DT INVESTMENT PARTNERS, LLC

Q1 2020
FINANCIAL MARKETS COMMENTARY

"A Virus-Induced Sale on Financial Assets"

RISK-BASED ASSETS PERFORMANCE SUMMARY

- After reaching an all-time high on February 19th, the record setting bull market led by the S&P 500 Index declined into bear market territory (>20% drop from 52 week high) by March 12th. This abrupt ending to the longest running bull market was the fastest drop ever (15 days) from an all-time high to a bear market. U.S. stocks finished their worst quarter since 2008 as the coronavirus pandemic hit.

- At the start of the year, few investors could have anticipated that what initially appeared to be an issue primarily affecting China, would quickly become a global pandemic that brought business to a screeching halt around the world. Selling was indiscriminate as panicky investors fled all risk-based assets, betting the global economy was headed for a severe slump. At times, declines were so sharp that rarely used mechanisms to halt trading across the entire market were activated by exchanges. These drops in value may have been exacerbated by speculation, volatility traders increased use of computer-driven trading models, levered investors frantically unwinding risky bets made with borrowed funds, and large asset managers' desire to sell even the safest assets and hold more cash.

- During the first quarter, all risk-based assets, with the exception of Gold, fell in price led by Commodities and U.S. Small and Mid Cap stocks (See page 5). The S&P 500 finished with a 19.6% loss, its biggest quarterly decline since 2008. The level of volatility as measured by the VIX Index has been unprecedented with the VIX starting the year at 14, rising to 83 on March 16th, and closing the quarter at 54.

- All U.S. Large Cap sectors declined for the quarter led by Energy as an oil market share war erupted between Saudi Arabia and Russia causing the global supply of oil to increase while investors bet that the virus disruption to business and travel would reduce the demand for energy. The Financial sector fell 32% as emergency interest-rate cuts by the Federal Reserve, while helping to stabilize the financial system, further lowered banks' net-interest margins which decreases their profitability from lending money to businesses and consumers.

BOND PERFORMANCE SUMMARY

- U.S. Government bonds were the top performer for the quarter as the yield on the benchmark 10-Year U.S. Treasury Note fell 1.25% to 0.67% (as yields fall, prices rise). This marked its steepest quarterly yield decline since 2011. Signs of investor anxiety and the resultant flight-to-quality boosted the value of safe haven assets such as government bonds and gold.

- Agency mortgage-backed securities were the second best fixed income performer for the quarter as investors were drawn to the relative attractiveness of their yields combined with their U.S. government-backing.

- Investment Grade (IG) Corporate Bonds were the worst fixed income sector performer in the first quarter due to fears that a sharp economic downturn from the coronavirus would strain the creditworthiness of borrowers across most business sectors.

- After a strong start to the year, the Municipal Bond market was caught in a liquidity crunch as investors indiscriminately sold most financial assets in a race for cash. Many bond owners were forced to liquidate their municipal bond holdings to fund margin calls and hedges related to other sectors of the broad market. The sector finished the quarter with a slight decline.

CONTRIBUTORS & DETRACTORS TO PERFORMANCE

- Performance contributors versus the Global Stock/Intermediate Maturity U.S. Bond blended benchmark index during the quarter included our overweight allocations to cash and bonds and our underweight allocation to risk. In particular, our outside of benchmark allocations to Gold and Agency Mortgage-Backed Securities contributed to performance.

- Detractors to performance versus the benchmark index included our overweight allocation to investment grade corporate bonds and our underweight allocation to U.S. Treasuries.

GLOBAL MARKETS & ECONOMY

- As we entered 2020, stocks were near all-time highs, investor sentiment was exuberant, global monetary policy was easy and interest rates, inflation, and unemployment were all low. Consumers were spending, there were signs of stabilization in global economic growth, the U.S. banking system was well capitalized, and the yield curve was positively sloped. Phase One of a trade deal with China was nearing completion and investor appetite for risk remained strong with the probability of recession low. Stocks reached several all-time highs and then the global spread of COVID-19 escalated from China to South Korea, Iran, Italy, Spain, and into the U.S. The virus now spans across 150+ countries throughout the world.

- As financial markets came under extraordinary pressure in early March from this exogenous shock, global monetary policymakers, led by the Fed, made emergency interventions to boost funding in credit markets and ensure an adequate supply of U.S. dollars to calm investor anxiety. On March 15th the Fed slashed its benchmark interest rate to near zero and said it would buy $700 billion in U.S. Treasury and mortgage-backed securities (MBS) as part of an urgent response aimed at stabilizing the financial markets. Central banks around the globe followed suit, showing their willingness to do whatever it takes and more to keep the financial system functioning.

- The intra-meeting Fed move came as the coronavirus crisis escalated sharply across Europe and the U.S. with business closures and event cancellations. Companies sent workers home, smaller businesses focused on how to survive, and consumers stocked up for an uncertain period of time where they are being asked to stay at home to combat the spread of the virus.

- Then on March 27th, President Trump signed a $2 trillion economic stimulus package aimed at mitigating the worst effects of the pandemic on the U.S. economy. It will inject a flood of cash into the economy and make it available for businesses struggling with the fallout, as well as bolster the safety net for average Americans. It is the largest stimulus package ever assembled and passed in the U.S.

- After falling 34% from its all-time high reached on February 19th, the S&P 500 rallied back 14.4% to close the quarter down 19.6%. The price of oil closed the quarter down 67% as the price war between Saudi Arabia and Russia shows no signs of abating. Each country is planning to flood the market with cheap oil at a time when demand has been declining due to the virus outbreak. At current price levels, both countries are losing significant money. Therefore, it is in both country's best interest to agree to stabilize prices as quickly as possible.

- As we begin the second quarter, we do so with many more unknowns than knowns. We have no idea what the rate of virus spread will be, what the mortality rate will be, when the virus will peak, whether there will be a second or third wave of infections, and what proportion of people are infected without symptoms. We have no idea how long the global lockdown needs to last, so we don't know how bad the economic and financial damage will be. We have no way to accurately project the negative impact upon corporate earnings. Furthermore, we don't know if efforts to contain the spread of the virus will have long-term, economic behavioral consequences on individuals and businesses. With such a high level of uncertainty, it is extremely difficult to gauge when the worst of the selling might pass. This is an unprecedented situation and the number of coronavirus cases in the U.S. is still rising by the day. Volatility will likely remain elevated until it is clear we have passed the peak in virus cases and the rate of new cases is de-escalating.

- Although there is no real precedent for the economic or financial market impacts of Covid-19, because governments haven't responded so severely to any past pandemic, we still believe that the disruption from this virus represents a temporary setback for the global economy. It should not permanently change the global economy's natural tendency to grow. Once this situation settles down, businesses will still have the incentive to produce goods and provide services in order to profit in a free-enterprise system. However, it may just take a little longer.

- Global and U.S. recessions (two consecutive quarters of quarterly contraction in Gross Domestic Product)are nearly givens at this point. Economic data for the second and third quarters will likely be very weak. However, a fourth quarter rebound is still a possibility, as long as the spread of the virus weakens and the economy begins to reopen by June.

PORTFOLIO STRATEGY & OUTLOOK

- In this very uncertain time, it can be difficult to get clients to stay the course and think long-term. However, there will be an end to this pandemic, just like every pandemic in history before it. While there is no denying that this type of volatility is unpleasant as no one likes to see their account values decline, times like this validate the importance of investing in an asset allocation that is consistent with each investor's risk tolerance and long-term investment goals.

- All asset allocation portfolios remain significantly underweight risk-based assets and overweight bonds and cash. While no investment process can completely avoid losses, especially in times of extreme market volatility, we want to reassure you that we have an investment discipline that revolves around fundamental analysis, valuations, and technical analysis. Over the past few weeks, we have been meeting on a daily basis to evaluate the key tenants of our investment process and what actions we will undertake if stock prices continue to deteriorate, stabilize, or start to rebound.

- At the start of this year, stocks were cheaper than bonds when comparing stock earnings yields (inverse of Price/Earnings (PE) ratio) to the yield of the 10-Year U.S. Treasury Note. As we begin the second quarter, stocks have gotten even cheaper compared to bonds as most of the developed world's sovereign bond yields are either negative or less than 1% while stock PE ratios have declined causing their earnings yields to rise. The current dividend yield of the S&P 500 Index was 2.41% while the 10-Year Treasury yield was 0.67%.

- Aggressive monetary and fiscal policy stimulus, low inflation, low interest rates, and pent up demand from current business shutdowns are all recipes for a rebound in risk-based asset prices. The rebound in stock prices will occur before the rebound in economic growth as financial markets are forward-looking. Stock markets typically anticipate changes to the economy 6-9 months ahead of time.

- In the fixed income markets, there will certainly be some pressure on corporate and municipal borrowers as credit downgrades are likely to occur. However, a large amount of corporate defaults seems unlikely given the Federal Reserve and U.S. government's willingness to intervene in this unprecedented healthcare crisis with historic amounts of stimulus. In addition to U.S. Treasuries and agency MBS, the Fed is buying investment grade corporate bonds and state and local issued municipal bonds.

- Our investment strategies now have significant dry powder (cash) to allow us to take advantage of investment opportunities created by the recent and dramatic financial market volatility. A better entry point should present itself once markets stabilize and more of the unknowns become knowns. Trying to time when to buy risk is very difficult. While China and South Korea appear to be well on the road to recovery, there are still way too many case escalations around the world, particularly in the U.S. and Europe.

- We have a list of 10 items that we review each day as indicators for determining when to increase exposure to risk-based assets. They include such things as the degree of monetary and fiscal policy support, the rate of change in new virus cases, economic fundamentals, market breadth, volatility measures, performance vs. 52 week highs, and price action via our proprietary technical analysis model. So far, 8 of the 10 are saying it's too early to buy, 1 is neutral, and 1 (Monetary Policy) is giving a buy signal.

Andrew Zimmerman, Chief Investment Strategist

ASSET CLASS TOTAL RATE OF RETURN PERFORMANCE SUMMARY AS OF 3/31/2020

Stock Indices	Asset Class	QTD Return	1 Year Return
MSCI AC World Daily TR N	Global Equities	-21.37%	-11.26%
S&P 500 INDEX	U.S. Large Cap Equities	-19.60%	-6.99%
S&P 400 MIDCAP INDEX	U.S. Mid Cap Equities	-29.70%	-22.53%
RUSSELL 2000 INDEX	U.S. Small Cap Equities	-30.62%	-24.01%
MSCI EAFE	International Developed Market Equities	-22.72%	-13.90%
MSCI EM	Emerging Market Equities	-23.59%	-17.42%
FTSE E/N All Eqty ReitTR	Real Estate (REITs)	-23.44%	-15.93%
U.S. Large Cap Sector Stock Indices			
S&P 500 ENERGY INDEX	U.S. Large Cap Equities - Energy Sector	-50.45%	-52.42%
S&P 500 HEALTH CARE IDX	U.S. Large Cap Equities - Health Care Sector	-12.67%	-1.01%
S&P 500 CONS DISCRET IDX	U.S. Large Cap Equities - Consumer Discretionary Sector	-19.29%	-10.77%
S&P 500 CONS STAPLES IDX	U.S. Large Cap Equities - Consumer Staples Sector	-12.74%	-0.59%
S&P 500 INFO TECH INDEX	U.S. Large Cap Equities - Information Technology Sector	-11.93%	10.43%
S&P 500 UTILITIES INDEX	U.S. Large Cap Equities - Utilities Sector	-13.50%	-1.40%
S&P 500 INDUSTRIALS IDX	U.S. Large Cap Equities - Industrials Sector	-27.05%	-19.50%
S&P 500 COMM SVC	U.S. Large Cap Equities - Telecom Sector	-16.95%	-3.31%
S&P 500 MATERIALS INDEX	U.S. Large Cap Equities - Materials Sector	-26.13%	-16.57%
S&P 500 FINANCIALS INDEX	U.S. Large Cap Equities - Financials Sector	-31.95%	-17.20%
S&P 500 REAL ESTATE IDX	U.S. Large Cap Equities - Real Estate Sector	-19.21%	-11.33%
Commodities Indices			
ISHARES GOLD TRUST	Gold	3.93%	21.73%
S&P GSCI Tot Return Indx	Broad Commodities	-42.34%	-41.01%
Bond Indices			
U.S. Aggregate	Core Bonds	3.15%	8.93%
Intermediate	Intermediate Government & Corporate Bonds	2.40%	6.88%
US Corporate High Yield	High Yield Debt	-12.68%	-6.94%
U.S. Treasury	U.S. Treasuries	8.20%	13.23%
U.S. TIPS	U.S. TIPs	1.69%	6.85%
U.S. Agency	U.S. Government Agencies	4.14%	8.31%
U.S. MBS	Mortgage-Backed Securities	2.82%	7.03%
Corporate	Corporate Debt	-3.63%	4.98%
Municipal Bond Index	Municipal Debt	-0.63%	3.85%

Notes: The DT Investment Partners' Commentary and Outlook discusses general developments, financial events in the news and broad investment principles. It is provided for information purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Investments in various asset classes entail different investment risks. For example, small cap stocks tend to be more volatile than large or mid-cap stocks. International and emerging markets stocks have exposure to currency fluctuations, foreign taxes, political instability and the possibility for illiquid markets. Fixed income investments involve interest rate and credit risks among others. Real estate investing includes risks such as declines in value of real estate, changing economic conditions, tax laws or property taxes. Commodities' investing is highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. One cannot invest directly in an index. Past performance does not guarantee future results.