



We are going to begin and end this update with the same message. We have confidence that our country and financial markets will get through the coronavirus epidemic. The history of America in crisis shows a typically slow initial reaction followed by a strong response. That was most recently true in the 2008 financial crisis but the same can be said of 1987. This is a source of optimism but does not inform us as to timing.

As of this writing, the Federal Reserve has announced bold action in terms of lowering interest rates, purchasing assets, and providing liquidity. This is welcome news that we expect to be followed by fiscal stimulus from the Federal Government, both general and specific to impacted industries. More is needed to ensure the functioning of corporate credit markets but that can be done. However, we believe that the crucial issue is: how long does this epidemic last?

There has been much conjecture around the coronavirus but we will confine ourselves to general thoughts on the epidemic since we are not scientists. COVID-19 is highly communicable with a significant mortality threat to the higher risk segment of the population. That said, experts suggest that most infections will be similar to the flu.

Direct government response to the virus has varied widely. China's high degree of government control allowed a draconian approach resulting in new cases dropping to minimal levels. While we recognize the notorious credibility of data coming out of China, President Xi's recent visit to Wuhan symbolizes that they feel successful. Although geographically close to China, the experience of Hong Kong, Taiwan, and Singapore was very different. Learning from the 2003 SARS epidemic, authorities in those areas acted aggressively from the outset by implementing health screenings of arrivals and eventually banning visitors from mainland China. This was followed by widespread diagnostic testing and tracking of contacts. All three of these areas have been relatively successful in containing COVID-19 to date. To be fair, it probably helps to be located on an island.

We realize that the above examples may not at first appear to be relevant to financial markets in the United States. However, they demonstrate that the virus is containable. More importantly, they can help us to gauge the duration of the epidemic. Italy will likely be our best guide. Their nationwide lockdown began on March 10th. The rate of decline in new cases there will be crucial in estimating the length of the crisis in the United States. From a financial perspective, investors can soon "look through" a lock down that ends in weeks; months could be a different story. Please keep in mind that the Chinese market rallied 14% after containment was apparent.

Given equity markets' dramatic and rapid decline, investors are likely discounting at least a quarter of mid-single digit GDP decline and associated issues. The path of the economy will follow the course of the virus and public health counter measures. We are trading GDP for lives. We now may be at peak transmission of the virus in the U.S. but disease progression, case reporting, and hospitalizations will peak afterwards.

Turning to our portfolio, we have cash reserves and have focused on upgrading the quality and safety of our holdings. We have reduced exposure to the most impacted industries (energy, travel, aerospace, financials) and added to secular themes (internet retailing, healthcare, brand franchises.)

We expect continued volatility in the near-term. However, we view the market bottoming as a process rather than a single day or price. The pieces are assembling to do this. Equity prices have drastically corrected, monetary policy is "all in", and the public health response is ramping. More is needed but we believe that we are moving in the right direction just as the country has always done.

Although we may not all be in the office, we have maintained full functionality. Don't hesitate to call us since our phones will ring remotely. As always, we are available to you to address any of your needs and concerns. We believe taking these steps will keep our people safe while maintaining our ability to service our clients' needs without interruption. Our thoughts are with all those around the world personally impacted by the virus and we wish all of you the best in these challenging times.

Best wishes and stay healthy,



Craig B. Steinberg