STONEBRIDGE
Capital Advisors

Stonebridge Economic and Market Update

4/6/2020

As we go through this challenging time, we will provide updates that we believe are important to you. We first wish you and your families safety and good health. The Stonebridge Team is practicing safe operating procedures and following the "stay in place" recommendations. We are working from home and with technology are able to operate quite efficiently managing portfolios, communicating with you and responding to your service needs. Most importantly we want to assure you we are available by phone, e-mail or text and can arrange Zoom conference meetings or conference calls at most any time convenient to your schedule. Please do not hesitate to contact us to answer your questions and serve your needs.

On Monday, April 6th, the market rebounded covering losses from last week. This rebound was largely due to reports the Coronavirus virus was stabilizing or peaking in certain countries around the globe and U.S. cities, such as New York. Although we are hopeful this is the case, this will take at least another week or two to see a trend. The rebound did not take into consideration the significant economic issues in front of us that will take much more time to work through. We caution investors: today's market action is not an all clear signal to move quickly back into the equity market. Outlined below are our expectations and strategies as we work through this stage of the market cycle:

- This is the fastest moving, most volatile economic and market cycle in history. The cycle was largely due to the Coronavirus virus that forced shut down of at least half of the U.S. economy. We believe we are in a recession and are in bear market territory.

- History would tell us the equity markets will likely test the lows we experienced in March. This is often referred to as "back and fill." This could be caused by surprise negative earnings results over the next few weeks and as we gain a better understanding of the impact the "shut down" has on the economy. The equity markets will remain volatile as they test lows over several months.

- If investors did not take action to reduce risk in their portfolios in late 2019 and into January of 2020, right now is not a good time in the cycle to broadly sell their portfolios, thereby locking in losses.

- We are reviewing companies in sectors that may have credit risk or risk of cutting dividends.

    - Examples of sectors we believe will incur further downturns or possible bankruptcy include certain retailers, energy, hospitality (hotels, restaurants, cruise companies, travel related), real estate/REITs, financial (particularly heavily leveraged, high yield bonds and bond funds). We are sifting through companies in these sectors to identify companies that may struggle long term or may not survive.

- This is a time to identify companies with strong financials and have leading products in sectors that will recover. We will establish valuation levels and will begin accumulating stocks in these companies for our clients' portfolios over the coming months. These are select companies that will thrive as we transition out of the bear market.

- It is not yet time to fully jump back into the equity market. Our experience in prior recessions and bear markets show equities will retest market lows and earnings reports due out the next few weeks will likely be negative, which may cause more selling. The timing of recovery is largely based on a clear sign that the virus pandemic is behind us and a path to economic recovery is clearer. The longer the virus lingers the further out the recovery will begin.

- We recommend selling high-yield bonds and bond funds, especially those utilizing leverage. We are also advising the sale of long-term bonds and bond funds. We favor short term, high quality bonds or bond funds with specific maturity dates. Yields on high-quality short-term bonds will be low but offer a buffer from equity market volatility. This is a defensive strategy not a long-term fixed income investment strategy.

- Our experience of over 40 years of market cycles tells us we must remain vigilant analyzing companies, be patient and be prepared to move quickly when the market provides long term opportunity. The unique cause of this economic and market cycle makes it very challenging to time the recovery. We may be halfway through the process, which implies we have several more moths before we have a clear picture.

We welcome your calls during these challenging times. If you would like to speak with your portfolio manager, please call 651-251-1000.

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