CAPITAL MARKET SUMMARY

Following strong returns in 2019, financial markets entered 2020 with significant strength. However, as concerns regarding the coronavirus and its global impact pervaded market psychology, this position of strength was quickly reversed in late February. For the whole of the quarter, the S&P 500 declined 19.6%[1]. Volatility, as demonstrated by the VIX® Index, ended the quarter in excess of 45[2]. This elevated level helps to explain the large daily moves in the market. Approximately every 16 points on the VIX equates to an estimated daily change in the S&P 500® of 1%, thus describing some of the substantial swings experienced by the markets over the course of March[3].

During the first quarter of 2020, the individual sectors of domestic equity continued to show significant dispersion. Technology and Healthcare, which demonstrated the strongest performance during the fourth quarter of 2019, led the way again with returns of -11.93% and -12.67% respectively[1]. This repetition in leadership is a divergence from recent quarters where the strongest sectors in the prior quarter fell off in performance. Also providing some defense for portfolios during the first quarter were the Consumer Staples (-12.74%) and Utilities (-13.5%) sectors[1]. The weakest sectors were those which are historically more economically-sensitive, including Energy, Financials, and Industrials. In the same order, these sectors fell 50.45%, 31.92% and 27.05% for the quarter[1]. Outside of the S&P 500 Index®, smaller firms, represented by the S&P 400 Mid Cap Index® and the S&P 600 Small Cap Index®, declined 29.7% and 32.64% respectively[1].

In keeping with the storyline of the ongoing impact of the coronavirus, corporate earnings are expected to deteriorate by 7.3% during the first quarter[4]. This would be the weakest report since the third quarter of 2009 where earnings declined 15.7%. At quarter end, the S&P 500® had a forward price to earnings ratio (P/E) of 15.3. Furthermore, earnings are expected to fall again in the second and third quarters by 15.1% and 4.8% respectively[4]. By the end of the year, the total decline in earnings is predicted to be 4.5%[4]. However, we expect continued negative revisions to expectations over the coming weeks as the full impact of the coronavirus-related shutdown permeates the economy which may drive the forward P/E ratio higher.

As domestic markets struggled to find footing, international markets followed suit. The MSCI EAFE Index® (developed international equity) declined 22.83% over the first quarter while the MSCI EM Index® (emerging market equity) fell a similar 23.6%[1]. From the perspective of a non-U.S. investor, international equity index performance was actually more in line with domestic equity performance. The disparity came largely from an appreciation of the U.S. dollar which was caused by a rush to safety during the sell-off in early March. At one point, between March 9 and March 20, the U.S. dollar index had risen 8.8%, and from the beginning of the year until the end of the quarter it was up by 2.8%, accounting for nearly the entire difference between domestic and international equity performance[5].

Commodities markets were affected by the economic fallout of the coronavirus as much as equity markets. The Bloomberg Commodity Index®, a broad basket of commodities, lost 23.29% since the beginning of the year erasing all of last year's gains[1]. Commodities markets have proven to be difficult places to invest over the last several years as this index has now declined 7.76% annually for the last five years[1]. Economically-sensitive commodities such as copper and timber fell 20.34% and 27.43% respectively[1]. Agriculture held up slightly better with a loss of just 9.86% in the first quarter[1]. Precious metals experienced divergent performance as gold rose 5.54% while, simultaneously, silver dropped by 22.92%[1]. Divergences in gold and silver prices, having been more pronounced in recent years, warrant observation as investment opportunities may emerge.

1 *Morningstar.com (April 7, 2020)*
2 *VixCentral.com (March 31, 2020)*
3 *Macroption.com. Converting Implied volatility to Expected Daily Move (April 7, 2020)*
4 *Factset, Earnings Insight (April 3, 2020)*
5 *CNBC.com. DXY US Dollar Currency Index Chart (April 9, 2020)*

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Fixed income markets also had a difficult quarter. Outside of treasury bonds, all sectors of fixed income produced negative returns. The Barclays' Aggregate Bond Index® rose 3.15% as treasury bonds gained 8.08%[1]. The Barclays' Municipal Bond Index® finished the quarter down 0.63% after clawing back up from a greater than12% loss due to the evaporation of market liquidity in mid-March[1]. High yield municipals fared worse than their investment grade counterparts with a loss of 6.88%[1]. Inflation-protected securities (TIPS) underperformed other treasury instruments with a 1.69% return as inflation expectations cratered from 1.8% to 0.87% by quarter end[1,6]. The Barclays' Global Aggregate Bond Index® posted a small decline of 0.33% as U.S. interest rates fell more than international counterparts[1]. Finally, the non-investment grade corporate bond universe followed equity markets lower with high yield bonds, convertible bonds, and bank loans declining by 13.12%, 12.68%, and 13.05% respectively[1].

6 Federal Reserve Bank of St. Louis 10-Year Breakeven Inflation Rate (March 31, 2020)

Capital Market Outlook

After returning 31.5% over the course of 2019, the S&P 500® Index concluded the first quarter of 2020 giving back all but 5.7% of those gains[1]. All sectors of the market declined, but the decline was certainly not uniform. The strongest sectors were Technology, Healthcare, and Consumer Staples which lost 11.93%, 12.67%, and 12.74% respectively[1]. The laggards were Energy, Financials, and Industrials which declined by 50.45%, 31.92% and 27.05%[1]. In the past few years, dispersion of returns has been reasonably limited. A differential of close to 40% between the top and bottom sectors implies that active management may have a superior opportunity set to generate alpha in portfolios relative to other time periods where performance differentials were less significant. As we move through the remainder of 2020, Vicus Capital, along with the active managers we employ within client portfolios, will seek to identify pockets of opportunity as well as potential areas of avoidance as we navigate the waters of a more turbulent market.

An incredible amount of change has taken place in each of our lives since the start of the year. So much so that it may seem difficult to remember the forces that drove financial markets in 2019. At the time, we identified three primary factors: the signing of major trade deals (USMCA, China Phase 1 Deal, and others); continued job gains and general optimism leading to price to earnings (P/E) multiple expansion; and additions to the Federal Reserve's balance sheet which provided liquidity to the market. As 2020 unfolded, trade, in general, has massively slowed due to the government imposed shut-downs of economies around the world. Optimism driving multiple expansion has been crushed by the coronavirus, though we do believe that treatments and a vaccine will eventually be able to reverse this. So, while the first two drivers of 2019's market performance are not currently present, the third factor, in the form of the Federal Reserve's actions, is now front and center.

The question is: What is the Federal Reserve doing to assist the economy and financial markets? The short answer is: Everything they have tried before, and much more. Many of the techniques pioneered during the 2008 financial crisis and implemented over the course of six months were employed this time in the matter of weeks. Interest rates were slashed to zero and they again began to purchase securities at a rapid rate, thus bringing their balance sheet above a record $6 trillion[2]. Purchases were expanded to commercial paper and other asset types often held in money markets to both protect the liquidity of those instruments and keep funding stable for corporations. Swap lines were opened to allow foreign actors to trade in dollars without moving exchange rates. Banks had capital requirements lifted[3]. Far more actions could be listed, but suffice it to say, the Federal Reserve is doing whatever is possible to backstop all forms of market liquidity.

Liquidity of an asset such as a bond is one thing, but how will they keep making interest payments? Congress has enacted a few pieces of legislation, most notably the "CARES Act," which seek to

1 Morningstar.com (March 31, 2020)

2 St. Louis Federal Reserve (April 7, 2020)
3 Amundi Pioneer Asset Management (March 23, 2020)

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address the fiscal side of the situation. To assist personal economic situations, most Americans will receive a $1,200 one-time payment. State unemployment benefits will be enhanced by $600 per week, per person. Hospitals will receive in excess of $100 billion to address increased patient load and the need for extra equipment. Industries, cities, and states will receive $500 billion to assist with debt payments, payroll, utilities, and real estate expenses. And finally, programs supporting schools and food assistance will receive tens of billions of dollars, as well. While this should go a long way to aiding the economy over this difficult stretch, it is expected that there will be additional fiscal spending on items such as infrastructure, in addition to the aforementioned programs.

To sum it up, there is a novel virus traversing the globe and leaving economies reeling, yet at the same time there is unprecedented government stimulus of both the monetary and fiscal variety. Will the Fed's continued "easy money" policies drive equity multiple expansion or will concerns about future flareups of the virus keep valuations contained? To help answer this, let's take a look at where valuations are at the moment. According to Yardeni Research, the S&P 500 Index® is currently at a 15.4 price to earnings multiple (P/E), versus the MSCI EAFE Index® at 12.8 and the MSCI Emerging Markets Index® at 10.8[4]. These multiples are markedly lower than what we have seen over the past year, but they should be approached with caution as earnings estimates are still likely to be revised lower over the coming weeks. This would imply that the indices above might actually be trading at higher ratios than what is currently stated, causing them to be fundamentally less attractive than they might appear at first glance.

Within the various style boxes of equity, valuations are displaying notable instances of dispersion. While small cap growth is trading 31.9% above its 20-year average valuation, large cap growth is now just 6.9% over its average[5]. Blend style boxes are under 20-year averages for mid and small cap and large cap is just 0.4% above its average5. Value style boxes are all deeply below historical valuations with small cap being 27.2% under its average[5]. These examples of dispersion may lead to opportunities for active equity management and can often be seen as long-term opportunities for equity positioning.

Although far from the only reason for the recent weakness in value-oriented stocks, the energy sector has been in quite the malaise in 2020. Not only has demand been slashed massively from the virus-induced economic slowdown, but Russia and Saudi Arabia, the two largest oil producers outside of the United States, have engaged in a production battle to gain market share. The confluence of these two events has caused a massive oversupply of oil worldwide. Price declines have accompanied this oversupply causing many domestic oil producers to struggle to sell their product profitably. While it appears that an "OPEC+" (OPEC and Russia) deal may now be realized, it might not be enough to keep prices stable as the drop in demand due to economic weakness appears to be conspicuously larger than that of the reduction in oil production. We expect this story in oil markets to continue to play out over the remainder of 2020 as Russia, Saudi Arabia, and the United States balance exploration and production with their ability to sell at economically-viable prices.

After rate cuts by the Federal Reserve in 2019, some pressure was taken off of the dollar's seemingly incessant appreciation. However, the pressure came back quickly during the first quarter's market-sell off. While we expect the Federal Reserve's opening of dollar swap lines will offer a buffer, it nevertheless has been an important factor in financial markets across the globe. International equity markets, from an American investor's perspective, typically outperform when the dollar declines and underperform when it appreciates. At some point, we expect to see the dollar reverse lower which may lead to international investment opportunities. We will continue to monitor the international landscape for this potential shift and its relevancy with respect to the positioning of our allocations in relation to our benchmarks.

Much of how markets will react over the remainder of the year will be related to the medical issue

4 Yardeni.com. Global Index Briefing: MSCI Forward P/Es. (April 8, 2020)

5 JPMorgan Guide to the Markets (March 31, 2020)

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surrounding the coronavirus. Will there be a vaccine? Likely not until next year. Will a viable treatment emerge? Perhaps, as there are many currently under study. Some, such as hydroxychloroquine, are already widely used for other ailments. Others, such as Gilead Sciences' Remdesivir, are experimental anti-viral agents. It is probable at least some efficacy will be identified from one of these many ongoing trials. Once a treatment, cure, or vaccine is created, we believe that the economy will begin to regain its footing. With the recent fiscal stimulus and liquidity provided by the Federal Reserve, any positive news on the virus itself could drive markets significantly higher. On the other hand, the economic fallout is real. People are out of work and concerned about their future. Therefore, markets could continue to languish as valuations of securities could fall if the recent rise in unemployment becomes structural versus its currently assumed transitory nature.

We will continue to be vigilant stewards of our client assets during this tumultuous time period. In spite of the heightened market volatility, likely remaining for the foreseeable future, we expect our due diligence and research processes will lead us to opportunities as the second quarter ensues. Finally, diversification has mostly served investors well during the market drawdown. The Barclays' Aggregate Bond Index® rose 3.15%[6] during the quarter as markets declined and our commitment to diversification will continue to be a major factor in portfolio construction throughout the remainder of 2020 and beyond.

6 *Morningstar.com (March 31, 2020)*

Economic Perspectives

Economic Growth & Profits

- Real gross domestic product (GDP) for the fourth quarter of 2019, according to the Bureau of Economic Analysis (BEA), came in at an annualized rate of 2.1%. This is the same level as the third quarter of 2019. This still represents a decline from an annualized rate of 3.1% achieved during the first quarter and is a slight improvement over the 2.0% rate in the second quarter. When put together, these results equated to real growth of 2.3% for the entirety of 2019[1].

- The BEA stated that, "Growth was widespread, with 20 of 22 industry groups contributing to the increase. Professional, scientific, and technical services; finance and insurance; and information were the leading contributors to the increase in real GDP in 2019." Current dollar GDP (a measure that does not include inflation) increased at a 3.8% annualized pace during the quarter[1].

Interest Rates

- After reducing rates at an unscheduled meeting in early March, the Federal Open Market Committee (FOMC) made the decision to cut interest rates again to a target of 0 to 0.25% during a second unscheduled meeting on March 15. In making this change, they cited persistent sub 2% inflation and the need to support full employment; components that combine to form the FOMC's dual mandate[2]. The previously-scheduled meeting to be held on March 17 – 18 was subsequently cancelled.

- In addition to reducing interest rates, the Federal Reserve has taken a variety of extraordinary actions which include but are not limited to: the purchasing of treasuries, mortgage-backed securities, and short-term municipal and corporate bonds; establishing dollar liquidity swap lines with foreign countries; reducing reserve requirements for banks; establishing facilities to support the repo market; and financing for the CARES Act recently signed into law.

Employment

- Total non-farm payroll employment declined by 701,000 in March. This caused the official unemployment rate to rise to 4.4%, after having fallen to 3.5%. The labor force participation rate also declined to 62.7%[3].

- These numbers should be viewed as simply a snapshot in the past and Vicus Capital does not believe that they are indicative of the current environment. We expect unemployment to increase notably over the

1 *U.S. Department of Commerce: Bureau of Economic Analysis - Gross Domestic Product: Fourth Quarter and Year 2019 (April 6, 2020)*

2 *U.S. Federal Reserve - Federal Reserve Issues FOMC Statement (March 15, 2020)*

3 *U.S. Department of Labor: Bureau of Labor Statistics - The Employment Situation, March 2020 (April 3, 2020)*

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course of the next couple of reports as "stay-at-home" orders take their full effect on the economy.

- The average workweek for all employees on private nonfarm payrolls dropped slightly to 34.2 hours[3].
- Average hourly earnings grew again by 11 cents per hour to $28.62. Year-over-year, average hourly earnings increased 3.1%[3].
- The broader U-6 measurement of unemployment rose to 8.7% on a seasonally-adjusted basis, up from 7.4% one year ago[3].

Inflation

- According to the Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in February on a seasonally-adjusted basis after gaining 0.1% in January[4].
- The CPI-U increased by 2.3% over the last 12 months before seasonal adjustment[4].
- The Core-CPI, a popular indicator that looks at all items except food and energy, rose 0.2% in February and 2.4% over the last 12 months[4].

Risks and Observations

- Many of the data points we evaluate on a quarterly basis within our Economic Perspectives are backward looking, and given what we know about the effects of the coronavirus on our economy, we expect notable changes to data in the categories of GDP growth and employment in our second quarter commentary.
- With the impeachment trial now in the rear-view mirror, the news cycle quickly turned to the coronavirus that has made its way around the world. We perceive this again turning to the political arena as we approach the summer convention season. Will conventions be held in a virtual environment in 2020? Regardless, as the effects of the virus fade from our economy, we expect financial markets to bring renewed attention to the election outcome.
- Since the Federal Reserve reduced short-term rates to zero, they have continued to take action in markets. Whether backstopping small business loans and commercial paper, intervening in the short-term municipal market to provide liquidity, or buying large amounts of government and agency bonds, they have indicated to markets that there is little that they will not do to support the free movement of capital in the most orderly way possible.
- With the coronavirus comes significant uncertainty. As cases appear to be peaking both in the United States and around the world, will we be able to put this behind us? Will there be a fall/winter resurgence? As we know with other viruses, this is a distinct possibility. We also know that many companies are working on therapeutics and vaccines. It is likely that by this point next year we will have, or will be close to having, a vaccine, and a treatment could be approved in the interim. With concerns on one side and prospects of good news on the other, we anticipate that markets will continue to trade with a higher level of volatility than most investors have been accustomed to in recent years.

4 *U.S. Department of Labor: Bureau of Labor Statistics - Consumer Price Index, February 2020 (March 11, 2020)*

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INDEX RETURNS TABLE

Index	Total Return (%) 3 Mo (Mo-End) USD	Total Return (%) 1 Yr (Mo-End) USD	Total Return (%) Annualized 3 Yr (Mo-End) USD	Total Return (%) Annualized 5 Yr (Mo-End) USD
DJ Industrial Average TR USD	-22.73	-13.38	4.42	6.86
S&P 500 TR USD	-19.60	-6.98	5.10	6.73
S&P 400 Mid Cap TR USD	-29.70	-22.51	-4.09	0.56
S&P 600 Small Cap TR USD	-32.64	-25.89	-5.34	0.45
MSCI KLD 400 Social GR USD	-18.36	-5.77	5.97	6.85
MSCI EAFE NR USD	-22.83	-14.38	-1.82	-0.62
MSCI EM NR USD	-23.60	-17.69	-1.62	-0.37
Barclays U.S. Agg Bond TR USD	3.15	8.93	4.82	3.36
Barclays Global Agg Bond TR USD	-0.33	4.20	3.55	2.64
S&P GSCI Spot	-41.42	-41.14	-13.01	-8.42
S&P Target Risk Cons. TR USD	-6.23	0.98	3.54	3.21
S&P Target Risk Mod. TR USD	-8.61	-0.91	3.25	3.23
S&P Target Risk Aggr. TR USD	-17.85	-8.54	1.85	3.09
Source: Morningstar® as of March 31, 2020				

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI U.S. Broad Market Index is comprised of nearly 100% of the total market capitalization of U.S. stocks traded on the NYSE and the NASDAQ. The S&P 500 Index is a market capitalization free-float adjusted index of the prices of 500 large capitalization common stocks traded in the United States. The S&P 400 Mid Cap Index serves as a barometer for the U.S. mid-cap equities sector and includes stocks with total market capitalization that ranges from roughly $750 million to $3 billion. The S&P 600 Small Cap Index covers a broad range of U.S. small cap stocks and is weighted according to market capitalization covering about 3-4% of the total market for U.S. equities. The MSCI KLD 400 Social Index is a free float-adjusted market capitalization index designed to target U.S. companies that have positive environmental, social, and governance (ESG) characteristics. The MSCI EAFE Index is a market capitalization weighted index and is designed to measure the equity market performance of developed markets (Europe, Australasia, and Far East) excluding the U.S. and Canada. The MSCI EM NR USD Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance in the global emerging markets. The Barclays Aggregate Bond Index is a market-capitalization weighted index that is considered to be representative of U.S. traded investment grade bonds. The Barclays Global Aggregate Bond Index includes government securities, mortgage-backed securities, asset-based securities and corporate securities to simulate the universe of bonds in the market. The S&P GSCI Spot is a composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures. The S&P Target Risk series of indices comprise multi asset class indices that correspond to a particular risk tolerance with varying levels of exposure to equities and fixed income intended to represent stock and bond allocations across a risk spectrum. The market indices referenced are unmanaged. You cannot invest directly in an index.

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