BANK OF MILLBROOK
TRUST AND INVESTMENT SERVICES

QUARTERLY REVIEW AND OUTLOOK

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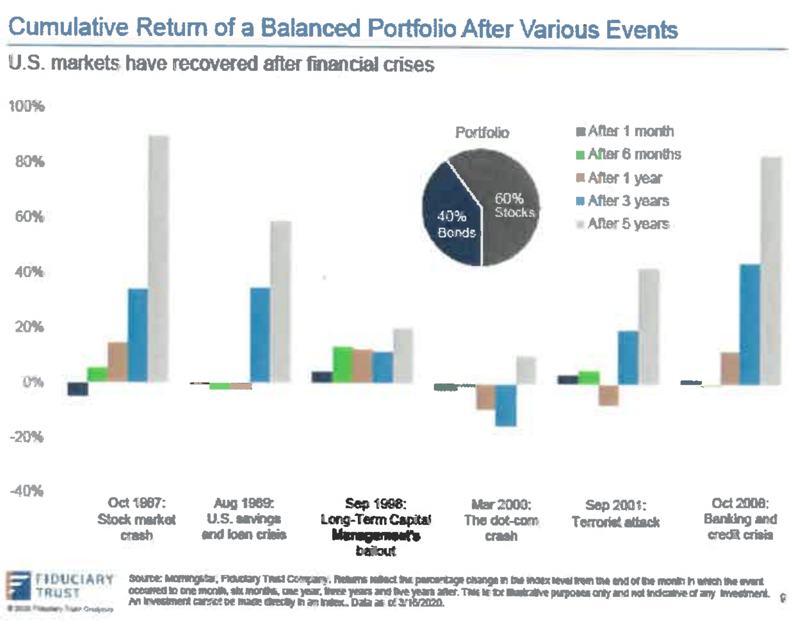
"Fear is a reaction. Courage is a decision." Sir Winston Churchill

When I sit down to write each quarterly letter to you, I like to review the letter I wrote three months prior. The January letter was cautiously optimistic and concerned about managing expectations for 2020 market growth. Much has changed since our last newsletter.

Our nation and our economy have weathered many crises and bounced back from them all. Included in the quarterly statements, I wrote about keeping our perspective amid a crisis and attached the chart below. Every crisis is different in scope and length. Patience over time is rewarded.



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As a perfect reflection of how volatile the markets have been, as of this writing, we have had a nice bounce back from the lows of March. There are so many variables at work to maintain an upswing in the stock market. We do not feel complete confidence that it is sustainable.

The crisis at hand is foremost a health crisis, which makes it a very different experience from the financial crisis of 2008. That period saw a slow meltdown and slow recovery. The COVID-19 virus hit us quickly. The unknown is how long it will take to recover while the world is working towards a silver bullet solution like a vaccine that has not yet materialized. The quick and massive response of the Federal Government is encouraging in the short-term.

As investment advisors, we have learned from this crisis that our aversion to risk, our dedication to high-quality investments, and an attention to re-balancing has served our clients well. Our conservative nature has been beneficial in this particular situation, as our accounts have dropped less than the markets have as a whole. We continue to monitor all of our investments in both equities and bonds and feel confident in those decisions. We will continue to focus on the long-term for our portfolios.

What we have also learned in this crisis is how important our clients and colleagues are to us. While we look forward to going to a restaurant or the movies, we primarily look forward to seeing our clients in person. In the meantime, we enjoy catching up with everyone on the phone. Please do not hesitate to call.

Meredith

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THE CORONA CATALYST

The coronavirus (Covid-19) has unleashed devastating health consequences and global economic suffering. As of this writing, there have been over one million documented cases and over 50 thousand deaths. To combat the virus spread, entire countries are on lockdown, leading to expectations that economic activity could fall by as much as 10% in the second quarter. Given falling demand and elevated supplies, oil prices have also fallen by 60% on the year to around $20 per barrel. This has put additional strain on the economy and financial markets given the role the oil industry plays in investment and job creation — as well as an increased likelihood of oil industry bankruptcies.

Broader equity markets fell by over 20% in the first quarter, quickly moving into bear market territory after being at all-time highs just weeks ago. In the bond market, credit spreads increased substantially — partly for fundamental reasons (concern over default) but also because of liquidity issues (poorly functioning markets). Even Treasury markets — normally the most liquid market in the world — had stresses, prompting the Federal Reserve (alongside central banks around the world) to apply easier monetary policy and a host of liquidity facilities. Global fiscal stimulus has also ramped up.

Beyond the near-term impacts on economic health and financial market functioning, the coronavirus will likely serve as a catalyst for economic changes in the years ahead. Here, we list a few.

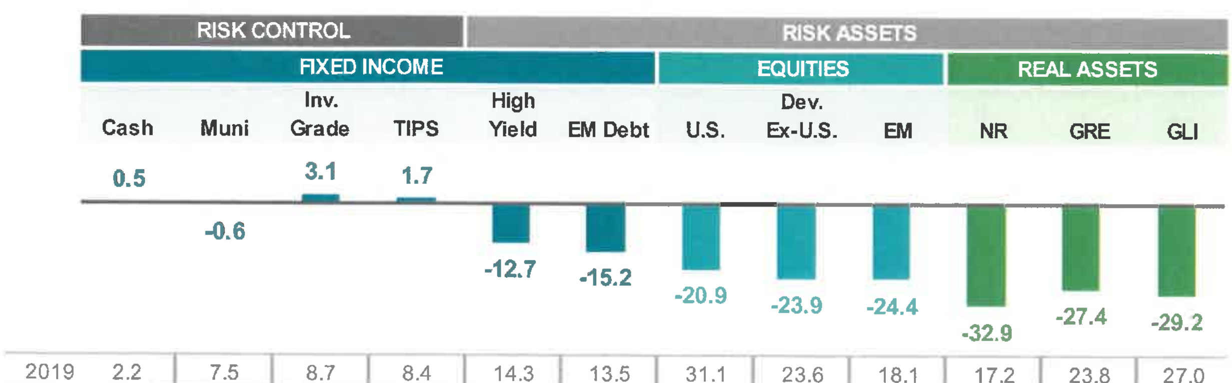
Monetary-Fiscal Policy Coordination. Modern-Monetary Theory (MMT) suggests government spending can be funded by the central bank through money printing, as opposed to the more traditional tax (or borrow) and spend approach so long as it doesn't lead to unacceptable levels of inflation. Given the need to combat the loss of demand from the coronavirus — combined with currently high debt levels and muted inflation —an MMT approach may be tempting. The recent ramp up in Fed bond purchases and coincident $2 trillion stimulus package suggest de facto MMT may already be underway — and may stick.

Technological Shifts. Technology has been steadily creeping into everyday economic functioning, but may get a boost from the coronavirus crisis. As stay-at-home orders forced companies into work-from-home policies, online meetings have become a facet of everyday life. Available for years, but never fully embraced, a new comfort with online meetings may escalate their use. Ultimately, this may save money on travel as more client (as well as internal) meetings are conducted virtually.

Deglobalization. Already started as a result of the populist movement, the move away from globalization may pick up steam in the post-coronavirus world. Global supply chains — combined with "just in time" inventory practices — left companies exposed. Going forward, the focus may shift to resiliency over efficiency, possibly a lesson for corporate balance sheets as well.

FIRST QUARTER 2020 TOTAL RETURNS (%)

Covid-19 took its toll on financial markets in the first quarter of 2020.



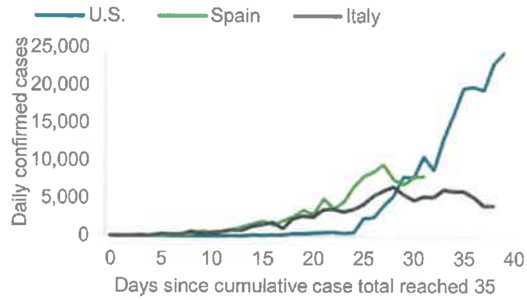
Source: Northern Trust Global Asset Allocation, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure EM = Emerging Markets TIPS = Treasury Inflation Protected Securities. Indexes are gross of fees and disclosed on last page.

KEY DEVELOPMENTS

Coronavirus Contagion

What started as an epidemic largely centered in China slowly, and then very quickly, became a global pandemic. South Korea was the first hotspot outside of China, but was able to deal with the spread relatively efficiently through robust testing procedures. Italy, Spain and the U.S. are now focal points. Italy and Spain have started to show a peak in new cases, serving as potential templates for the course of the virus in the U.S. The sooner U.S. cases peak, the sooner investors can envision a return to normalcy.

CORONAVIRUS SPREAD ACROSS KEY COUNTRIES



The Financial Market Damage

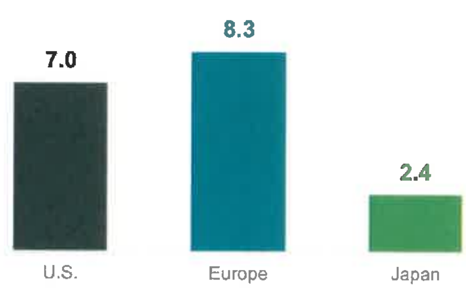
Investors were slow to appreciate the potential global economic impacts, believing the virus to be mostly contained to China. But once it became clear that the shift from epidemic to pandemic would transform a concentrated supply shock into a global demand shock, equity markets turned negative in a hurry — going from record highs to bear market territory (defined as a 20% fall) at a record pace. The market fall bears similar resemblance to the global financial crisis thus far, suggesting more market volatility may be ahead.

GLOBAL EQUITY DRAWDOWNS

The Monetary Solution

Central bankers were the first out of the gates to attack the financial fallout from Covid-19. Their arsenal includes policy rate cuts, new quantitative easing (QE) programs and liquidity facilities aimed at specific areas within the financial markets that were not functioning properly. The chart shows estimates for first quarter liquidity injections across the major economic regions — but these numbers could grow substantially depending on how long the QE programs last and to what degree the various liquidity facilities are tapped.

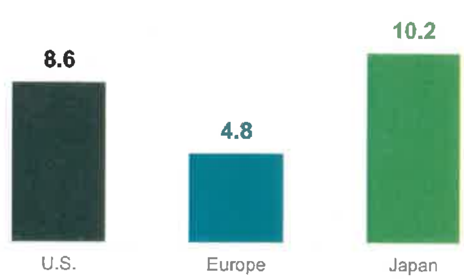
FIRST QUARTER MONETARY INJECTIONS - % OF GDP



The Fiscal Solution

Fiscal stimulus has been deployed to help offset lost economic output. The U.S. set the tone with a $2+ trillion package to provide worker income replacement and stressed industry assistance. This is a much larger and more quickly deployed package than that crafted during the financial crisis. Europe's stimulus is smaller thanks to already in place "automatic stabilizers" (e.g., a better social safety net) while Japan is relying more heavily on the fiscal lever. As with monetary policy, these numbers are likely to grow.

FISCAL STIMULUS - % OF GDP



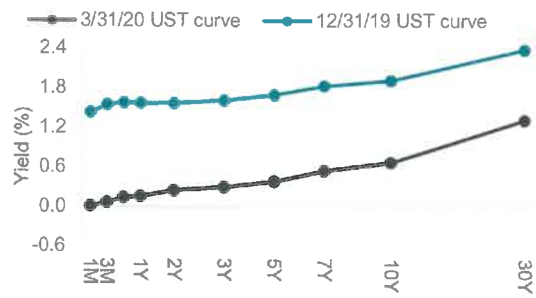
Source: Northern Trust Asset Management Bloomberg, Cornerstone Macro, BCA, IMF. Lehman start date: 9/19/2008. Fiscal totals exclude loan guarantees and automatic stabilizers. Totals calculated in USD using spot exchange rates on 3/19/2020.

MARKET REVIEW

Interest Rates

The U.S. yield curve shifted to historic lows as the Fed introduced an unprecedented level of policy support in response to the Covid-19 economic fallout. The central bank cut rates 150 basis points (bps) to zero, announced unlimited quantitative easing and created a barrage of other liquidity programs. Lower expectations for global growth and a flight to safety also put downward pressure on the curve. Though yields sit at the low end of historical ranges, virus-driven uncertainty will weigh on the curve as long as the virus persists.

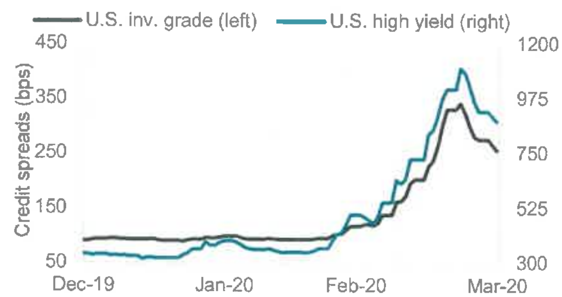
TREASURY YIELD CURVE



Credit Markets

Credit markets deteriorated throughout the quarter as spreads widened to levels not seen since the financial crisis. Spread widening partially reflected concern on the growth outlook, but it largely derived from challenged liquidity. We estimate fundamental concerns drove 30% of the spike in spreads, with the majority of the selloff being liquidity-driven (70%). After the Fed's significant efforts to restore proper functioning in credit markets, spreads should narrow some as liquidity improves and fundamentals become the primary driver.

CREDIT SPREADS



Equities

Global equities fell 21.3%, the largest quarterly decline since the financial crisis, as investors struggled with the virus's unpredictable course. While all regions were vulnerable to the pandemic's global nature, U.S. equities declined the least (-20.9%) as a stable economy leading into the virus and greater room for policy action provided support. Non-U.S. equities trailed U.S. equities early on in the quarter, but performed better in the initial stages of the drawdown before losing ground again as markets stabilized in late March.

REGIONAL EQUITY INDICES

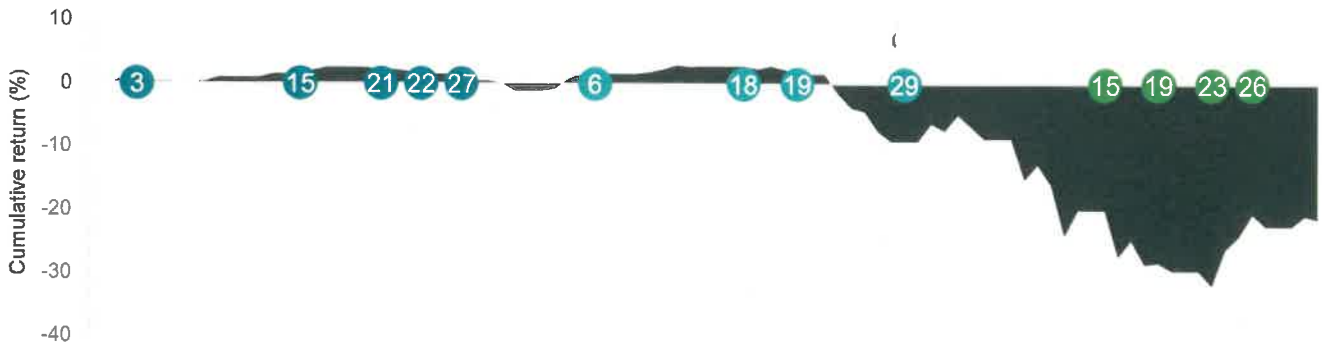
Real Assets

Natural resources plummeted as a Saudi-Russo oil price war compounded weakened demand from Covid-19 and oil prices collapsed. Global real estate and global listed infrastructure initially held up well in the face of the virus, but notably dropped as the virus intensified — credit concerns drove losses as investors questioned the ability of tenants to satisfy mortgage and lease payments. Throughout the quarter, all three of the aforementioned asset classes notably underperformed global equities despite tailwinds from low interest rates.

REAL ASSET INDICES

Source: Northern Trust Asset Management, Bloomberg. UST = U.S. Treasury. Indexes are gross of fees.

MARKET EVENTS



JANUARY	FEBRUARY	MARCH
3 President Donald Trump orders a drone strike that kills Iranian Major General Qassem Soleimani.	6 China halves the tariff rate on $75 billion worth of imports.	15 In the second off-schedule move of the month, the Federal Reserve cuts rates by 100 basis points placing the main policy rate in the 0%-0.25% range.
15 The U.S. and China sign phase one of their trade deal focusing on technology trade secrets, trade imbalance and currency manipulation.	18 Global yield curves flatten as investors seek refuge in bonds after Apple announces the negative impact on its supply chain from Covid-19.	19 Following up on an inadequate amount of bond purchases in the week prior, the ECB announces €750 billion quantitative easing expansion.
21 Covid-19 begins to make headlines as cases start to spread in China.	19 Equity markets begin sharp decline into bear market; marking the end of the post-global financial crisis bull market.	23 To act as lender of last resort and inject liquidity into the markets, the Federal Reserve announces an "alphabet soup" of lending facilities.
22 Tech stocks rally after France agrees to delay a tax on digital companies.	29 Joe Biden wins South Carolina Democratic primary; mainstream Democratic candidates start to drop out to consolidate votes for Biden.	26 The Senate passes a $2.2 trillion fiscal stimulus package to support individuals and companies impacted by Covid-19.
27 U.S. equity benchmarks fall more than 1% for the first time this year due to concerns over Covid-19.	29 China's non-manufacturing PMI falls deep into contractionary territory at 29.6; previously 54.1.	26 The U.S. initial jobless claims figure surges to historic high of 3.3 million due to Covid-19 related business closings.

Indexes used: Bloomberg Barclays (BBC) 1-3 Month UST (Cash); BBC Municipal (Muni); BBC Aggregate (Inv. Grade); BBC TIPS (TIPS); BBC High Yield 2% Capped (High Yield); JP Morgan GBI-EM Global Diversified (Em. Markets Fixed Income); MSCI U.S. Equities IMI (U.S. Equities); MSCI World ex-U.S. IMI (Dev. ex-U.S. Equities); MSCI Emerging Market Equities (Em. Markets Equities); Morningstar Upstream Natural Resources (Natural Res.); FTSE EPRA/NAREIT Global (Global Real Estate); S&P Global Infrastructure (Global Listed Infra.)

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