PARCION
PRIVATE WEALTH

As we begin a new week after a few turbulent weeks, I hope everyone has been able to take the weekend with family to make some meaningful memories and forget about the markets for a couple of days. At Parcion Private Wealth, we continue to be very interested in each piece of economic data that is released. The situation we find ourselves in with the COVID-19 crisis, the effect it has on our daily lives, and the consequences in the financial markets is changing rapidly. In an attempt to keep our clients and others up to date with respect to what we feel is the most pertinent information, how we are using that information in the management of your assets, and what, if any, changes have been made to portfolios, you will likely be hearing and reading much more from us than you normally do for the time being.

Below are some of my thoughts on the changing economic environment, and how we're viewing things at Parcion Private Wealth. But first, a few bullet points on some of the actions we have taken to navigate through these volatile times are:

- We came into this downturn with larger than normal levels of cash in clients' portfolios. Today **we increased the level of cash** by selling some of our low-yielding fixed income assets that had exposure to anything but the highest credit quality. In these volatile times, we want to maintain the highest degree of liquidity and flexibility. **Cash holdings now stand at between 15 and 25%** for most client's managed portfolios.
- In the process of raising to this level of cash exposure, we did so **without selling equities**. We are confident stocks will recover their losses, albeit the time that will take is very unclear.

- Portfolio holdings are concentrated on the **highest quality assets**. Both in fixed income and equity exposure.
- We are using structured notes where appropriate that provide a level of principal protection, while providing upside exposure to the equity market well in excess of the index over the next three years.
- We have been actively harvesting losses without altering overall exposure to equities. This will **deliver realized losses to offset future taxes**, while still maintaining exposure to participate in the market's recovery.
- We have a plan, complete with buy lists, to get **positioned for the next expansion cycle**. This includes putting some of the cash back to work in equity markets. The timing of that decision will be data driven, and likely not in the very near term.

When we look at the breadth of factual and anecdotal data related to the closure of all non-essential services across highly populous areas of the countries, it's easy to see we are in a recession. If that's the case, we're all going to need to change the way we think about recessions and what they mean for equity markets.

The real fear for most investors, however, is not a recession. What we all fear are sustained and deep market losses, which we normally associate with a recession. Without hesitation, we can already check the deep box. The question is whether these losses will become sustained? We define "sustained" as equity markets failing to reach a new all-time high for a minimum of 1 year. For perspective, after the Global Financial Crisis in 2008, the S&P 500 took more than five years to recover.

The COVID-19 crisis comes with many descriptive names, such as "unprecedented" and "impossible" - and those descriptions are all correct. We must then consider the multitude of unprecedented and impossible ways the markets will react as the crisis subsides. In 2008 our global banking and credit system functionally collapsed, destroying many businesses around the world.

With the COVID-19 crisis, the sudden shutdown of non-essential businesses hasn't destroyed them yet; it's paused them. Indeed, some companies won't survive – but we don't expect to see closures and forced mergers anywhere near the scale of 2008.

Further, today's consumers have far less debt than 2008, and government intervention (although late to the party) has been very aggressive over the last two weeks. The stimulus package (rumored to be as much as $2T) will functionally serve as a giant "bridge loan" to consumers and the economy as a whole. This is the reason many economists are predicting a very bad Q2 GDP but a flat to positive Q3 GDP.

The potential implications of GDP forecasts at this time could mean that equity markets may recover much of their losses at a staggeringly fast rate relative to past recessions.

Given the above, everything boils down to this: What is the length of the pause in economic activity? This data point is impossible to predict with accuracy, and rough forecasts are changing day-by-day. We fully expect headlines to spread fear for the foreseeable future, but we encourage you to continue seeing past the media. Using the word "recession" sparks fear and anxiety, but not all recessions are the same – and, <u>based on the data we have now</u>, we expect it to be manageable.

At Parcion Private Wealth, we are going to maintain our course dependent on the data. If the data suggests it's time to de-risk more, then we won't hesitate to do it. However, until that time comes, we must continue to follow the game plan. We expect equity markets to find an equilibrium trading range in the coming days based on the valuation of companies reduced cash flows in Q1 and Q2. Collectively, the investment world is just waiting on Q3 now – one way or the other.

Please continue to protect yourselves and your families. We are with you in that, and here to help in any way we can.

Sincerely,

Terry