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Portfolio Status Report
March 19, 2020

The compounding effects of the recent oil price collapse (from both a demand and supply perspective) and the global disruption from the coronavirus pandemic suggest risk of a recession of at least two or three quarters is very high—and global equities and credit appear priced for it. Bear market troughs are bumpy, and investors must distinguish between markets temporarily disputing about a leadership vacuum versus markets signaling a paradigm shift. A data-driven analysis suggests we are close to pricing most negative economic outcomes. We see global policymakers taking bold monetary and fiscal actions to support market liquidity and restore confidence. On the other side of recession is a cyclical recovery based on the strength in US labor and housing markets, and strong consumer balance sheets. Long-term investors need to prepare to rebalance portfolios, once we see earnings visibility restored to the market following the inevitable temporary shut downs of businesses.

Bear markets tend to have crescendos, and by all measures the past week has been unusually loud. The speed and velocity of the market's fall—down nearly 27% and 900 points on the S&P 500 Index in 20 trading days—makes it an outlier. To be sure, the market was frothy at the Feb. 19 top and thus vulnerable to bad news. In this case, it was a black swan, the global spread of the coronavirus which will likely shrink supply and demand and consequently, GDP growth and corporate profits.

The Foundation's model portfolios are diversified among stocks (both domestic and international) and fixed income (government / treasury securities and corporate bonds). Going into this market the portfolios were trimming equity allocation due to market valuations, with the balanced fund allocation below 45%. Each model is designed with a time horizon in mind, with the growth model being the longest and designed to take the most equity-like exposure. The portfolios include an allocation to alternative investments, many of which have served to defend these portfolios well during this tumultuous market.

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