First Western First Take - Second Quarter 2020

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First Quarter Recap

Black Swan Event

Investopedia describes a "Black Swan" as, "an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, their severe impact, and the widespread insistence they were obvious in hindsight."

The Coronavirus pandemic is a Black Swan Event. The toll on human lives rises by the day, financial markets have been bludgeoned and are now in a bear market, and the way we live our daily lives has been completely altered.

Benchmark Returns

The stock market saw its worst opening quarter ever. The speed of the stock market's decline from all-time highs was unparalleled as we just experienced the fastest 30% drop in the S&P 500 Index' history (22 days).

As you can see by Index returns on the right, the longest bull market in U.S. history ended swiftly in the first quarter. The MSCI ACWI (all global stocks) was down over 21%. Domestic Small Cap Equities were hit hardest, dropping over 30%. International stocks followed suit, down over 22%.

With interest rates dropping precipitously in response to the virus, High Quality Bonds, as measured by the Bloomberg Barclays Aggregate Bond Aggregate Bond Index, were up 3.2%. High Yield Bonds, which have equity-like characteristics, fell 13%.

Benchmark	1 Month	YTD
MSCI ACWI	-13.5%	-21.4%
S&P 500	-12.4%	-19.6%
Russell 2000	-21.7%	-30.6%
MSCI EAFE	-13.4%	-22.8%
MSCI Emerging Markets	-15.4%	-23.6%
U.S. BB Aggregate Bond	-0.6%	3.2%
BofA ML US High Yield	-11.8%	-13.1%
Bloomberg Commodity	-12.8%	-23.3%
Dow Jones U.S. REIT	-22.3%	-28.5%
Other Benchmarks	**12/31/2019**	**3/31/2020**
2-Year Treasury	1.58%	0.23%
10-Year Treasury	1.92%	0.70%
Prime	4.75%	3.25%
WTI Oil	$ 61.14	$ 20.48
Gold	$ 1,515	$ 1,597

Commodities and Real Estate lost over 22% and 28% respectively. Finally, due to the fallout of OPEC+ and demand evaporating, WTI Oil went from $61/bbl. to under $21/bbl. in a mere three months.

In summation, we began the year with record low unemployment, 401(k)'s balances peaking, and consumer sentiment levels at historic highs. The Coronavirus came upon the scene and grew into a pandemic that spread from the Far East, to Europe, and finally to the U.S. It has disrupted all of our lives and greatly impacted our economy and job market with unprecedented speed.

Government Responses

Monetary Response

Federal Reserve Policy Actions
Expanded and unlimted asset purchase programs; can now include CMBS
Reduced bank reserve requirements
Bringing back the Term Asset Backed Securities loan Facility (TALF)
New Primary & Second Corporate Credit Facility (SMCCF)
Muni debt now eligible as collateral in liquid paper markets

**source: JPMorgan Guide to the Markets*

Seeing the need to respond, global central banks took actions even greater than those that were implemented during the Financial Crisis of 2008-2009. It was a coordinated effort to supply markets with liquidity (and confidence). In short, the "Fed" effectively announced that it was the lender and buyer of last resort.

Fiscal Response

Putting partisan politics aside, Congress and the President passed a $2.283T spending package to help with the anticipated economic hardship. It's best to think of this as a stabilizer instead of a stimulus. We expect and will surely need more support from Washington, and those programs should be viewed more like traditional stimulus bills.

$2.283T CARES (Coronavirus Aid, Relief, and Economic Security) Act	
Amount	Measure
$290B	One-time stimuls checks ($1,200/adult & $500/child)
$260B	Expanded and extended unemployment benefits; adding $600/week to unemployment check up to 4 months
$510B	Loans to distressed businesses, cities and states
$377B	Small business relief; forgivible loans for payroll, rent, and utilities
$150B	Direct aid to state & municipal governments
$180B	Health-realated spending
$516B	Other spending and tax breaks

**source: CBO, BEA, Treasury Department*

Economic Scenarios

Given the unprecedented nature of our current state, predictions with conviction should be disregarded. Expectations should hinge on the duration and depth of the pandemic.

Base Case - a recession with a "W" shaped recovery

- Infection rates peak by early May and anti-viral treatments are developed. Most small businesses receive sufficient capital to continue operations and furloughed employees. The economic pain we feel today is real but short-lived
- The Equity markets experience a "W" recovery: an initial, precipitous decline, a brief recovery, a retesting of the previous lows, and finally a sustained recovery as markets reach and surpass their previous highs over a moderate timeline

Worst Case – lengthy economic stagnation with a "U" shaped recovery

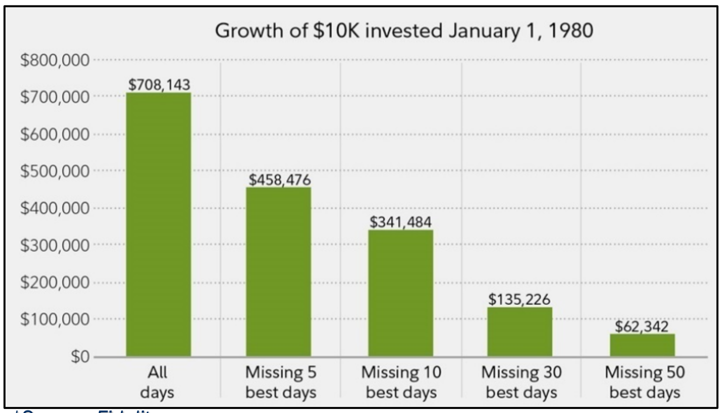
- GDP declines throughout all of 2020 with a systemic altering of small businesses, startups, and debt laden enterprises, as well as a prolonged loss of consumer confidence. It also includes significant increases in deficit spending to offset the loss of private demand
- Equity markets take on a "Long U" shaped recovery in which we see a prolonged bear market, sustained lows, before recovering the early 2020 market highs sometime over a 3-5 year period

Best Case - Quick recession and a “V” shaped recovery

+ Tests for Covid-19 antibodies and ongoing infections are made widely available to all seeking them. Current FDA approved drugs demonstrate viability and are mass produced. Small businesses are supported by government lending programs during the “social distancing” period, and the economy re-fires by mid-Summer
+ Equities experience a “V” shaped recovery with year-end single digit losses or gains

In Closing

Should I sell? Is it too late to sell? Is now the time to buy? Have we bottomed? These are questions investors are rightly asking themselves. For investors it means that amidst the chaos, there is opportunity. Warren Buffett is perhaps the most famously successful investor in the world. His simple mantra of, “be fearful when others are greedy, and be greedy when others are fearful”, could be quite useful. The world is full of fear right now given the high level of anxiety and uneasiness.



**Source: Fidelity*

If you are a long-term investor, and if you can remain patient through this short-term volatility and pain, then better opportunities (and times) lie ahead. Panicking and making impulse investment decisions in volatile times can hinder one’s potential (see graph to the left of $10K invested in S&P 500 Index as of 1980). We have conviction that over time, the markets and economy will rebound.

As a reminder, FWBT’s asset allocation portfolios are:

- Professionally managed
- Actively monitored
- Well-diversified
- Tactically adjusted to maintain a target risk profile
- Customizable to your specific needs

Given the short-term economic pain to come, and the unknown duration of the pandemic, we are not ready to jump back into risk assets. Instead we remain patient and believe opportunities will present themselves eventually. We advocate that discipline pays off over the long-term and diversification works.