SENIOR SOLUTIONS UPDATE

FROM: PATRICE HORNER, CFP, MBA

SUBJECT: 2Q2020 INVESTMENT COMMENTARY
DATE: APRIL 25, 2020

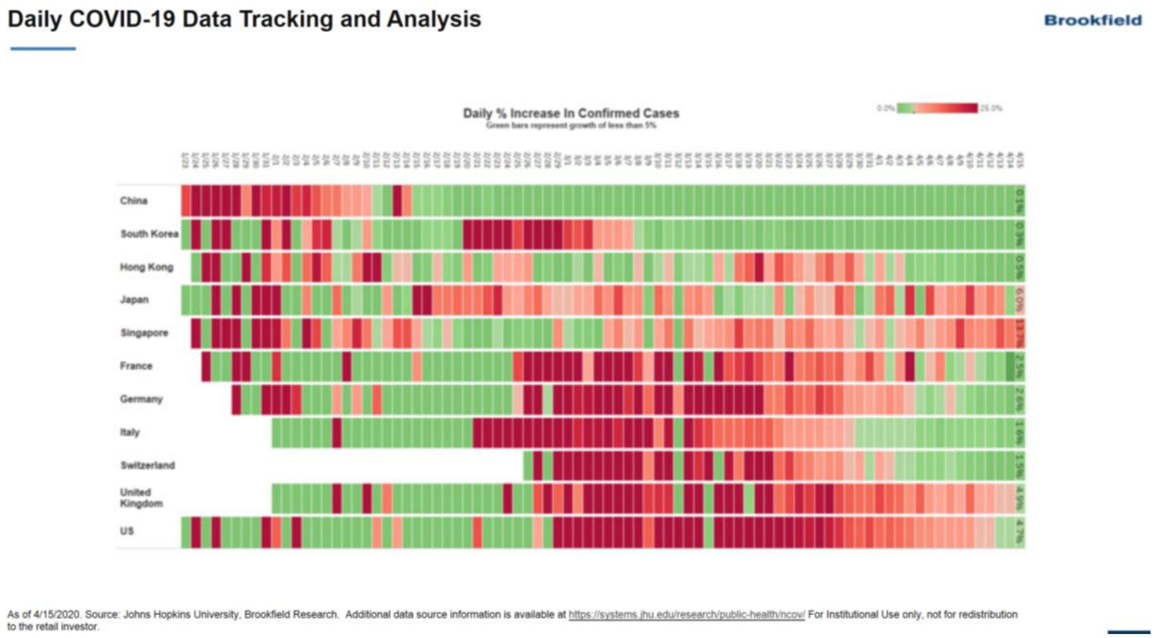
SSL Senior Solutions
25 Woodlands Road, Pembroke HM 09 (441) 29

Review

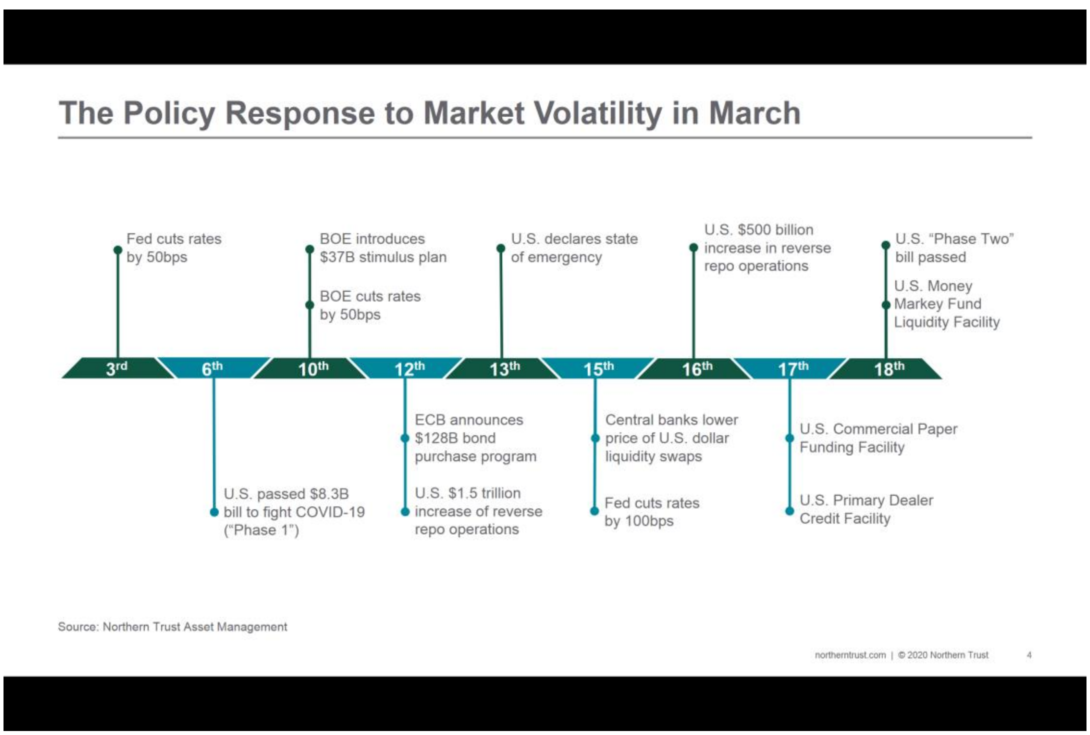
The global healthcare industry and the global financial markets faced incredible challenges starting this quarter. It was exasperated by a breakdown in OPEC negotiations, prompting the Saudi's to flood the market with inexpensive oil. The waterfall decline from the February 19th peak to the March 23rd low was breath-taking. The volatility index (VIX) hit a historic high which had started to rise two months before the sell-off.

A medical care crises emerged and national lock-downs were imposed. Tens of thousands died of Covid which tested the governments metal. Tens of millions were left unemployed and filed for emergency financial assistance. After all the intervention, the S&P 500 rallied with velocity nearly 20% off its low, before ending the month then trending higher in April, now within 10% of its February high. A collapse adverted.

The lack of structural imbalances in the economy prior to this crisis should enable a faster economic return, unlike during the 2008 crisis. Volatilty remains elevated with less than average trading volume off of the bottom. There is no guarantee there will not be additional test of the market downside. We remain focused on the six month and 12 months periods for stabilization Much will depend on the stabilization of the Covid crisis. According to the following heat-map, it appears things calmed in April. Concerns of relapse remain.



The Covid crisis rolled through the global from East to West. According to the above graph, most countries look to have gone through the fire and are emerging, with the US and the UK on the tail end. Massive fiscal stimulus and quantitative easing by central banks and financial institutions around the globe buoyed the stock and bond markets after they crashed. There will be a credit hang-over to be addressed after 5-10% of global GDP was added in the tens of trillions of monetary and fiscal support. The taps have yet to be turned off. The overall global governmental deficits are expected to hit 30% of a GDP, higher than the Great Recession.

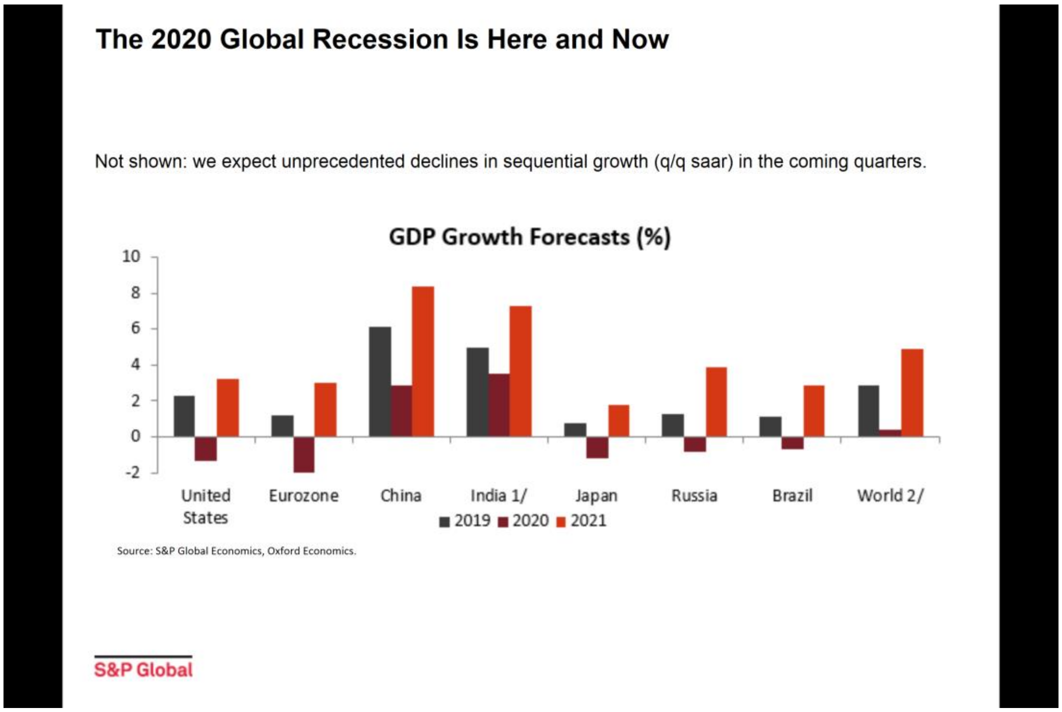


Market Overview

The emergency break was pulled on the moving economy and it was a hard stop, just adverting a total train wreck. Intensive fiscal and monetary stimulis has kept it on the rails. The tracks going forward are not yet cleared. Most developed markets will be in an economic valley for 2020.

Due to the global lockdowns, economic activity ceased. Many economies around the world are now facing recession after two quarters of declining GDP. Even the food supply chains are being broken from employee Covid concerns and transportation problems. China is beginning to emerge and slowly restart business operations. The demand for products remains weak as most countries are not yet operational. India is looking to avoid recession, however the impact of Covid is not yet factored in. The rest of the emerging world is facing extreme financial and health challenges as investment funds are withdrawn and healthcare is limited.

.



Technical factors suggest the primary low for the S&P occurred on March 23rd, when the S&P index dropped to 2,182, driven by massive unleveraging and short sale covering. ETF volumes surged as a percent of market as individual investors sold off stocks, while the credit-sector funds experienced record outflows. Other signs of stress were seen when the put/call ratios reached extremes and the number of new 52-week lows declined as the broader markets sank. Earnings in 1Q2020 look to be down around 15%. The results for 2Q2020 are estimated to decline by nearly 50%. Pricing stocks and bonds is being driven largely by investor sentiment. Investment managers are scrambling to developing various scenarios, with no clear path forward.

Equity Markets

Fortunately, corporate earnings had been positive coming into the year. Earnings estimates early in 1Q2020 had been surprising on the upside. The 2Q will be a different matter. Overall 2021 earnings are estimated at $160 per share or down by 15% year over year, below the level earned in 2019 and in 2018. The S&P is now trading at 14x P/E which is lower than the long-term P/E average of 16x, suggesting estimates are high.

Earnings expectations are unclear at this juncture, as the process of economic recovery is uncertain. A mild recovery is possible in 3Q2020 with further increase in 4Q2020, unless there is a return of the Covis contagion. Some sectors of the economy that have spared. While other sectors are being desimated.

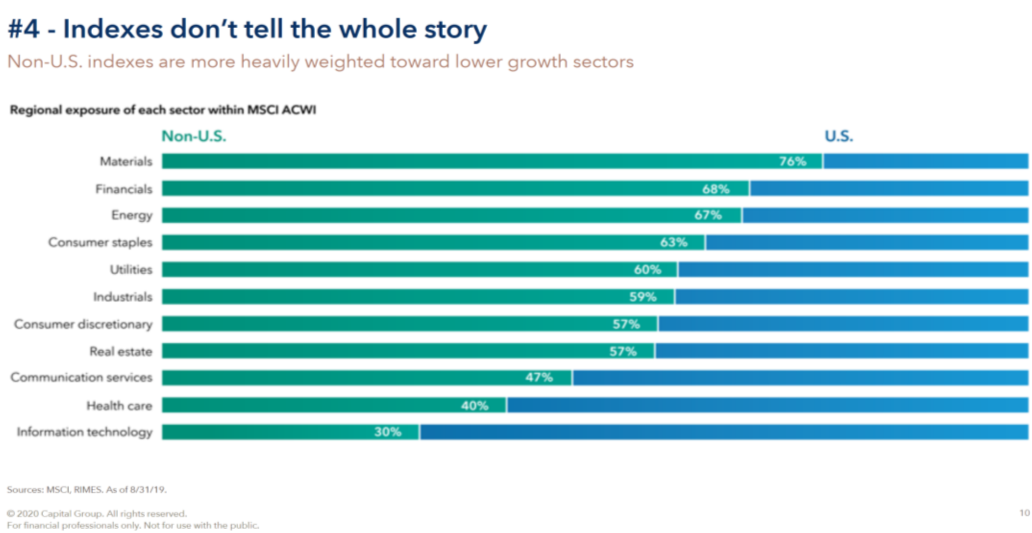
Quarterly Market Performance Barometer

	Return %		
Equities	**Q1 2020**	**Q4 2019**	**1-Year**
U.S. Market	-20.57	8.99	-8.64
Dividend Focus	-26.09	5.06	-20.27
Global ex-U.S.	-24.01	9.19	-16.12
Developed ex-U.S.	-23.66	8.34	-14.92
Emerging Markets	-24.63	11.54	-18.75
Fixed Income			
U.S. Core Bond	3.20	0.18	8.94
U.S. Government	7.57	-0.63	12.74
U.S. High-Yield	-12.91	2.60	-7.26

	Return %		
Top Morningstar Sector Indexes	**Q1 2020**	**Q4 2019**	**1-Year**
Technology	-12.27	14.21	7.58
Healthcare	-12.80	14.78	-1.57
Consumer Defensive	-14.00	3.77	-1.80
Bottom Morningstar Sector Indexes			
Basic Materials	-28.20	7.30	-18.47
Financial Services	-29.53	9.57	-15.07
Energy	-51.94	6.01	-54.53
Morningstar Moat Indexes			
Wide Moat	-15.56	8.86	-1.72
Narrow Moat	-21.81	10.25	-9.64
No Moat	-29.47	6.81	-21.47

Source: Morningstar Direct.

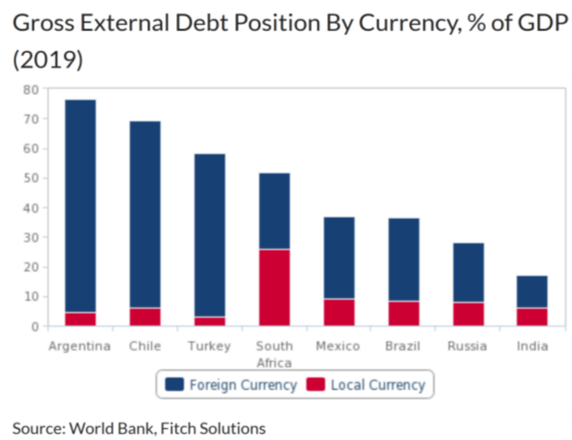
Consumer Staples/Food and Communications/Media have benefited during the crisis, with Healthcare and Technology also less affected. Energy, Financials, Industrials and Materials are down by double digits. Transportation within Industrials was hit hard and may improve in 2021. While hotels are unlikely to recover until 2022-23. Retail and theatres might never return to what they were before the crisis.

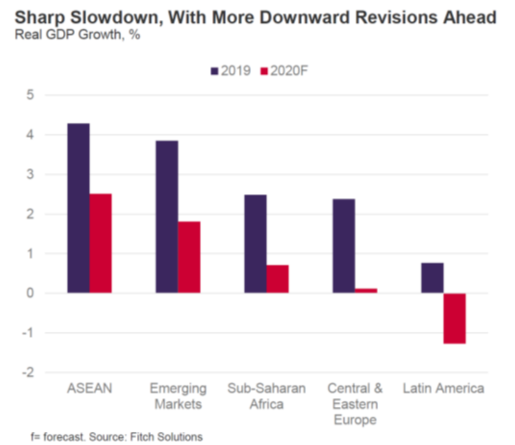


These trends will impact the Non-US equity markets differently than the US, because of the varying percentage of sectors exposure. As a result Non-US markets willl return more slowly. There has also been concern whether the Eurozone countries will be able to organize a coordinated global response.

Emerging Markets

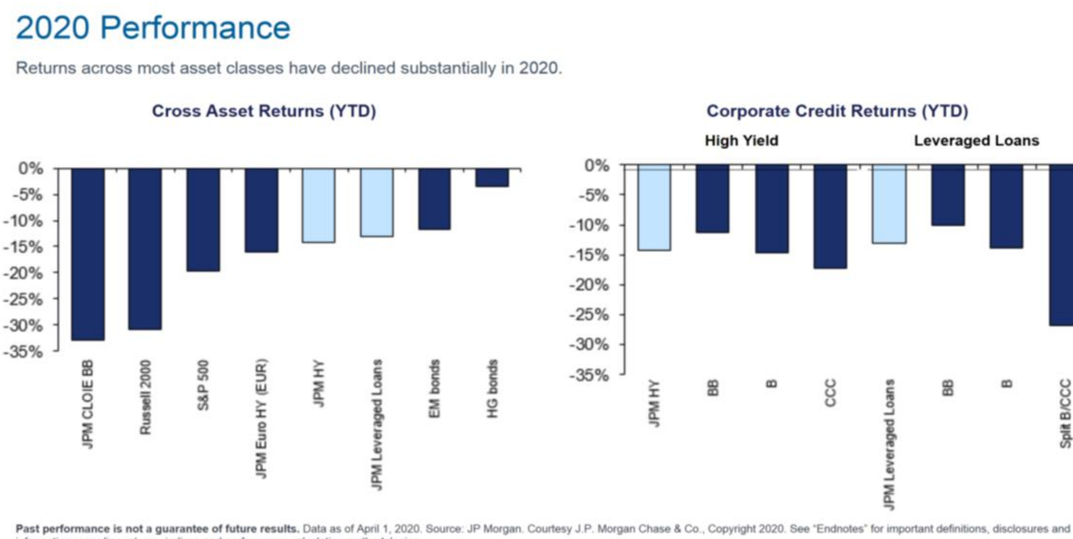
Capital outflows from the Emerging Markets have been the fastest on record. This presents unique problems for companies in those countries, especially those with foreign denominated debt. Going forward, specific company fundamentals will be a critical part of investment decisions. Those with a domestic economy less reliant on trade or exports and on foreign direct investments will be better positioned as global trade unravels.





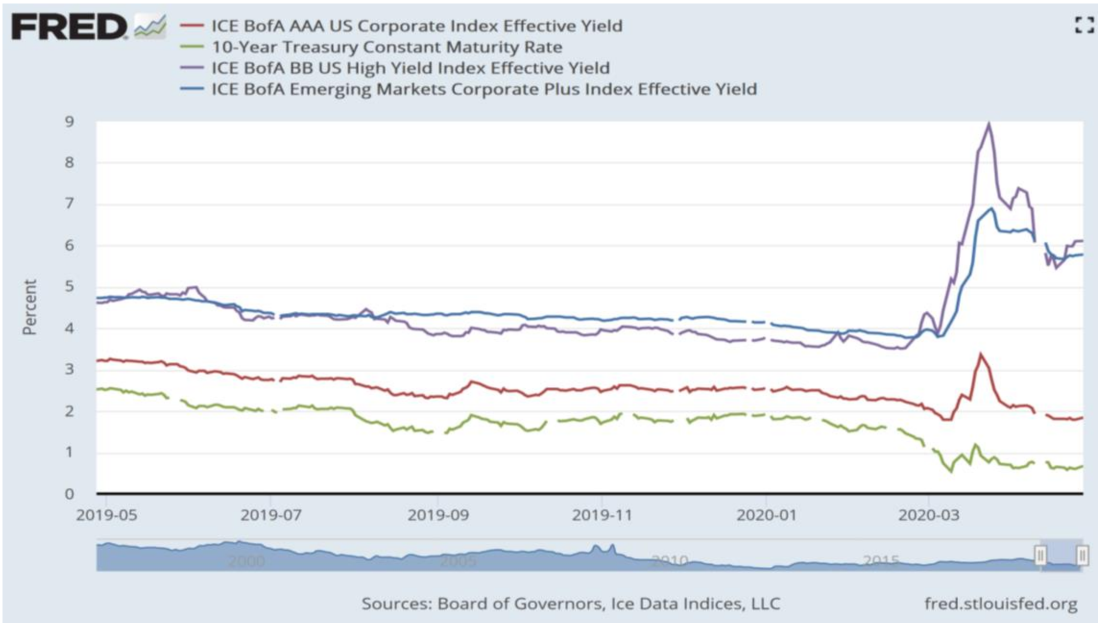
Fixed Income Market

The fixed income markets were challenged by a lack of liquidity. Unexpected cuts of interest rates by the FOMC and other central banks, along with monetary infusions, stopped the market from seizing-up. A run-to-safety also caused a sharp drop in bond yields as investors bid-up bond prices. If there are moves toward a more positive outlook with a quick return to growth could cause inflation to snap-back, followed by a quick rise in interest rates. A reversal to increasing rates could negatively impact bond valuations, as the value of those bonds with lower coupons are revised downward. Credit quality issues will be especially important now, as issuing companies struggle with earnings and interest payments while the economies strain to start again.



Understanding of the credit risk of each issuer will minimize losses as conditions deteriorate. Investment Grade issues (IG) have to be rated above BBB. Nearly 50% of the IG issues now are BBB, at the edge of investment grade. There is a risk of being downgraded if their fundamentals fall, then institutional investors will be forced sellers, which will negatively impact individual portfolio values. The combo of a higher number of defaults and lower potential recoveries put investors in non-IG at a higher risk of loss.

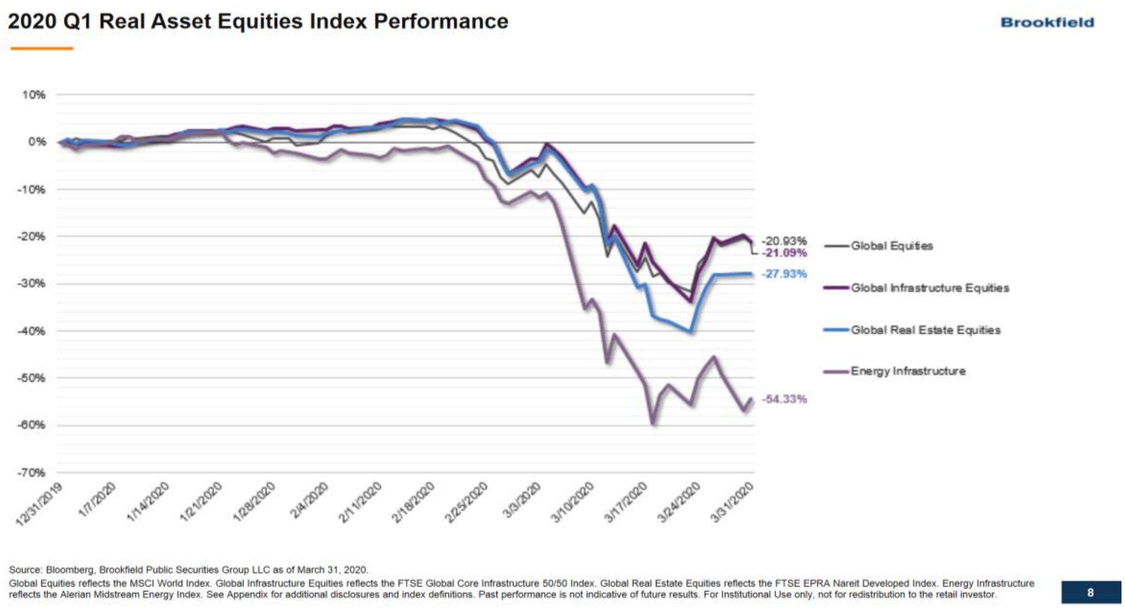
Credit spreads are also critical for guaging future returns for specific types of issuers, such as sovereigns, corporates, leveraged loans, or emerging market bonds. A credit spread is a premium that investors seek to compensate for extra risk. Most bonds were trading at tight spreads in February. All widened in March. High Yield and Emerging Market debt have exploded by 300 basis points (bps). All types of bonds were caught in the downdraft as credit spreads widened. They will revert to the average range and bond prices will rise.



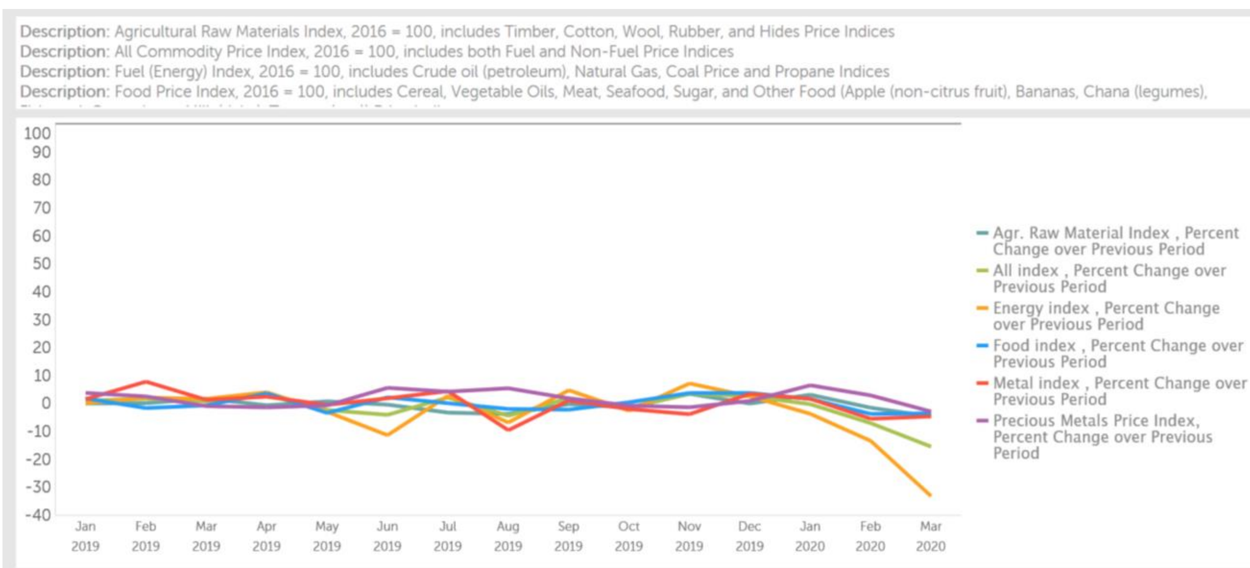
Interestingly, Collateralized Leverage Loans (CLO) were buffered by an accounting treatment that does not require Mark-to-Market. Most securities have to adjust their reported value recorded to the current market value. This can whipsaw portfolio values in volitile times like this. Overall, this is a challenging investment environment for fixed income. At the time of this writing, mortgage backed securities are attractive due to a yield that is well-priced to its credit-spread. Many bonds in the shorter term will be supported by almost unlimited government buying programmes to support the credit markets. The risk of default remains.

Other Assets

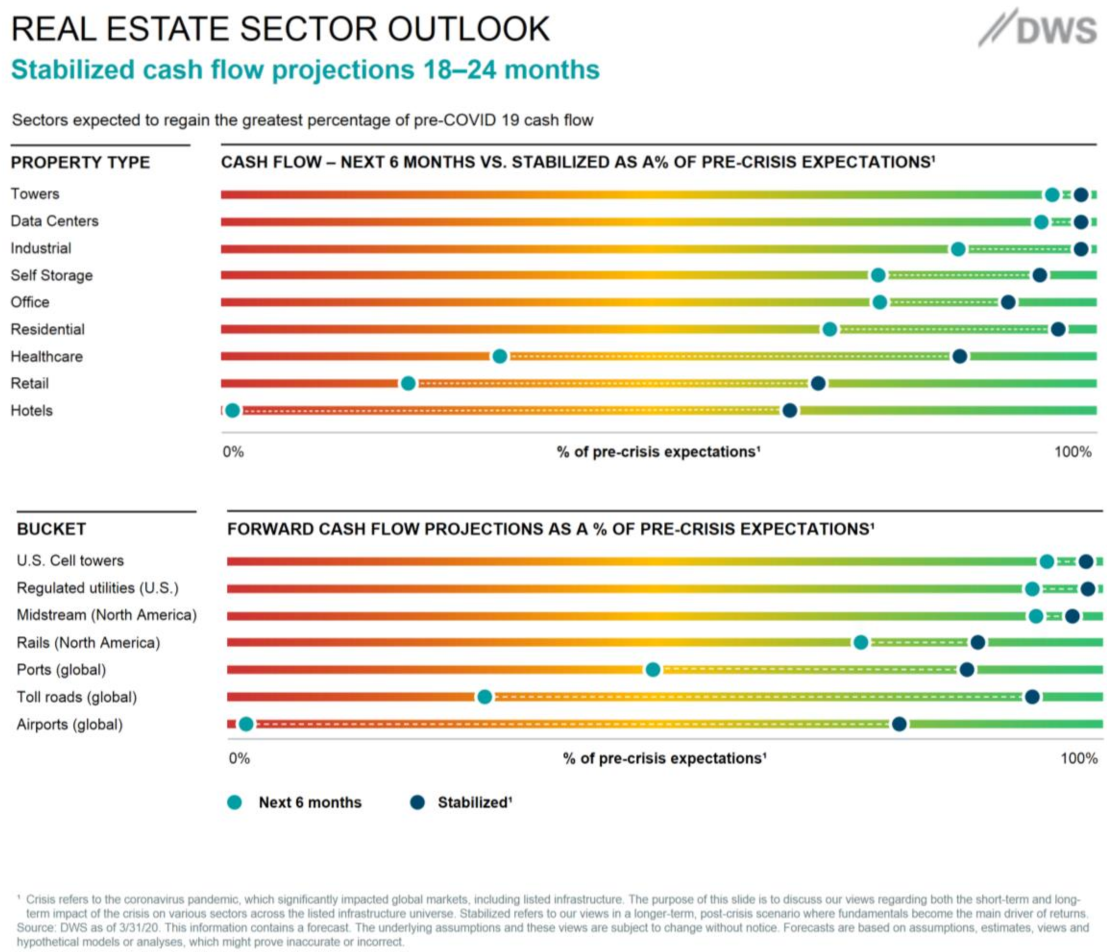
Few asset classes were left unscathed as the global economies shut down over the Covid crisis. Equities, Real Estate and Energy all fell precipitously during March. The Energy sector was hit by the OPEC breakdown. The world is now swimming in oil, filling all surplus and inventory supplies. There are cases where oil is being held in the oil tankers due to lack of storage facilities. Not only is the supply glut an abnormality, the demand side fell as transport, travel, and industrial use stopped. The oil industry has pricing challenges with a serious futures pricing collapse in early April. Many companies were heavy leveraged and are facing bankruptcy.



On the Commodity side, trade disruptions are hitting the other sectors, including Agriculture and Metals. There were plus signs on the horizon for Agriculture. This is changing with workers outages due to Covid or immigration, along with transporation problems. Metals are sourced around the global and subject to trade constrictions and demand declines. As the economies re-ignite, flow will commence, but demand is likely to remain lower with sufficient inventory onhand. Therefore, prices will likely remain low over the next year.

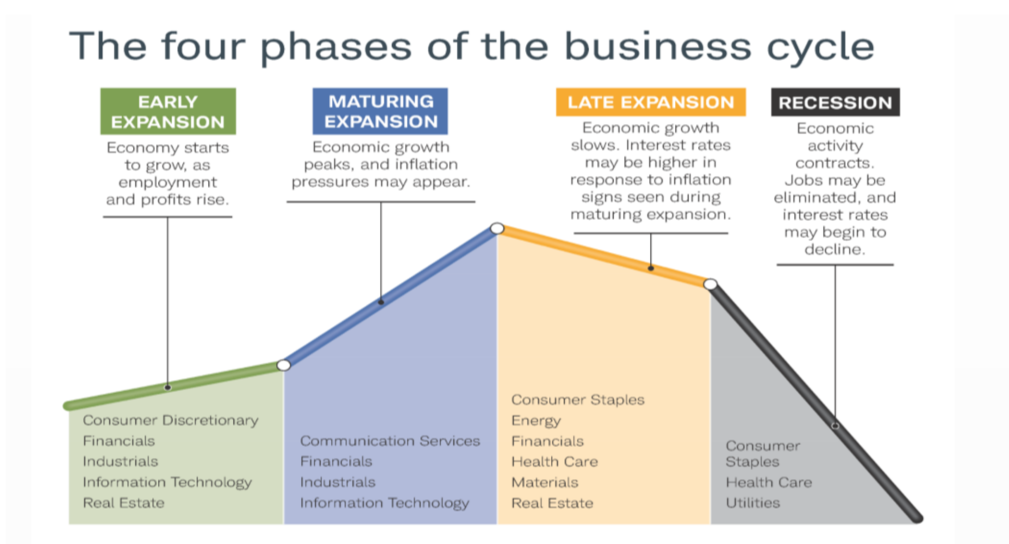


Real Estate is a real asset that has income, tax advantages, and potential capital appreciate. It is a many faceted category. There is some overlap with Infrastructure as well. The value of the sectors are driven by cash flow. Cell Towers, Data Centers, Industrial Space, Regulated Utilities, and Midstream oil transport/storage facilities look to have minimal declines over the near term. Serious declines are evident in Healthcare real estate, Retail, Ports, and Toll Roads. While Hotels and Airports are near shutdown and will remain so for sometime.



Asset Allocation

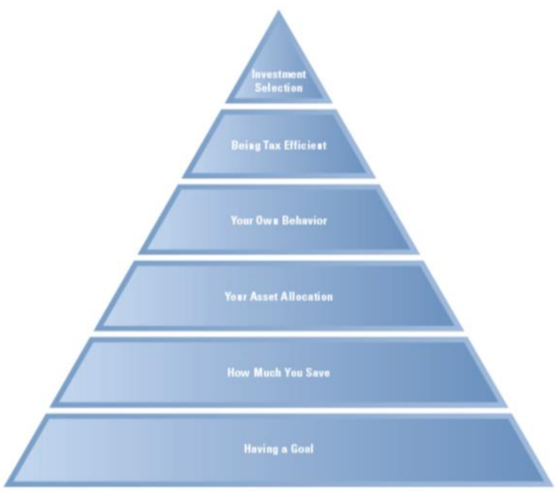
Steady as we go and focus on the longer-term horizon. The next couple of years will be choppy and unpredictable. Therefore, it will be important to make investment selections supported by business cycles and volatility parameters. There are four phases in the business cycle. Focus on Recession and Early Expansion.



The attractive sectors from the business cycle standpoint are *Staples, Healthcare, Utilities* (to a lesser degree), *Industrials*, *IT, and Real Estate*. There are secular trends to consider as well, such as the rise of streaming video in *Communication Services*. The Financials are less certain as low interest rates due not translate into profits and economic contraction reduces demand for bank services. That being said, the larger US banks have made a wind fall on fees from the PPP and the some $7 billion in the small business loan program.

An important approach is to target specific companies or subsectors within an asset class. It is also important to monitor the implementation costs. Instead of utilizing a simple ETF passive strategy for cost containment, use a 'Smart Beta' strategy with factor screens to pinpoint the attractive securities within an index or to make an investable index. A Smart Beta portfolio 'tilts' on factors, such as Low Vol or Quality, yet controls for market-cap or sectors. Academic and practitioner research have shown that Smart Beta portfolios outperform the overall benchmarks in the long run. Quality and Low Beta portfolios have the superior risk-adjusted returns. The strategies are implemented in the SSL 2Q2020 Model Portfolio.

Conclusion - *KNOW WHERE YOU ARE GOING*



The point is to structure the investment selection and asset allocation from the foundation of the goals to be financed.

Budget and save excess cash flow to support long-term and retirement goals. Between 10-25% of current net income is a guideline.

The asset allocation is based on the best amount of volatility that can be taken to best meet the goals based on a propensity for risk.

Discipline and efficiency in taxes and trading will support the invest selections. Put all the data to work to make it through this crisis.

These two months have been the most trying in a century on many fronts. Human determination and ingenuity will guide the world through this unprecedented time. There will be progress. However, when and how is very difficult to predict. Therefore, sound progress will prevail by practicing sound processes, by monitoring, and by adapting to economic and market changes.

Previous performance is not a guarantee of future returns. All investments contain risk. Your particular portfolio should be designed to your level of risk and to target your financial goals. Review regularly.