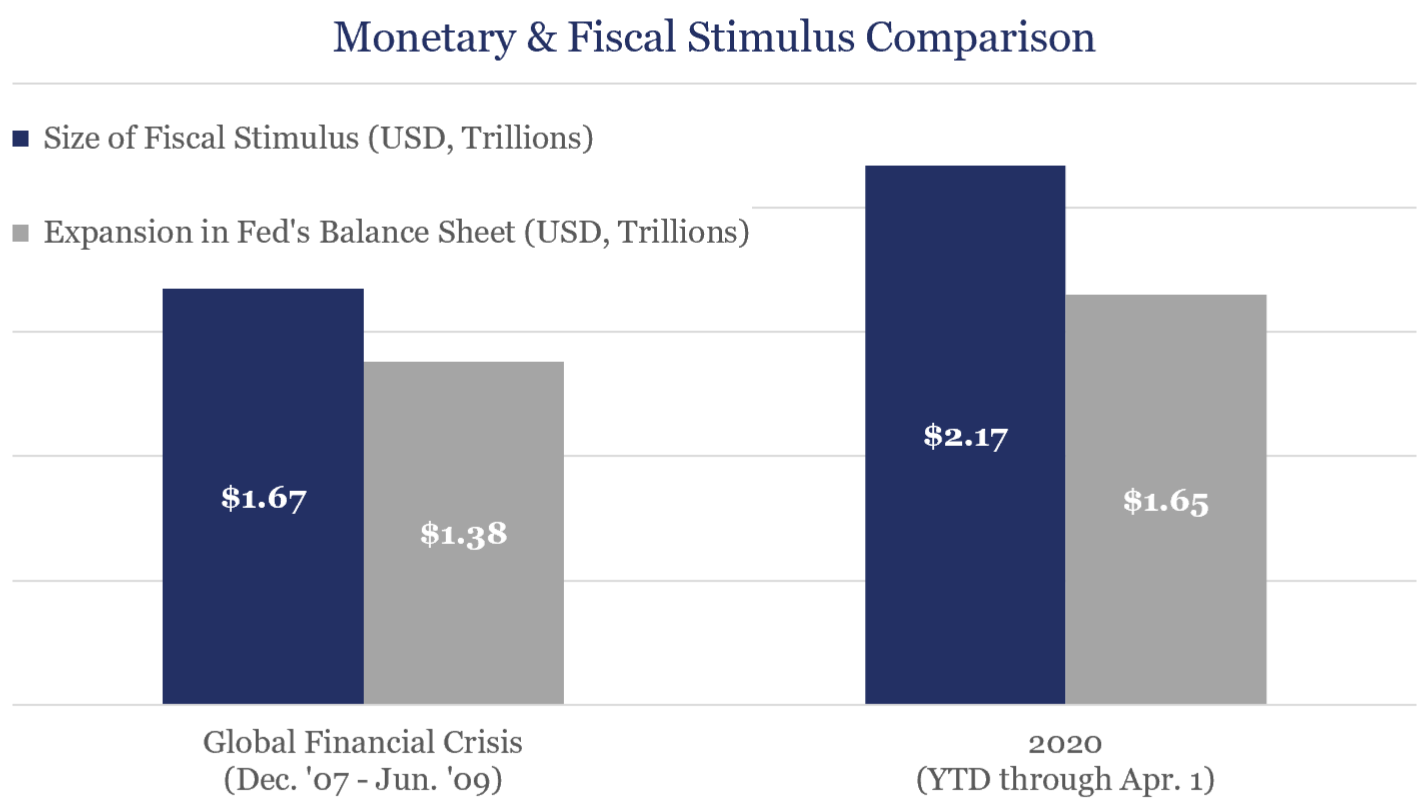
To be sure, an elevated level of uncertainty remains regarding the overall impact the pandemic will have on the US and global economy. A significant number of transactions and data points are set to occur and be released during the month of April. Whether individuals and businesses are paying their rents, mortgages, and other bills on time, and how the economic impact is reflected in the economic data are some of the questions that we will get more clarity on over the next few weeks. As we do, we will be sure to communicate our most updated thinking.

The Importance of Rebalancing

While all clients have different circumstances that govern how we manage their portfolios, we remain committed to taking the measured, disciplined steps necessary to ensure that portfolios are appropriately positioned for the long-term. What this means, in practice, is that for most clients invested in multi-asset class portfolios, we have been purchasing stocks during this market decline in order to keep portfolios in line with their long-term targeted equity exposure. Taking these actions is the only way to position portfolios to participate in a market recovery with the same exposure to stocks as they had during the decline.

For example, a portfolio that was invested 60% in global stocks and 40% in US bonds on December 31, 2019, would have experienced a drop in stock exposure to just above 50% on March 23rd without any rebalancing having taken place in the interim. We believe that the best way to counteract this decline in equity exposure is through a series of partial rebalancing transactions throughout a market drawdown. The goal is not necessarily to get the timing of any given equity purchase exactly right. The goal is to make sure the portfolio is positioned to fully participate in the market recovery that will inevitably follow this downturn.

Our primary focus during these difficult times is to 1) communicate regularly with our clients in an attempt to provide perspective on the markets and how the current environment impacts their long-term plan and 2) continue to make the portfolio adjustments that are necessary to ensure that client investments remain positioned to best achieve those desired long-term outcomes. Please contact us any time if you have questions about these or any other topics that we can be of assistance with.



Source: US Bureau of Economic Analysis; US Government; US Federal Reserve; Bloomberg