INVESTMENT SPOTLIGHT

FIRST QUARTER - SPRING 2020

"To be an ideal guest, stay at home."
- E.W. Howe"

We are hopeful that this letter finds you and your families healthy and safe at home. Since the time of our last quarterly letter, the COVID-19 Coronavirus has changed the way we all live our lives. What was initially viewed as a tragic viral outbreak in a distant country became a source of fear and panic and a harsh reality in the United States at an alarmingly rapid pace. In a matter of days, the country went from a shared concern about how severe the pandemic may become on our shores into a state of lockdown to mitigate the spread of the deadly virus. Schools, restaurants, bars, professional sports and all manner of group leisure activities came to a grinding halt.

No one could have foreseen the extent of the toll the pandemic has taken, and all-encompassing lifestyle changes we have all experienced over the past weeks. The impact of such dramatic actions to maintain "social distancing" on our economy will be sharp and take time to fully understand. The most seasoned medical professionals are the first to point out that there is much yet to be understood about the situation and guesswork and opinions shared by others whom are less qualified has increased uncertainty and, in some cases, created panic. Look no further than the paper products isle of your local grocery store for a sense of the human behavior associated with fear of the unknown. As one would expect, financial markets have been negatively impacted as with past times of uncertainty. While the root cause of the panic is different than in past market pullbacks, the reaction function of human behavior is not.

Just as medical professionals have been quick to mobilize to combat this urgent condition, so too have fiscal and monetary authorities with a playbook developed over multiple past financial shocks, and most certainly heavily influenced by the financial crisis of 2008.

The Federal Reserve, U.S. Treasury, legislative and executive branches of the government responded with multiple forms of economic stimulus that will easily dwarf any other period in our country's history when all is said and done. The Federal Reserve acted swiftly and decisively, twice cutting rates outside the normal meeting dates for the first time since the great financial crisis. Three new emergency facilities were put into place to buy up assets, make emergency loans and bolster liquidity in short-term money markets. The House and Senate passed multiple bills including an over $8 billion immediate spending package to help Federal agencies respond to the virus and a subsequent record economic stimulus package, known as the CARES Act, providing over $2 Trillion dollars to families and companies hardest hit by the pandemic. Numerous other legislative changes were enacted to help ease the financial burden of our citizens including an extension of the tax filing and payment deadline, student loan payment extensions and a moratorium on foreclosures.

The response to financial hardship created by the shuttering of workplaces across the country has been immediate and aggressive, and more is being considered including an incremental $2 Trillion infrastructure spending bill. The added debt will weigh on an already bloated federal deficit but keeping the country's economic engine prepared to fight another day when the cloud of the deadly virus leads to clearer skies has taken priority. ■

Economic Review & Outlook

It now appears quite likely that the longest economic expansion in history will end not long after the longest bull market on record concluded last month. As would be expected given the rapid life changes impacting everyone in some way, near-term consumer confidence and future sentiment has declined markedly. In the course of a few short weeks, the robust labor market deteriorated from a half century low level of unemployment to weekly jobless claims spiking to levels multiples above the highs not seen since the early 1980s. Economists suggest that unemployment may reach new record highs into the teens in coming months.

Manufacturing and services industries have understandably slowed considerably. Inflation has been weighed down by declining oil prices. Typical measures of food and restaurant prices, airfares and other goods and services will be challenging to assess for the time being. Demand from pent up consumption may boost prices on the other side of this medical crisis, but a structural long-term rise in inflation is not anticipated.

	Q1 2020
Communication Services	-17.0%
Consumer Discretionary	-19.3%
Consumer Staples	-12.7%
Energy	-50.5%
Financials	-31.9%
Healthcare	-12.7%
Industrials	-27.1%
Information Technology	-11.9%
Materials	-26.1%
Utilities	-13.5%

We entered the first quarter of 2020 with an economy on solid footing, buttressed by a strong labor market, low and stable inflation, robust consumer confidence and manufacturing levels able to support steady, albeit modest, GDP growth. The impact of the exogenous shock of a global pandemic on this economic environment will be swift and broad. What differs from this to past periods of economic strain, however, is that there is a discernable finite end point. As we are starting to see in other countries, the curve of new infections will flatten and a clearer path to navigate this medical crisis will come into focus. The vast resources being employed will lead to progress in treatment and containment. The creation of a vaccine will be the ultimate end game to a return to a higher level of normalcy in everyday life. In the process, the monetary and fiscal tools being employed that are pumping record amounts of stimulus and liquidity into the economy will go a long way toward keeping families and companies afloat in harbor until it is all clear to get our country's economic machines firing on all cylinders again. ■

Bond Market Review & Outlook

Fixed income assets provided investors with much needed portfolio diversity in the first quarter, for the most part providing positive returns for the period. As would be expected, lower rated, higher yielding credits (particularly debt of energy companies) experienced drawdowns commensurate with their inherent risk. Plimoth's focus on high quality corporate bonds was a source of value add to portfolios.

The norms of fixed income trading earlier in the quarter did not hold up in the final weeks as volatility spiked. Fixed income markets took a path normally reserved for riskier stocks for much of the month of March. Panicked sellers initially looked to the safety of U.S. Treasuries, but reminiscent of past periods of extreme volatility sold any and all financial assets in an indiscriminate fashion seeking the haven of U.S. dollars and little else. An increased appetite for the safest stable Net Asset Value (NAV) money market funds led to a watershed shift from floating rate money funds. The influx created enormous demand for short-term treasury bills, driving rates on the 3-Month and 6-Month UST Bills into negative territory, a situation foreign to U.S. sovereign debt investors. U.S. Treasury yields across the curve declined rapidly in the final month of the quarter. Remarkably the entire Treasury yield curve slipped below 1% for the first time in recorded history before longer rates rose modestly by quarter end.

	Q1 2020
Cash:	
FTSE 3 Mo. T-Bill Index	0.4%
Taxable Fixed Income:	
Barclays US Agg. Bond	3.2%
Barclays Govt./Credit Int.	2.4%
Barclays Govt./Credit Long	6.2%
BofAML High Yield Index	-13.2%
Tax Exempt Fixed Income:	
Barclays Muni. 5 Year	-1.0%
Barclays Muni. 7 Year	-1.0%
Barclays Muni. TR	-0.6%

An influx of liquidity by the Federal Reserve has done much to keep bond and money markets operating effectively. The Fed moved to cut interest rates in two (off cycle) emergency announcements to the zero-lower-bound. Emergency interventions pumped enormous amounts of liquidity into financial markets with the Fed's buying extending well beyond typical U.S. Treasuries and mortgage-backed securities, into commercial paper and corporate bonds. ■

Stock Market Review & Outlook

Panic-driven selling pervasive in the U.S. stock markets and around the world led to an end of the longest bull market in history. Stocks closed the first quarter lower by 20% as measured by the S&P 500 Index. Volatility was reminiscent of the 2008 financial crisis; the last time U.S. stocks experienced a calendar quarter drawdown of this severity. Equity volatility as measured by the VIX Index (often referred to as the "fear gauge") reached new all-time highs in March, exceeding levels not seen since the financial crisis. Futures markets were halted at both limits up and down and trading circuit breakers kicked in multiple times to pause volatile swings. From the new market highs set as recently as February 19th, U.S. equities fell into a bear market in a record period of only 19 trading days. From peak to trough, the S&P 500 declined by 34% in just over a month's time before recovering a meaningful amount of the downside with a 15% rise from the low through quarter end.

	Q1 2020
DJIA Index	-22.7%
S&P 500 Index	-19.6%
Russell 2000 Index	-30.6%
MSCI EAFE Index	-22.8%

All sectors of the S&P 500 experienced deep double-digit declines. Energy companies were by far the weakest with the sector losing half its value during the period. Plummeting oil prices, based on ill-timed oversupply by Saudi Arabia and Russia, and cratering demand by consumers remaining at home weighed heavily on the already struggling industry. Despite the incredibly cheap valuations in the sector, ongoing supply and demand headwinds are too strong to make these bargains look attractive for the time being. Information Technology stocks held up better than other segments of the market during the drawdown. Companies with ample cash and strong balance sheets were held on to more than others in a sector poised to benefit from a rapid shift to more online communication, work and learning. More defensive sectors such as Consumer Staples, Healthcare and Utilities experienced less of a pullback as well.

Forward earnings for many companies remain cloudy in the near-term. For this reason, we have shifted our company analysis to focus in on the more knowable elements of their strength by taking a deep dive into corporate balance sheets. With future revenues and earnings flowing through the income statement being questioned, balance sheet strength will help identify the companies most likely to come through this crisis in good stead. Factoring in this type of credit analysis beyond the selection of individual corporate bonds and into our equity research is nothing new to the team at Plimoth, but the importance of fortress balance sheets in our research has taken center stage at this time. ■

Closing Thoughts

We will leave the medical assessment of this crisis to those with the appropriate expertise, continuing to digest the myriad of information being reported on the spread of the deadly disease. We are remaining vigilant with ongoing research and analysis of the impact COVID-19 is having on the economy and specific companies. Acknowledging a sharp economic pullback is unavoidable, we remain optimistic that unprecedented levels of economic stimulus and pent up demand from sheltered consumers will bring us out of a likely recession (two consecutive quarters of negative GDP) on the other side. While every market crisis is unique, event-driven economic shocks of this nature have proven to be far shorter in duration in the past than structural or cyclical bear markets. News of continued slowing of the spread of the virus in countries which have gone through the worst of it before the U.S. point toward light at the end of the proverbial tunnel.

While negative economic data, such as employment, manufacturing and Gross Domestic Product may enter uncharted territory over the next few months, we must remember the cause. The government intentionally shut businesses down to preserve human life. This was not an economic or financial crisis causing such negative implications. Ultimately, the government will reinitiate activity, and in the meantime is implementing the policies previously mentioned to mitigate the economic hardships for both individuals and businesses. The impacts of this self-imposed economic slowdown depend on the required duration. To gauge this, we must look to the experts in the medical community that are now suggesting we are approaching the peak in virus activity. Should this ultimately be the case, it is reasonable to believe the government will begin considering re-opening parts of the economy or regions of the country in the not too distant future. The administration has suggested the creation of a new economic task force that will work with the existing healthcare task force to determine the safest way forward to reignite the U.S. economy.

The time to prepare portfolios for market shocks of this nature is before they happen. Despite brief periods of rising correlations between asset classes in periods of panic by market participants, maintaining diversification in a mix of assets with varied risk and return characteristics has provided ballast to portfolios. In spite of the many uncertainties that this challenging time has brought upon all of us, we feel confident saying that the type of sound high quality companies we invest in on behalf of our clients will navigate the modified landscape and continue serving their customers for years to come. When the panic and heightened volatility created by speculators subsides, long-term investors will once again be rewarded for staying the course with investment strategies and financial plans put in place in more rational times.

With our thoughts on the safety of our clients and employees, we are doing our part at Plimoth to help curb the spread of COVID-19 by following the direction of Governors Baker of Massachusetts and Lamont of Connecticut by having the majority of our staff working remotely from home. Your account officers remain as available to you as ever during this time and if we can be of assistance to you in any way, please do not hesitate to call us at the numbers provided. ■

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