

COVID-19 & FINANCIAL MARKETS

Question & Answer

March 24, 2020



Here's our latest update on the impact COVID-19 is having on financial markets and on your investments. We're sharing actual questions we received from clients to date, restated in our own words. It's possible that you have the same questions yourself. Our answers are based upon the information we have at this moment, mindful that events are changing rapidly.

Q: SHOULD WE SELL SHARES TO RAISE ADDITIONAL CASH TODAY, THUS HAVING IT AVAILABLE LATER FOR PURCHASING BARGAIN STOCKS WHEN THE MARKET IS LOWER?

A: No. While we have probably not yet reached the market bottom, attempting to time such a volatile market and having the resolve required to buy at the worst moment represents the highest level of difficulty in our opinion, and is to be avoided. Cash from the sidelines (existing reserves) can be put to work soon, though it's possibly too early today.

Q: WHAT SHOULD I DO WITH MY 401K RETIREMENT PLAN CONTRIBUTIONS AT WORK? STOP THEM, OR CHANGE MY INVESTMENT ELECTIONS TO CASH FOR THE MOMENT?

A: You should continue the voluntary contributions you are making. This allows you to buy investments at more attractive valuations than earlier in the year, an advantage for the long term. A 401k account is a long-term account, and you will look back and be happy you continued to make additions in 2020.

Q: IF INTEREST RATES HAVE DROPPED NEAR HISTORICAL LOWS (US TREASURY TEN-YEAR NOTE YIELDS 0.75%) AND THE FEDERAL RESERVE HAS TARGETED A ZERO PERCENT POLICY RATE, WHY ARE MY BOND FUNDS DOWN IN PRICE AND NOT UP (BOND VALUES CLIMB WHEN INTEREST RATES DECLINE)? ADDITIONALLY, WHY AREN'T MORTGAGE RATES AT HISTORICAL LOWS ANYMORE (CURRENTLY ABOVE 4%)?

A: The same phenomenon is affecting both mortgage rates and the values of bonds and bond funds. Sellers have flooded trading markets and exchanges with sell orders, for stocks

and bonds both. It has impacted all types of bond maturities and quality levels, although to different degrees. As in any market, when supply exceeds current demand, prices drop. Presently financial markets are experiencing a liquidity issue, not enough buyers to meet that selling demand. The US Government has announced unlimited buying of Treasury and Mortgage Securities to bring buying and selling back into balance. This commitment should have a stabilizing effect, as it did during the Great Financial Crisis of 2008/2009.

Q: WHAT RISKS COULD THE FEDERAL RESERVE AND OTHER POLICY MAKERS BE CREATING BY FREEING BANKS FROM RESERVE REQUIREMENTS AGAINST CUSTOMER BANK DEPOSITS? WILL THIS CREATE LENDING AND INFLATION PROBLEMS LATER ?

A: The US Government is pulling out all of the stops to prevent systematic financial stress globally and is allowing banks to borrow cash from the Fed for 90 days. Collateral for these loans can be nearly any loan or security the bank owns. Simultaneously it is allowing banks as much breathing room to be flexible in dealing with their own borrowers and creditors. One ancillary goal is to actually boost inflation in order to halt “deflation” (its opposite) from taking hold. Fed Governors feel they can later deal with inflation easily, but a deflationary spiral is something nearly impossible to arrest. Customer deposits at banks will remain protected by different programs such as FDIC deposit insurance. The capital position of banks are far stronger today than at the onset of the 2008/2009 Great Recession.

Q: WHAT ARE THE INVESTMENT OPPORTUNITIES? WHAT INDUSTRIES LOOK ATTRACTIVE COMING OUT OF THIS CRISIS?

A: One thing we’ve learned over four decades of investing is that companies changing the way business is done and solving problems become successful and even dominant. New technology applied to drilling brought the shale boom to oil and gas a decade ago. Online search has made targeted advertising possible and created technology giants. The storage “cloud” removed a great deal of hardware infrastructure from offices, lowering costs. These are just a couple of examples. How has this very crisis changed the way you operate? Likely it has validated that e-commerce and video conferencing is a user-friendly solution keeping companies and households operating remotely. Secular trends already established are



therefore accelerating due to this pandemic we are experiencing today, and our economy might be forever changed as a result by leaps in efficiency. Ashfield's Investment Team maintains our conviction that owning adaptable and well managed companies is the answer, and previous global and financial crises have proven to be opportunistic moments for investment.

Thank you for your continued patience and strength under these circumstances. Please continue letting us know what is on your mind and sharing your questions and concerns. We are fully functional while operating under California's shelter in place order thanks to business continuity plans and capabilities previously put in place. We are exercising our long experience in weathering earlier crises and disciplined investment approach to get us through this one together. We have optimism already by noting that other nations have already seen new COVID-19 case numbers peak. Confidence will return when this occurs in the US. Please do not hesitate to call or email.

Sincerely,

ASHFIELD CAPITAL PARTNERS

This communication has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty representation, express or implied, has been made as to the accuracy or completeness of the information contained herein and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or to participate in any trading strategy. If any offer of securities is made, it will be pursuant to a confidential offering memorandum, an investment management agreement or other offering materials, which contains material information not contained herein and which supersedes this information in its entirety. This communication is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this communication is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation, applicable risk factors, and/or particular needs of any individual client or investor and should not be relied upon as the basis for investment decisions. Additional information is available upon request.

The investments discussed herein are for illustrative purposes only and it should not be assumed that such investments were or will be profitable or that the investments or recommendations Ashfield Capital Partners makes in the future will be profitable or will equal the anticipated results discussed herein. Past performance is not necessarily indicative of future results. The indices, markets and countries referenced in this communication are provided for informational purposes only and should not be used as the basis for making an investment decision. The indices, markets and countries referenced in this communication are included merely to show the general trend in the markets in the periods indicated and are not intended to imply that the underlying returns were comparable to the indices, markets or countries either in composition or element of risk. There are significant differences between client accounts and the indices, markets and countries herein including, but not limited to, risk profile, liquidity, volatility, and asset composition.