IMPACT

FINANCIAL STRATEGIES

Q2 2020 QUARTERLY INSIGHTS

April 1, 2020

First and foremost, I hope this letter finds you, your family and loved ones healthy and safe.

The First Quarter of the 2020's. Where to begin? How to start? Each quarter as I imagine what I want to communicate with you, it seems like I am talking about volatility, negative news, and sticking to the plan we have crafted for you. Then came the coronavirus COVID-19. Then oil had its largest monthly decline in history. Finally, the US stock market went from all-time highs to the fastest correction and drop of 30% since the Great Depression, with volatility levels not seen since 2008.

Now, wherever you are, you are probably familiar with "shelter in place" rules. You can't gather with those you care about most, unless it is in a new Zoom meeting or a FaceTime happy hour experience. The majority of the developed world is requiring mandatory work from home and self-quarantine if you have come into contact with anyone who has come into contact with the coronavirus. It is even more heartbreaking if you or your loved ones are living in an independent or assisted living facility, which is likely on complete lock-down protocols.

Who would have thought that just three months ago, when every single news station and media outlet had anything to say, it was all about the impeachment? And who would have thought that *that* would be a welcome distraction compared to the last 30 days?

Before I get to the details of the market, the economy, and my outlook, I wanted to take a moment to reiterate what I said on my video message. Here at Impact Financial Strategies, we never lose sight of what is most important to you. While the money may be the *how*, we know that the *why* is about your family, your passions, your community, and having a happy and confident plan for retirement; whenever that may be, and however that may look. I know that these are unprecedented times, but I also know that we will eventually get through them. We made it through 9/11, we made it through the Great Recession, and we will make it through this. No one ever retires off of short-term volatility. We have built a plan, through our process, to deliver the necessary **outcomes**. We know what matters to you, and please know, it matters to us.

However, as the last 30 days has proven yet again, there are only certain things that we can control. Now, more than at any time in my 45 years, that sphere of "control" feels smaller than ever. Yet, once again, times like these prove it true once again. We can only control our response to what is happening. We have to have faith that our **philosophy** of looking at the markets with a wider lens and a multi-generational time horizon will return to normal. We have to take comfort in knowing that we have a **proven process** built around the necessary outcomes required for the life you aspire to have. We know that our process has built in recessions and corrections into our long-term probabilities of success. We have to revisit our written **plan** for how we will deal with turbulence, fear and uncertainty.

If you will also indulge me to stray for just another minute, I wanted to say THANK YOU… It seems like I have said it over and over the last year, but this time it *is different*. I want to say thank you for all of the messages of encouragement that you have been sending to the team and me. We are going through this *with you,* we are also concerned and trying to adapt to a new reality of rotating work from home, and social distancing, even while we are in the office. Our families are close to this virus and spread out over the country, with part of my family in "ground zero" Seattle; of course we are concerned. The messages and notes that you have sent us, remind us of why we are in this business. Holding your (virtual) hands, and trying to cut through the noise to give you clarity and confidence is expected from us. The outpouring of support and encouragement and so many of you asking how *we are doing*, is truly astonishing. Our relationships are about more than assets, and we thank you for engaging in that relationship.

On March 18th, we celebrated our 1 year anniversary. While it was a very muted celebration with just our staff (since our event was cancelled) we celebrated a major milestone for any business. The most exciting development for us was the addition of Deborah Lacey, CPA, CFP®, MST to our team. In normal times, this would be a major announcement. Adding someone with her credentials and experience to our team in order to serve you is very exciting, and I cannot wait for you to get the chance to interact with her. I had been looking for a Para-Planner; with Deborah, we have exceeded that goal tenfold. Please go to our website to check out her biography when you have a moment. I know she is looking forward to working with you. https://www.impactfinancialstrategies.com/about-us/bio?_=deborah.lacey

Lastly, we want to remind you of our commitment to help our communities (and yours) in this time of national uncertainty. We have set up a page to help address food insecurity – and we are matching at least $5000 for that cause, here is the link: *https://my.foodbanklarimer.org/IFSway* **(If you are involved in something in your community that you would like our help with, please let us know.)

As always, please feel free to pass this timely perspective along to anyone you think might appreciate it. Recently we have had many inquiries as to our availability to talk to family or colleagues, and as you know that is always a service we provide with no obligation or commitment to those you care about most. For your advocacy and your trust: Thank you again! You are why we work so hard. We will get through this too!

Sincerely,

Justin

Investors Endure Historic Volatility in the First Quarter

Market volatility surged in the first quarter to levels last seen more than a decade ago during the financial crisis, as the COVID-19 pandemic swept the globe and prompted the partial shutdown of most major global economies, including the U.S., EU and most of Asia. But while the pandemic was the main cause of the historic volatility we've witnessed over the past several weeks, the coronavirus outbreak was not the only source of volatility in the markets during the first quarter, as geopolitics and domestic political developments also impacted markets over the past three months.

In sharp contrast to the relatively calm market environment of 2019, the new year started with a geopolitical shock when, on January 3rd, the United States executed a tactical strike that resulted in the death of Iranian General Qasem Soleimani, whom many considered to be the second most powerful person in Iran. Tensions between the U.S. and Iran rose sharply as Iranian leaders promised retaliation, and stocks dropped on the news while oil rose as investors feared a potential regional war. Positively, the Iranian response, a small rocket attack on a U.S. base in Iraq, did not cause further escalation. Additionally, Iran mistakenly shot down a Ukrainian commercial airliner during the rocket attack, tragically killing all 176 people on board, and the global fallout from that all but ended the conflict. Ultimately the geopolitical crisis was short lived, but it proved to be a harbinger of what was to come later in the quarter.

As the geopolitical scare faded, investors' focus turned back to the U.S.-China trade war, as both China and the U.S. signed the "Phase One" trade deal in mid-January. The agreement did not provide material tariff relief, however it did importantly signal no further tariff increases. As such, it provided needed clarity to global industrial companies and the markets. In response, stocks moved steadily higher, powered by the favorable combination of the U.S.-China trade "truce," low interest rates following the rate cuts of 2019, historically low unemployment and steadily rising corporate earnings. Fundamentals for the economy and the stock market were very strong, and the S&P 500 hit several new, all-time highs between mid-January and mid-February.

But, starting February 20th, market volatility rose sharply as the number of active coronavirus cases began to dramatically accelerate in South Korea, Iran and Italy. The swift spike in new coronavirus cases outside of China resulted in a sharp drop in stocks in late February. Those declines were then compounded throughout March as the number of active coronavirus cases in the U.S. began to increase rapidly. The S&P 500 tumbled more than 25% from the mid-February highs to the late-March lows, amid rising fears that "social distancing" measures being implemented globally to stop the spread of the disease, would have a broad and substantially negative economic impact.

Positively, the U.S. government has acted to support the economy as the Federal Reserve cut interest rates to zero percent and implemented several important measures to provide short-term cash for corporations and ensure there's 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. Those actions are working to help keep the banking and financial systems functioning in an orderly manner as well as supporting the economy through this unprecedented shutdown. Stocks reacted to these positive events by rallying sharply during the last week of March, although the major averages still finished the first quarter with large declines.

As we begin the second quarter of 2020, it's fair to say investors and markets are facing a level of uncertainty that we have not seen in over a decade. But it is also true that the government has acted in a historically forceful way to support the economy and foster growth once the coronavirus pandemic has passed, and despite a volatile quarter, that is a comfort as we move forward.

1st Quarter Market Performance Review

The major U.S. stock indices all dropped sharply in the first quarter on concerns about the economic fallout from the coronavirus pandemic. But, the tech-heavy Nasdaq relatively outperformed the other three major indices, thanks to large-cap tech companies being viewed as somewhat insulated from the economic fallout compared to many other industries. The S&P 500, Dow Jones Industrial Average and Russell 2000 (the small-cap index) all saw larger declines in the first quarter.

By market capitalization, large caps outperformed small caps in the first quarter, and that is what we'd expect when market declines are being driven by concerns about future economic growth, because large caps are historically less sensitive to slowing growth than small cap stocks. From an investment style standpoint, growth relatively outperformed value, yet again, due to strength in large-cap tech.

On a sector level, all 11 S&P 500 sectors finished the first quarter with negative returns. Traditionally defensive sectors, those that are less sensitive to changes in economic activity like utilities, consumer staples, and healthcare, relatively outperformed, which is historically typical in a down market. Technology shares also outperformed the S&P 500, again due to relative strength in large-cap tech companies as their businesses are thought to be more resilient than other parts of the market.

Conversely, cyclical sectors, those that are more sensitive to changes in economic activity, badly lagged the S&P 500 in the first quarter. Energy was, by far, the worst performing sector in the S&P 500, as it declined sharply due to plunging oil prices. Material and industrial stocks also underperformed on fears of reduced future earnings if there is a prolonged global economic slowdown.

US Equity Indexes	Q1 Return	YTD
S&P 500	-19.60%	-19.60%
DJ Industrial Average	-22.73%	-22.73%
NASDAQ 100	-10.29%	-10.29%
S&P MidCap 400	-29.80%	-29.80%
Russell 2000	-30.61%	-30.61%

Source: YCharts

Looking internationally, foreign markets also declined in the first quarter, and again underperformed the S&P 500. Foreign developed markets slightly outperformed emerging markets, although barely so, as the economic fallout from the coronavirus is thought to be widespread globally. Meanwhile, emerging markets lagged both foreign developed markets and the S&P 500, although emerging markets did benefit from a rebound in Chinese markets in March, as China was successful in containing the coronavirus and their economy began to re-start late in the first quarter.

International Equity Indexes	Q1 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	-22.72%	-22.72%
MSCI EM TR USD (Emerging Markets)	-23.57%	-23.57%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-23.26%	-23.26%

Source: YCharts

Commodities endured a historic collapse in the first quarter driven by steep declines in industrial commodities such as oil and copper. Oil plunged to multi-decade lows over the past three months on a combination of potentially reduced demand stemming from the global economic shutdown paired with surging supply due to the global price war that broke out following the failed “OPEC+” meeting in early March. Ultimately, prices declined to levels not seen since the early 2000s in the final days of the quarter. Gold, meanwhile, rose slightly in the first quarter as investors sought protection from uncertainty, although gold was very volatile in the month of March.

Commodity Indexes	Q1 Return	YTD
S&P GSCI (Broad-Based Commodities)	-42.34%	-42.34%
S&P GSCI Crude Oil	-66.84%	-66.84%
GLD Gold Price	7.01%	7.01%

Source: YCharts

Switching to fixed income markets, the total return for most bond classes was positive in the first quarter, although corporate bonds saw steep declines over the past three months, which is not surprising given the potential economic fallout from the coronavirus pandemic. The leading benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, experienced positive returns for the sixth straight quarter.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter durations in the first quarter and that’s what we would expect to see when expectations for future economic growth are falling sharply.

Corporate bonds saw substantially negative returns in the first quarter as high-yield debt badly lagged investment-grade debt. The underperformance of lower-quality corporate bonds also underscored rising concerns about future economic growth, and more specifically, the health of many global corporations.

US Bond Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	3.15%	3.15%
BBgBarc US T-Bill 1-3 Mon	0.47%	0.47%
ICE US T-Bond 7-10 Year	10.34%	10.34%
BBgBarc US MBS (Mortgage-backed)	2.82%	2.82%
BBgBarc Municipal	-0.63%	-0.63%
BBgBarc US Corporate Invest Grade	-3.63%	-3.63%
BBgBarc US Corporate High Yield	-12.68%	-12.68%

Source: YCharts

2nd Quarter Market Outlook

What a difference a quarter can make.

At the beginning of 2020, market fundamentals were arguably as positive as they had been in years. Interest rates were low, the labor market was historically strong, the U.S. and China achieved a potentially lasting truce in the long-standing trade war, and the global economy was showing signs of acceleration following a sluggish 2019.

But all that was upended by the coronavirus, which not only caused historic and unsettling volatility across global financial markets, but also upended normal society in a way none of us have ever seen before.

Across the nation, and the world, roads are mostly empty, office buildings are vacant, schools are closed and normal life as we have known it has largely ground to a halt.

Yet it's important to point out that, as Fed Chair Powell stated in a recent interview, there was nothing "wrong" with our economy before the coronavirus hit. There was no tech stock bubble and no housing bubble, like we saw in the last two U.S. recessions. As mentioned, economic fundamentals were rather positive prior to this unprecedented shock, and that offers some comfort when we look at investing over a longer time horizon.

To that point, it is also important to remember that this unprecedented market volatility, along with these societal disruptions, are temporary. At some point, the spread of the virus will peak and begin to recede.

Similarly, these social distancing measures, while unsettling, also are only temporary. Our children will once again return to school and adults will return to work. Air travel will resume, cruise ships will set sail again, and the U.S. economy, which is by far the most flexible and resilient in the world, will recover. , and that recovery will come sooner than previously thought thanks to the actions by the U.S. government over the past few weeks.

Over the past month, we have all witnessed a degree of panic, both in regular society as well as in the financial markets. But as we all know, the worst thing to do during a panic is to panic. That's because panic leads to hasty, short-term decisions that jeopardize your long-term best interests.

Although no one could foresee this virus or the impact it would have on the markets and the economy, events such as this are why we have spent time with you designing a long-term, balanced financial plan.

Through this difficult, but ultimately temporary disruption, that plan is designed to help you achieve your personal long-term financial goals. Meanwhile, shares of some of the most-profitable, well-run companies in the world are now trading at substantial discounts to levels at the beginning of the year, and history has shown us that over the longer term, these tumultuous episodes can create fantastic investment opportunities, and some of the most ideal buying conditions the market can offer.

Past performance is not indicative of future results, but history has shown that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of heightened volatility, market corrections, and even bear markets.

At Impact Financial Strategies we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first quarter is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan. We've worked with you to establish a personal allocation target based on your financial position, risk tolerance, and investment timeline. Therefore, we aim to take a diversified and disciplined approach with a clear focus on longer-term goals.

We understand that volatile markets are both unnerving and stressful, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this difficult market environment.

Finally, above all else, please be careful and stay healthy.

Sincerely,

Justin

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constitute a recommendation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Past performance is not indicative of future results.

**Raymond James is not affiliated with the Food Bank for Larimer County

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. Index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations. The Barclays Capital US Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Diversification and asset allocation do not ensure profit or protect against loss. Holding investments for the long term does not insure a profitable outcome. Investing involves risk and you may incur a profit or loss regardless of the strategy selected. Keep in mind that there is no assurance that any strategy will ultimately be successful or profitable nor protect against a loss. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct.

The S&P Midcap 400 is a measurement of changes in 400 domestic stocks chosen by capitalization, liquidity, and industry group representation. It is a capitalization-weighted index, with each stock's weight proportional to its market value. This Index includes the effects of reinvested dividends. The S&P GSCI is the first major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta. The index is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes. The S&P GSCI Crude Oil index provides investors with a reliable and publicly available benchmark for investment performance in the crude oil market. The Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage. The Bloomberg Barclays U.S. A Corporate Bond Index measures the investment-grade, fixed rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The ICE U.S. Treasury 7-10 Year Bond Index is part of a series of indices intended to assess the U.S. Treasury market. The Index is market value weighted and is designed to include U.S. dollar denominated, fixed rate securities with minimum term to maturity greater than or equal to seven years and less than ten years.