The Stonebridge Market Commentary

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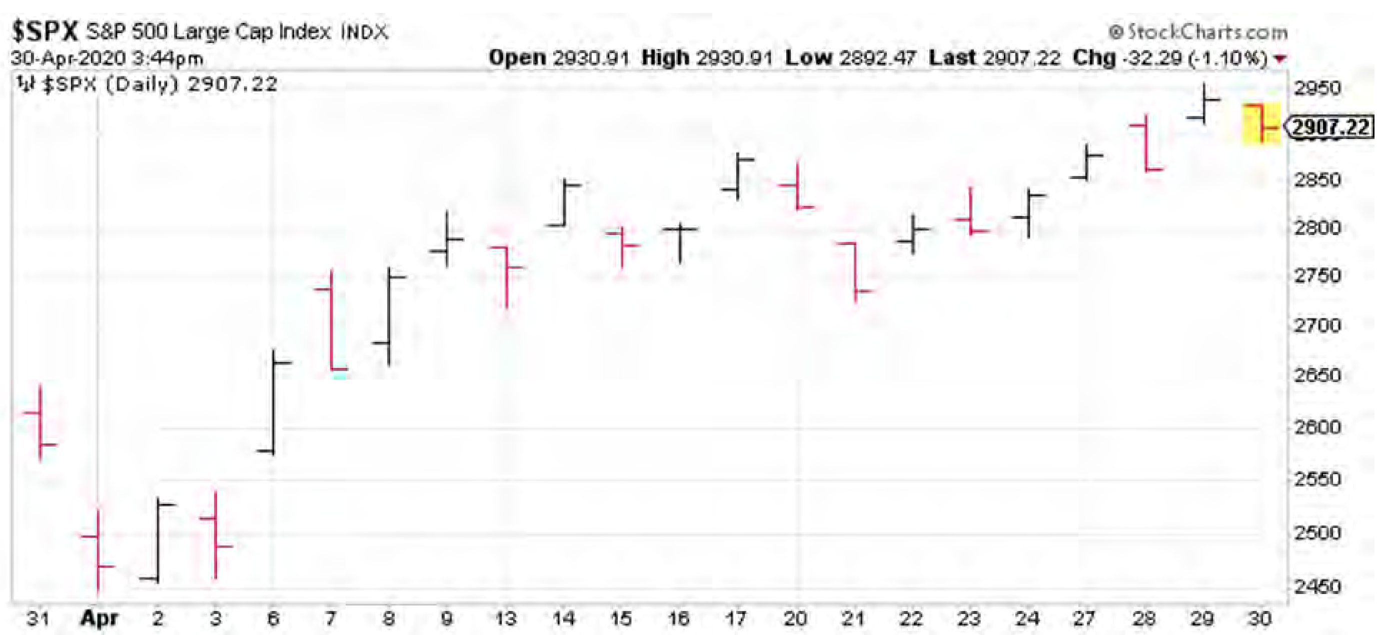
Equity Market Commentary

Boy howdy. What a month for the markets. After a horrible February and March, the S&P 500 turned April into the best month since 1974, up 12.68% for the month. However, it is down -9.85% year to date... Let that sink in. We have probably 20% unemployment, a closed economy, 60,000 American deaths from the virus (and rising) and the market goes up? I get that we are finally seeing some positive news (the grocery stores are not bare and you can buy toilet paper again) and some states have passed their peaks and are approving slow openings of their economies. We did not overrun our hospital systems or run out of ventilators. All good news. In order to achieve this feat, we had to undergo considerable economic pain.

In certain states that avoided a strict lockdown, like South Dakota, the worst predictions did not come to pass. The initial models said 70% of the state's 900,000 people, or 630,000, would get infected. The data to date: 868 infections and 13 fatalities. In comparison, Minnesota's experience was similar even with its lockdown. When the government issued the lock down their model called for up to 70,000 fatalities. The tally so far? 393 fatalities with 130 in ICU statewide. My point here is the initial models were drafted using brand new data to enact unprecedented economic policies that will be very complicated to undo. We entered this crisis knowing virtually nothing about the virus or its behavior, and as we continue to battle against this problem we can adjust our procedures and expectations. None of this forgoing is to minimize the suffering of those affected by this pandemic. It is a serious threat to our population and needs to be done away with post haste.

Getting the economy back up to speed is going to be much more difficult. Starting on a state by state basis will be easier for the small business in general than a lot of our biggest companies due to the supply chain problems. The crushed energy sector also complicates things. It's hard to project numbers on the economy with so many unknowns, such as how consumers will respond. How workers will respond is also a good question considering the extra $600 unemployment checks per week through July. Putting the economy on its



feet will take time. The longer it takes the more issues we face. It can be done, but what will it look like? We're going to have to live with the consequences of the shutdown policy for a lot longer than we would like, I fear.

How does all of this square with the market currently? A big snap back is to be expected after such a violent rout, but will it be one that carries us nearer to February highs? That part seems to have gone too far too fast. Now we will no doubt have to back and fill for a bit while the market tries to deal with all of the unknowns out there. It seems unlikely that we will get back into having positive GDP for a few quarters. Earnings for most companies will fall until we get back to some sense of normalcy. The big questions revolve around consumer behavior. Will we go back to movies and restaurants? How about summer vacations? What about Christmas spending? So many questions.

May 1 also brings us back to the old saw, "Sell in May and go away." So how did that work out over the past decade? Not so well it seems.

One feature of the recovery from the 2008-09 recession has been the dominance of growth over value stocks. On its own this does not seem surprising, but a look at the chart below will give you some sense of the dominance over a long period of time that is unusual. Usually recoveries don't last as long as the decade long bull market and growth waxes and wanes, giving the old slow growers/big dividend payers their time in the sun. Look at the Russell 1000 Growth and Russell 1000 Value Indices. Growth not only wins but the difference in most years is remarkable. Now it is true that we have had a surfeit of really great growth stories that seemingly have grown to the sky. Microsoft has grown from $16.65 in 2009 to $178.30. Apple went from $13.70 to nearly $300. Amazon $61.69 to $2474. Good times for growth indeed. We have had a bit of good news out of value lately with all of the stockpiling that has been going on. Maybe this is the beginning of a turn back toward value. We will have to keep an eye on this.

Stocks Don't Always Sell In May

S&P 500 Index Returns (May - October)

Year	Sell In May Return
2010	-0.3%
2011	-8.1%
2012	1.0%
2013	10.0%
2014	7.1%
2015	-0.3%
2016	2.9%
2017	8.0%
2018	2.4%
2019	3.1%
2020	?

Source: LPL Research, FactSet 4/28/2020 (1950 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Russell U.S. Growth and Value Indexes

Highest index returns

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Russell 2000® Growth Index 29.09	Russell 1000® Growth Index 2.64	Russell 2500™ Value Index 19.21	Russell 2000® Growth Index 43.30	Russell Midcap® Value Index 14.75	Russell 1000® Growth Index 5.67	Russell 2000® Value Index 31.74	Russell 1000® Growth Index 30.21	Russell 1000® Growth Index -1.51	Russell 1000® Growth Index 36.39	Russell 1000® Growth Index -14.10
Russell 2500™ Growth Index 28.86	Russell 3000® Growth Index 2.18	Russell Midcap® Value Index 18.51	Russell 2500™ Growth Index 40.65	Russell 1000® Value Index 13.45	Russell 3000® Growth Index 5.09	Russell 2500™ Value Index 25.20	Russell 3000® Growth Index 29.59	Russell 3000® Growth Index -2.12	Russell 3000® Growth Index 35.85	Russell 3000® Growth Index -14.85
Russell Midcap® Growth Index 26.38	Russell 1000® Value Index 0.39	Russell 2000® Value Index 18.05	Russell Midcap® Growth Index 35.74	Russell 1000® Growth Index 13.05	Russell 2500™ Growth Index -0.19	Russell Midcap® Value Index 20.00	Russell Midcap® Growth Index 25.27	Russell Midcap® Growth Index -4.75	Russell Midcap® Growth Index 35.47	Russell Midcap® Growth Index -20.04
Russell 2500™ Value Index 24.82	Russell 3000® Value Index -0.10	Russell 3000® Value Index 17.55	Russell 2000® Value Index 34.52	Russell 3000® Value Index 12.70	Russell Midcap® Growth Index -0.20	Russell 3000® Value Index 18.40	Russell 2500™ Growth Index 24.46	Russell 2500™ Growth Index -7.47	Russell 2500™ Growth Index 32.65	Russell 2500™ Growth Index -23.22
Russell Midcap® Value Index 24.75	Russell Midcap® Value Index -1.38	Russell 1000® Value Index 17.51	Russell 3000® Growth Index 34.23	Russell 3000® Growth Index 12.44	Russell 2000® Growth Index -1.38	Russell 1000® Value Index 17.34	Russell 2000® Growth Index 22.17	Russell 1000® Value Index -8.27	Russell 2000® Growth Index 28.48	Russell 2000® Growth Index -25.76
Russell 2000® Value Index 24.50	Russell 2500™ Growth Index -1.57	Russell 2500™ Growth Index 16.13	Russell 1000® Growth Index 33.48	Russell Midcap® Growth Index 11.90	Russell 1000® Value Index -3.83	Russell 2000® Growth Index 11.32	Russell 1000® Value Index 13.66	Russell 3000® Value Index -8.58	Russell Midcap® Value Index 27.06	Russell 1000® Value Index -26.73
Russell 3000® Growth Index 17.64	Russell Midcap® Growth Index -1.65	Russell Midcap® Growth Index 15.81	Russell Midcap® Value Index 33.46	Russell 2500™ Value Index 7.11	Russell 3000® Value Index -4.13	Russell 2500™ Growth Index 9.73	Russell Midcap® Value Index 13.34	Russell 2000® Growth Index -9.31	Russell 1000® Value Index 26.54	Russell 3000® Value Index -27.32
Russell 1000® Growth Index 16.71	Russell 2000® Growth Index -2.91	Russell 1000® Growth Index 15.26	Russell 2500™ Value Index 33.32	Russell 2500™ Growth Index 7.05	Russell Midcap® Value Index -4.78	Russell 3000® Growth Index 7.39	Russell 3000® Value Index 13.19	Russell Midcap® Value Index -12.29	Russell 3000® Value Index 26.26	Russell Midcap® Value Index -31.71
Russell 3000® Value Index 16.23	Russell 2500™ Value Index -3.36	Russell 3000® Growth Index 15.21	Russell 3000® Value Index 32.69	Russell 2000® Growth Index 5.60	Russell 2500™ Value Index -5.49	Russell Midcap® Growth Index 7.33	Russell 2500™ Value Index 10.36	Russell 2500™ Value Index -12.36	Russell 2500™ Value Index 23.56	Russell 2500™ Value Index -34.64
Russell 1000® Value Index 15.51	Russell 2000® Value Index -5.50	Russell 2000® Growth Index 14.59	Russell 1000® Value Index 32.53	Russell 2000® Value Index 4.22	Russell 2000® Value Index -7.47	Russell 1000® Growth Index 7.08	Russell 2000® Value Index 7.84	Russell 2000® Value Index -12.86	Russell 2000® Value Index 22.39	Russell 2000® Value Index -35.66

Lowest index returns

We are in an interesting time for value stocks as a big part of their allure is their dividends. As we sit right now many companies are cutting or eliminating their dividends for the time being. How fast they come back is anyone's guess at this point. We are focused on sectors of the economy and companies that will lead us out of this recession and recover faster. Over the months to come there will be appropriate pricing based on our projections of revenues and earnings. The challenge is revenues are down and companies are not offering guidance on earnings. We will continue to review companies' financials and make our best projections on earnings to select opportunities as they present themselves. The markets will provide us with more volatility until the picture comes clearer. Do not allow the news to move you to sell or buy out of panic. Consistent, patient focus will allow us to do both effectively while rebuilding portfolios.

Fixed Income Commentary

10-year US Treasury bonds largely traded rangebound during the month. Bonds began and ended April around 0.62%. Overall, corporate yields mostly fell during the month as credit spreads narrowed. Certain parts of the market did see some wide short-term price swings over the last 30 days in certain sectors like energy, retailers, and airlines. Like the stock market, for large sections of the corporate and municipal bond markets performance does not seem to reflect the economy experiencing one of the sharpest and quickest falls into recessionary territory. The Federal Reserve's quick and massive support for the debt markets clearly helped stabilize pricing. Further, the Federal Government's commitment to multiple waves of loans and aid to citizens, businesses, states and local governments is starting to flow to those in need. Still, we have already witnessed an uptick in corporate bankruptcies, with some oil and gas companies filing and expected filings coming from Neiman Marcus and J.C. Penny soon. And yet, issuers in the high-yield sector continue to have market access to fresh capital. Take Del Monte (Caa2 rated) for example. It intended to raise $500 million this week by issuing new corporate bonds. Investor demand was so high with yield talk in the 13-14% range, they increased the deal by $200 million.

As we have said before about the municipal market, states and local governments do have taxing authority, budgetary flexibility and aid available from the Federal Government. While there will be near-term stresses from our current environment, strong well-positioned municipals and companies will make it through these times. With that said, investors should still maintain a heightened sense of vigilance going forward, but also know that we have a Federal Reserve and Government that are acting faster than ever before to support the economy and markets. It may be that we have already seen the lows in bonds, but given the fluid nature of our course forward, we have likely not seen the last spike(s) in volatility in our markets. Given that, we continue to take a methodical, conservative approach to constructing and reinvesting fixed income portfolios at this time using high quality bonds weighing safety over stretching for incremental yield.

Sources:
Data sourced through Bloomberg, Morningstar, LPL Research, StockCharts.com, and www.ftserussell.com