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Update on Recent Market Volatility

Capital markets have become more volatile as a result of the global pandemic. The Federal Reserve lowered short term interest rates another 100 basis points to 0% and began a quantitative easing program, purchasing $700 billion of Treasuries and Mortgage Backed Securities. These actions have provided some liquidity to the markets. The COVID -19 crisis requires accommodative fiscal policy as well, to help ease the burden on small and medium sized businesses and individuals who might be laid off or have their wages greatly reduced. An accommodative fiscal policy will provide support to the weakening economy. Volatility in the stock market has been exacerbated by program trading, margin calls and reduced liquidity. These are some of the factors that have accentuated market swings in either direction.

In the next few weeks, we will have a better sense of the real economic impact of the virus. The market often deals with uncertainty by putting extra emphasis on a worst-case scenario. Client equity and bond portfolios are invested in the largest and most resilient U.S. stocks and investment grade bonds, which can withstand such intermittent shocks and will be able to manage through this pandemic over a longer-term basis. In fact, some will find advantages to leverage and grow in spite of the situation. The risk parameters that we have in place, no one sector greater than 35%, no one industry greater than 20% and no one company greater than 5% are serving to provide a measure of protection of the assets as expected. The sell discipline remains in place to review any holding that has under-performed the overall market 10% to determine if the fundamentals have changed. Finally, the portfolios have been carefully positioned to exclude deep cyclical sectors such as Chemicals, Materials, Domestic Airline carriers and have an extremely underweight position in Energy thereby avoiding some of the hardest hit areas of this market decline. Instead, AHB equity portfolios have Consumer Staples, Financial Services, Information Technology, Health Care, and Defense which are all integral to providing the backbone of an economic recovery. Our team is monitoring this dynamic situation closely and will assess the risk accordingly to determine if any portfolio actions are required.

The AHB Municipal Bond strategy is aligned with a high net worth client who is focused on preservation of capital. AHB's municipal bond investment strategy dictates investment in municipal bonds with a minimum credit rating of “A-/A3” or higher. The universe of municipal securities for this strategy includes General Obligation and Essential Revenue bonds while avoiding more cyclical issues such as Airports, Health Care, Stadiums/Arenas, and Industrial

Development Revenue bonds. From a credit quality perspective, the existing portfolio holdings are strong and resilient in the face of a slower economic outlook.

The AHB Taxable Bond strategy dictates an investment universe including investment grade corporate bonds (rated “BBB-” or higher), government agencies and Treasuries. The laddered structure of this strategy has protected clients from undue volatility and interest rate risk as the yield curve twisted and turned over the past year. Over the past few years, we have avoided corporate bonds with the lowest investment grade rating, “BBB-/Baa3”. As a result, the portfolios are insulated by one notch from downgrades to a high yield rating. The increase in bond issuance coupled with narrowing spreads vs Treasuries were indicators of exuberance in the market and provided rationale for pause in investment in these slightly higher leveraged companies. Additionally, we have actively underweighted energy and commodity driven companies that were undergoing fundamental industry deterioration. The current bond holdings in client portfolios include risk parameters that diversify the portfolio by sector and industry and for which we have completed extensive credit and fundamental analysis. We expect fiscal stimulus to be helpful to these companies and recognize that this period of disruption will be challenging. Portfolio adjustments will be made as we continue to reevaluate the holdings in this dynamic environment.

What We Are Monitoring Now

The flattening of the curve of COVID -19 cases is the priority both for the US Government and for the capital markets. The sooner the number of cases stop increasing, as they have in China, the sooner we will have a stabilization and decline in volatility. While there is uncertainty, AHB is watching China to determine if this is a potential model for the US recovery trajectory. Since there were draconian measures put into place, China has seen its growth rate of COVID -19 go down, leading the UN to declare that “containment was effective and allowed the rest of China to be able to contain the outbreak in a very effective manner.” This has helped the Shanghai Stock Exchange Composite Index rebound well from its lows, even if it has given some of those gains back due to the global spread of the virus. If we are able to implement strict measures that flatten the virus’ curve as China did and combine them with bi-partisan fiscal policy to alleviate the financial strain on individuals and businesses, eventually capital markets will also return to normalcy.

Pandemics historically have run their course and we hope that this one will be similar. We look forward to updating you again in the coming weeks. If you have any further questions, please do not hesitate to reach out to us.

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