Q1 MARKET INSIGHTS

Spring 2020

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WE ARE HERE FOR YOU

We sincerely hope that this letter finds you and your family healthy and safe. Together we are facing a truly unprecedented situation as the global COVID-19 pandemic impacts our way of life. We all understand that these are difficult times for everyone and hope to recover from this pandemic soon, as a stronger global community. First and foremost, our hearts go out to anyone who has been impacted by the virus, either directly or indirectly. Our thoughts are especially with those who are sick, to whom we wish a full recovery. We would also like to thank the selfless healthcare workers around the world who are on the front lines working tirelessly to care for people in need.

The world seems to be changing rapidly since our last note two weeks ago. Every day we are presented with new information related to COVID-19, its impact on the markets, and our everyday lives. We are all in this together. As your trusted advisor, we value our relationship with you and are here to help you navigate these uncertain times. We take our responsibility of managing your hard-earned assets very seriously. Our job is to try and give you one less thing to worry about and help you achieve your long-term financial goals.

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While the spread of COVID-19 has forced us to adapt our day-to-day operating model, careful preparation has helped us remain fully operational during this crisis. Our team has the technological and functional capabilities to work remotely and conduct meetings virtually. In addition, any personal or financially sensitive information that you need to share with us can be sent to us securely online. Our primary concern is for the health and well-being of our clients, colleagues, their families and all others who we work with. We remain focused on maintaining the confidentiality and security of your information, while continuing to deliver timely, quality services to you in the safest manner possible.

FIRST QUARTER REVIEW

Global stock indices all dropped sharply in the first quarter on concerns about the economic fallout from the COVID-19 pandemic. Markets had been aware of the COVID-19 since late 2019; however, through January and most of February, it was not a material negative influence on U.S. stock or bond markets because almost all the active cases were in China. Given the extreme quarantine measures in that nation, it was assumed the virus would be mostly contained. That assumption proved false, and beginning around February 19th, the number of active cases began to dramatically accelerate in South Korea, Iran, and Italy. That swift spike in new COVID-19 cases outside of China resulted in a sharp drop in stocks in late February.

Those declines were then compounded in early March as the number of active COVID-19 cases in the U.S. began to increase rapidly. The S&P 500® Index continued to fall amid rising fears that the epidemic was quickly evolving into a global pandemic. On March 9th, U.S. markets and the economy were dealt another surprise blow, when Saudi Arabia effectively abandoned Organization of the Petroleum Exporting Countries (OPEC)-mandated production levels and began to dramatically discount oil prices and increase oil production. This move was in direct response to Russia not agreeing to comply with proposed OPEC production cuts; while Russia is not a member of OPEC, they have been acting in unison with OPEC to manage global oil supply in recent years. Essentially, an oil price war broke out between the two countries that saw oil prices collapse over 26% in a single day. In the past, low oil and gasoline prices would have been a positive for the U.S. economy, but a lot has changed in the past few years. Due to the discovery of shale oil, the U.S. is now the largest oil producer in the world. With the price of oil now trading below the cost of production – breakeven costs in shale vary by region and range between $35-$54 per barrel – many U.S. energy firms will likely cut production and jobs, which will hurt both earnings and the economy. In addition, many of these shale companies are debt-ridden, and the reduced cashflow will likely lead to some bankruptcies, which will hurt banks and parts of the corporate bond market. This oil price war directly contributed to the markets taking another leg lower during the week ended March 13th.

Finally, in mid-March, stocks dropped even further in response to the extreme social distancing measures being implemented across the country. These measures, which include travel bans from Europe and parts of Asia, the cancellation or suspension of virtually every major sports season, the closing of bars and restaurants, the mass instituting of work-from-home practices, state park closures, school closures, and curfews, are intended to stop the spread of COVID-19. Yet these actions will also have a significant and negative economic impact on the travel, leisure, beverage and restaurant industries to name just a few of the segments that will be hardest hit. The cumulative effect of these measures materially increases the chances of a recession in 2020, which is something virtually no one thought possible just six weeks ago. For the quarter, the S&P 500 finished down 19.6%.

Looking internationally, foreign markets also declined, and once again underperformed the S&P 500. Foreign developed markets slightly outperformed emerging markets, despite emerging markets benefiting from a rebound in Chinese markets in March as it appeared that China was making progress on containing COVID-19 and began to re-start their economy. For the quarter, foreign developed markets, represented by the MSCI EAFE Index were down 22.7%, and the MSCI Emerging Markets Index was down 23.6%. Switching to fixed income markets, U.S. Treasuries posted strong returns as investors sought the safety of AAA rated bonds. The leading benchmark for bonds, the Bloomberg Barclays U.S. Aggregate Bond Index was up 3.2% for the quarter. However, corporate bonds saw negative returns in the first quarter amid rising concerns about future economic growth and its impact on the health of many global corporations.

THE IMPORTANCE OF ASSET ALLOCATION

It's important to note that pandemics like this are not a normal part of the business cycle and are therefore almost impossible to plan for and even harder to try to time. The rapid spread of COVID-19 is a stark reminder that an unexpected event can occur at any time, and that having an appropriate asset allocation based on your financial situation is critical so that you can withstand the volatility caused by such unforeseen events. Each individual investor's financial goals have different attributes and priorities, including time horizon and the need for liquidity, income and growth. As a result, each goal has a unique investment objective, and a distinct combination of assets that is most likely to help achieve those goals.

Few people anticipated the breadth of this virus or the impact it would have on the markets and the economy. Events like this reinforce the importance of creating an asset allocation to meet your goals. In fact, studies show that strategic asset allocation has been, by far, the biggest determinant of portfolio return variability (the year-to-year variation in returns). A 2010 study of simulated portfolios, as published in The Journal of Wealth Management, showed that the strategic asset allocation accounted for 79% of the variation in a portfolio's return. By comparison, factors like security selection, market timing, and tactical asset allocation each accounted for less than 10% of portfolio performance. Please see the chart at the top of the next page for details (also note that "strategic" asset allocation has a 10-15-year time horizon, while "tactical" asset allocation has a 6-18-month time horizon).

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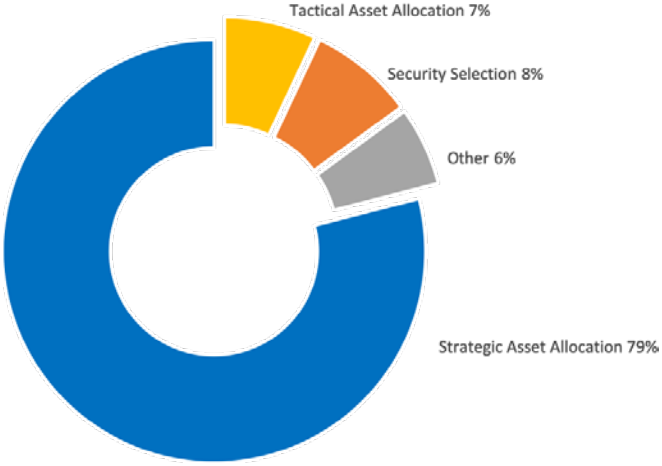
Asset Allocation: One of An Investor's Most Important Decisions



Source: The Journal of Wealth Management, Vol. 8, No. 3, "Strategic Asset Allocation and Other Determinants of Portfolio Returns," August 2005, data updated February 2010. Asset allocation, including strategic and tactical allocation, do not guarantee investment returns or eliminate risk of loss.

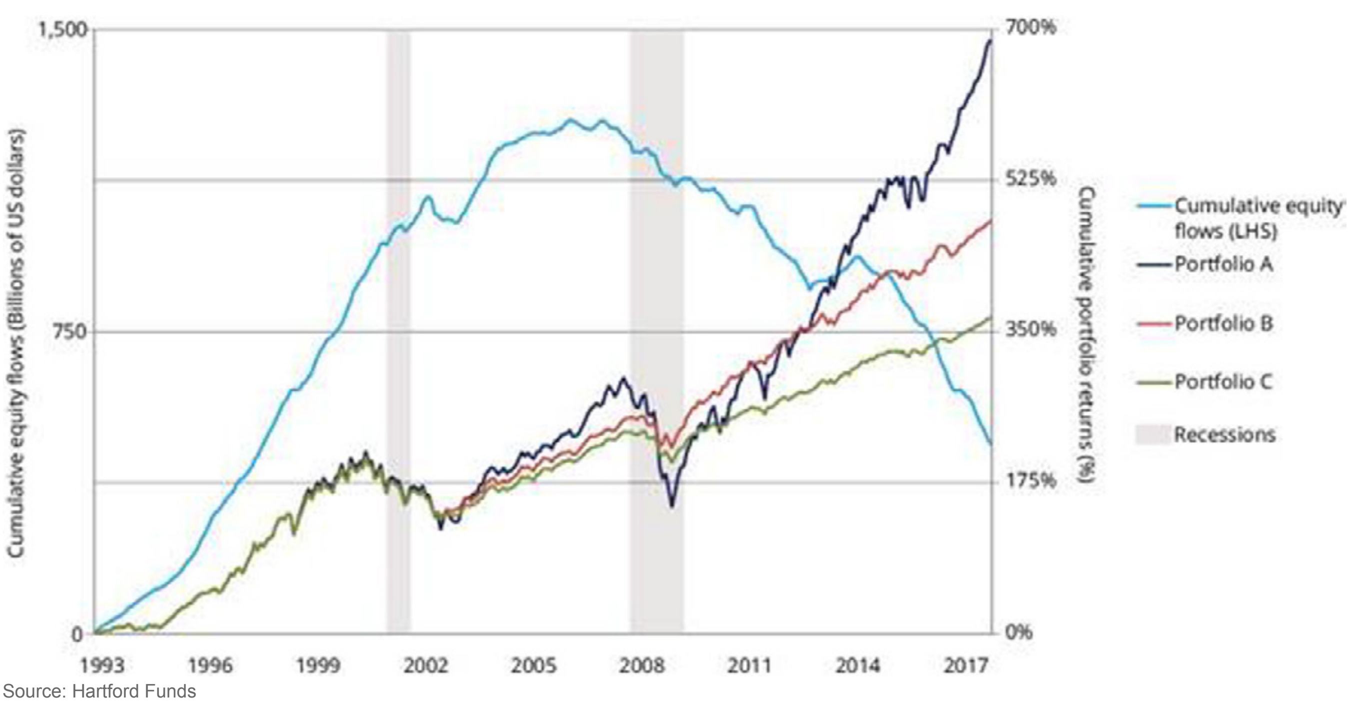
lens. The swings associated with financial markets, which can exacerbate the strength of emotions related to stocks, can result in unnecessary anxiety that often leads to irrational decisions.

An interesting study, which we have previously highlighted, produced by Hartford Funds in 2017, shows exactly how important this is (see chart below). Going back to 1993, the study examined investor flows into equity mutual funds. The more equities people purchased, the higher the total flows became, and the more equities people sold, the lower the total flows became (as seen on the left vertical axis of the chart).

Over that timeframe the study created three different portfolios. The first, Portfolio A, held a portfolio comprised of 70% equities and 30% fixed income for the entire period. The second, Portfolio B, sold a portion of equities to buy bonds when equity mutual funds experienced outflows, and sold bonds to buy more equities when equity mutual funds experienced inflows. In other words, this portfolio sold equities when the masses were, and bought equities when the masses were. Finally, Portfolio C did the same thing as portfolio B, but instead of buying bonds when selling equities, they left the money in cash. The results of these portfolios can be seen below, on the right vertical axis of the chart.

Impressively, Portfolio A, which was the portfolio that made the fewest amount of moves over the 25-year period and did not attempt to time the market, comfortably beat the other two portfolios despite having to weather significant drawdowns. Timing the market is extremely difficult; some would even say it's impossible. To time the market correctly, you have to be right twice, knowing when to sell and when to buy back in. As the old saying on Wall Street goes, "they don't ring a bell at the top". Nevertheless, that does not stop many investors from shifting their investments into cash in an effort to avoid market downturns. Consequently, these investors

Investor Flows into Equity Mutual Funds



Source: Hartford Funds

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may miss out on some of the markets biggest gains while they sit on the sidelines.

From a historical perspective, investors that sold equities in an effort to "de-risk" or attempted to time the bottom, appear to have missed out on the snapbacks, which had an adverse impact on their long-term returns. For example, let's say an investor, concerned about current volatility, gave up and sold all their equity positions, trading their investments for cash. The investor tells themselves that they will eventually get back in the market when the worst is over. That sounds like a reasonable strategy. However, waiting it out also means potentially missing some very big up days in the market, which makes an enormous difference in an investor's portfolio performance over time.

The chart below, courtesy of a study done by Stifel, depicts the total return of $100 invested in the S&P 500 from 1997 through March 5, 2020 (blue line) as well as the total return of $100 invested in the S&P 500 excluding the best performing 29 trading days (yellow line) over the same time period. As you can see, if one missed the top 29 performing days since 1997, the cumulative S&P 500 return of $100 would almost be flat vs. ~$470 for remaining invested over the same time period. That's a significant difference for only 29 days over 23 years! Putnam Investments found similar results by studying the data from 2003 to 2018. If you were fully invested in the S&P 500, your annualized total return was 7.7% during that time, but if you missed the 10 best days in the market, it dropped to a paltry 2.65%.

These two studies highlight how missing a few of the markets' up days may lead to under-performance over time. Of course, the reverse is true also. If you are not invested in the stock market, you also miss the worst days. However, over time, as demonstrated by the two studies, if an investor is going to own equities, one must be able to withstand bouts of weakness to realize those good days. It's important to note

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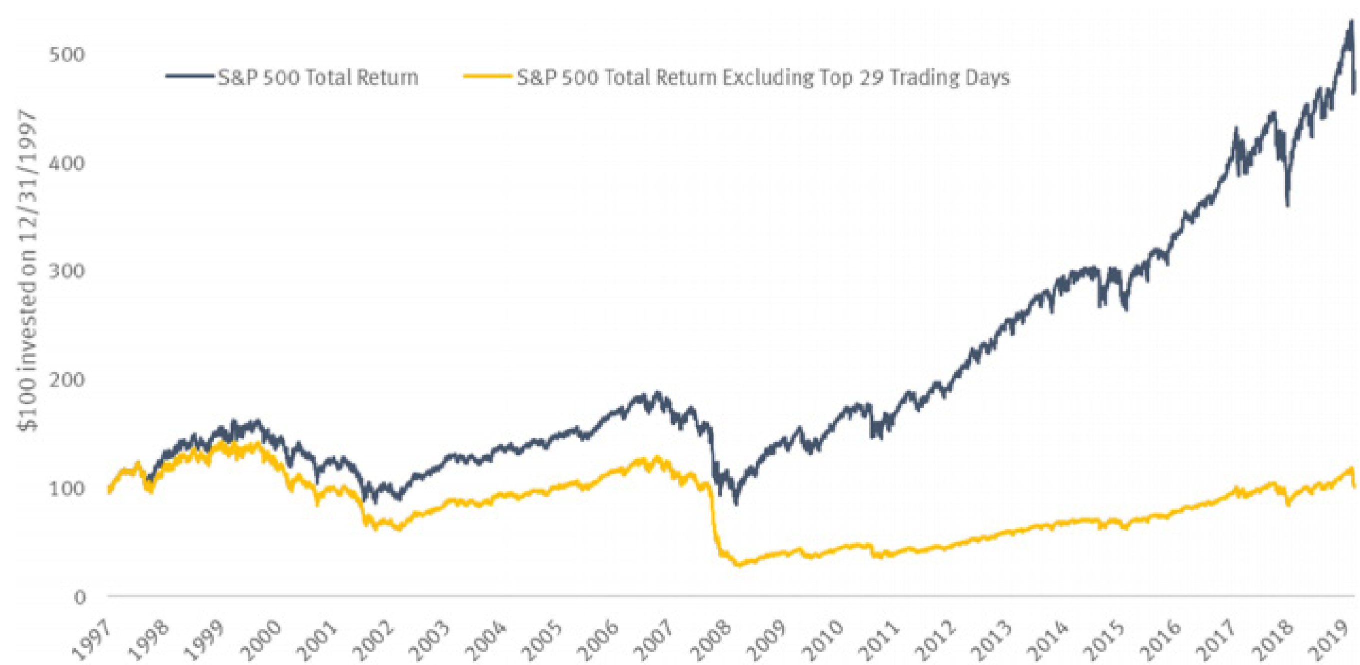

Source: Stifel Investment Strategy via Bloomberg, as of March 5, 2020; Latest data point is based on intra-day price.

S&P 500's Returns Following Worst One-Day Drops

Date	Cause	One-Day Fall (%)	Annualized % Return After 1 Year	Annualized % Return After 3 Years	Annualized % Return After 5 Years
10/19/1987	Black Monday	-20.47	23.19	11.59	13.03
10/15/2008	Global Financial Crisis	-9.03	20.79	10.50	13.34
12/1/2008	Global Financial Crisis	-8.93	35.85	15.11	17.22
9/29/2008	Global Financial Crisis	-8.79	-4.14	1.60	8.87
10/26/1987	Black Monday 2.0	-8.28	23.59	10.20	12.92
10/9/2008	Global Financial Crisis	-7.62	17.76	8.30	12.73
10/27/1997	Asian Financial Crisis	-6.87	21.48	16.30	0.47
8/31/1998	Russia Default on Loans	-6.80	37.93	5.80	1.04
1/8/1988	Brady Commission Releases Report on Cause of Black Monday	-6.77	15.19	8.92	12.00
11/19/2008	Global Financial Crisis	-6.71	45.05	17.35	18.81

Past performance does not guarantee future results. Data sources: Ned Davis Research 3/20. Data shown is for the S&P 500 Price Index as of 12/31/19 and does not include the reinvestment of dividend payments. Indices are unmanaged and not available for direct investment. List does not include single-day declines in 2020 in order to provide returns from the ensuing 1-,3-, and 5-year periods.

that many of the best days in the market come right after the worst days. During the month of March 2020, there were two trading days where the S&P 500 posted daily returns of over 9%, placing them in the top ten highest daily returns on record going back to 1923 (March 13th, and March 24th). The lesson here is that, historically, investors are rewarded for sticking to their investment plan and riding out the bad days in the market over time. It may seem harmless to wait out the bad days by selling stocks and sitting on the sideline, but this also means missing the up days that could boost long-term performance.

U.S. equities have been resilient over the last four decades. One year after each of the S&P 500's 10 worst one-day drops prior to 2020, the index notched double-digit positive returns in all but one instance. Returns remained positive across the board three and five years later as well. The table above, which outlines these returns, does not include reinvested dividends, which would have made the subsequent returns even higher.

If history alone is any indication, markets should eventually rebound, but there will be considerable uncertainties and volatility along the way. That is why it is critical to create an investment plan to fit your needs and risk tolerance and establish an asset allocation that will allow you to endure unforeseen events such as global pandemics.

THE PATH FORWARD

There remains a great amount of uncertainty surrounding the path of the virus and its ultimate impact on economic growth. The global economy has been hit by three separate shocks: 1) a negative global demand shock as the spread of COVID-19 is causing a significant curtailing of spending on goods and services around the globe; 2) a negative supply shock with the closure of factories in China and other regions resulting in supply chain disruptions; and 3) an oil supply shock.

We believe markets will likely remain volatile until we see a peak in new COVID-19 cases here in the U.S. We expect to reach a peak by the end of April 2020 – of course that is subject to change as things remain very fluid. Once the immediate volatility begins to ease and greater clarity emerges surrounding the path of the virus, investors can think about fundamentals. There will be a government mandated shut down for much of the economy in the second quarter, and we anticipate an economic recovery, to some degree, in the fall. The extent of the recovery will depend on the effectiveness of both the fiscal and monetary stimulus that have been introduced into the economy.

We were encouraged by how the U.S. government has acted in an effort to support the economy. The Federal Reserve (the "Fed") cut interest rates to zero percent and implemented several measures to provide short-term cash for corporations and ensure there is plenty of capital for the broader banking system. Congress also passed multiple economic relief bills, the largest of which was a $2.2 trillion stimulus package aimed at providing support for businesses and displaced workers. While these stimulus measures, combined with the lifting of many of the social distancing controls that have been implemented, should alleviate the negative demand and supply shocks, a full recovery to the pre-crisis trend level of GDP is likely to take several quarters (i.e. once we are free to go out to eat at a restaurant again, we are not going to order extra meals to make up for the ones we didn't order while under quarantine).

It is possible that equity and credit markets have further to fall in the near term, especially if fears grow. In fact, in the past thirteen instances when the stock market has had a "waterfall decline" – which is defined as a decline of 20% or more over a period of a few weeks – it has retested its low 70% of the time. That means that a re-test of 2,200 on the S&P 500 is not out of the question at this point. Many public companies have withdrawn their earnings guidance for 2020, and based on analyst estimates, a drop-in earnings for large-cap U.S. companies of greater than 30% is a possibility. We think that markets could begin to re-price for the economic recovery as soon as we approach a peak in infections, and businesses are better able to provide earnings guidance. Another positive for the markets would be the discovery of a vaccine, even if it wouldn't be available for another year.

Meanwhile, shares of some of the most-profitable, well-run companies in the world are now trading at substantial discounts to levels where they were at the beginning of the year. History has shown that over the longer term, these tumultuous episodes can create attractive investment opportunities. Given the low interest rate environment, the risk-reward trade-off for owning fixed income may not be as robust as it has been in the past, and we may see opportunities to make a tactical allocation shift to increase equity exposure relative to fixed income exposure, where appropriate, at some point in the future. In our opinion, we are not there yet, but at some point, there may be a good opportunity to increase equity exposure.

Lastly, the recent market weakness makes the value proposition of owning alternative investments relative to traditional investments increasingly compelling. For those qualified investors, we will continue to seek out alternative investments that exhibit low correlation to equity and fixed income markets to broaden diversification and reduce portfolio risk in an effort to enhance returns.

THIS TOO SHALL PASS

Over the past month, we have all witnessed a degree of panic, both in society as well as in the financial markets. Nevertheless, the worst thing to do during a panic is to act emotionally, because panic leads to hasty, short-term decisions that jeopardize your long-term best interests. Again, while few predicted the severity of this virus or the impact it would have on the markets and the economy, events such as this are why we work with you to design a long-term, balanced financial plan. This plan is constructed to help you achieve your personal long-term financial goals, despite this difficult, but hopefully temporary disruption. Pandemics do pass.

We have a talented group of professionals at Beaumont Financial Partner that are here to help you. This moment reminds us that we are all connected like never before. On behalf of all of us at Beaumont Financial Partners, we're committed to being your partner and persevering together in the days and years ahead.

As always, we thank you for your ongoing confidence and trust.

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Diversification does not ensure a profit or guarantee against loss. An investment cannot be made directly in an index. Sector investments concentrate in a particular industry and the investments' performance could depend heavily on the performance of that industry and be more volatile than the performance of less concentrated investment options and the market as a whole. Foreign markets, particularly emerging markets, can be more volatile than U.S. markets due to increased political, regulatory, social or economic uncertainties. Fixed Income investments include risks such as exposure to interest rate fluctuation, credit changes and inflation.

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The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indices are not managed and do not incur fees or expenses. Performance numbers for the index are total return with dividends reinvested in the index.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays US Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

Gross domestic product (GDP) is calculated by the Bureau of Economic Analysis that serves as a measure of total market value of the goods and services produced (output) in the U.S. GDP is the sum of consumer spending, investments made by industry, the excess of Exports over Imports and Government Spending.

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