April 2020

INVESTMENT UPDATE

Executive Summary

- The unforeseen global pandemic has caused countries to take strict public safety precautions that has brought the global economy and the 10-year bull market in U.S. stocks to a screeching halt.
- All indexes saw sharp declines in the first quarter with small capitalization stocks (Russell 2000) hit the hardest down -30%. Large capitalization domestic and foreign markets fell -19% (S&P 500) and -23% (EAFE), respectively. Bond markets experienced a brief period of limited liquidity but recovered as the Federal Reserve came to the rescue resulting in a quarterly gain of +3%, though investment grade corporate bonds still declined -3%.
- The rapid response from the Federal Reserve, U.S. Treasury, Congress, and their global counterparts are providing much needed stability and confidence to global markets as COVID-19 spurred panic in the financial markets.
- We remain confident in the great companies we are invested in, as they are well positioned to survive the pandemic and then thrive once this is over.

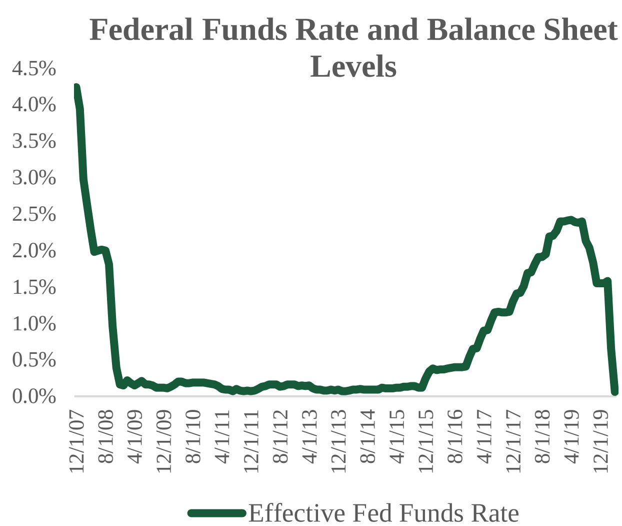
Unexpected End to the 10-year Long Bull Market

The 10-year bull market for U.S. stocks came to an end in March, as the COVID-19 virus began to spread beyond the Province of Wuhan, China and throughout the rest of the world. Governments around the world have imposed varying degrees of lockdowns in an effort to slow the spread of the virus. This has caused a sharp, self-inflicted decline in the global economy, including within the U.S. As the reality of the rapid spread of the virus became apparent, stocks declined sharply and corporate bond spreads widened before both recovered slightly towards the end of the quarter as the Federal Reserve and Congress took aggressive action to stabilize the markets and the economy.

Monetary and Fiscal Bridge to Summer

The Federal Reserve and U.S. Congress have gone to extreme lengths in an attempt to dampen the dramatic decline in economic activity as a result of strict "Safer-at-Home" policies. The Federal Reserve abruptly lowered the Federal Funds rate to the zero bound (0.0%-0.25%, see graph 1), is rapidly increasing its balance sheet, and is committed to supporting market liquidity. The U.S. government and Congress have been hard at work during this crisis as they passed three separate bills regarding various coronavirus assistance. The first two bills were designed to provide immediate assistance to eliminate the initial barriers of testing, supplies, and direct economic impacts of self-quarantine. The third bill, which is the largest stimulus bill ever at $2 trillion, was primarily intended to ensure all citizens and businesses would be able to financially endure a prolonged "Safer-at-Home" policy as well as provide additional funding for the healthcare system.

Graph 1. Fed Lowers Rate to Zero to Support the Economy



Source: Federal Reserve Board

As the funds made available in these bills begin to reach the agencies, businesses, and citizens in need, the negative economic side effects of strict social distancing will be dampened. Time will tell if additional measures are necessary, but measures taken to date should allow the vast majority of American businesses to survive so that consumers have jobs to return to once the virus has run its course. In our opinion the government is taking appropriate action to provide "a bridge over troubled waters".

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Staying Positive and Working Together

It is very encouraging to see that all-hands are on deck fighting this invisible enemy, with social distancing initiatives being taken seriously across rural and metro areas. Additionally, public-private partnerships are being formed to increase the supply of personal protective equipment and to work together to develop innovative tests, therapeutic treatments, and vaccines. Below is a list of positive developments as of 03/31/2020 that provide encouragement that a resolution is coming:

- Social distancing measures continue to be strictly enforced.
- Testing capabilities continue to ramp up.
- Therapeutic treatments rapidly entering FDA studies.
- Medical infrastructure rapidly expanding to facilitate worst case scenarios.
- Vaccine candidates are being fast-tracked and researchers believe an approved vaccine could be available within 12-18 months or less.
- Federal Reserve, U.S. Treasury, Congress and global counterparts are acting to help alleviate the financial side-effects of the pandemic.

The strong responses and collaborations provide confidence that a resolution to this pandemic is just a question of when, not if, these life saving measures will be able to "Flatten the Curve" dramatically.

Looking Past Ugly Data

With the March payroll numbers experiencing a decline of 701,000 and weekly jobless claims in the millions, we have begun to see the first economic datapoints of the effects of the drastic social distancing initiatives across the U.S. Although these numbers are staggering, we believe the recent legislation will be able to dampen the economic effects of lost jobs. Prior to the pandemic breaking out, the U.S. consumer was on solid footing with higher savings rates and stronger balance sheets than when we entered the 2008-2009 financial crisis. We believe this financial strength along with robust government assistance will limit the impact of the virus on the consumer's financial health and will allow for a rapid economic recovery once the virus has run its course.

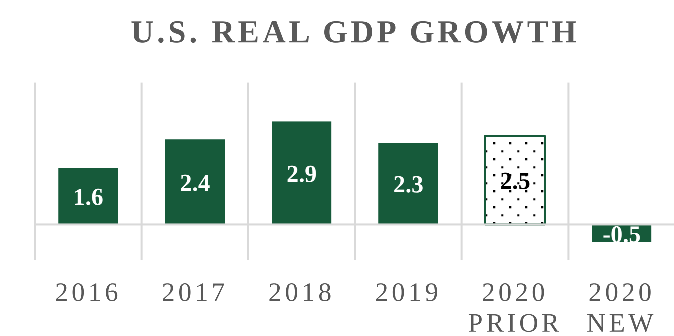
Corporate Profits Are Not Immune to COVID-19

Entering 2020, U.S. GDP was projected to be strong due to the continued accommodation by the Federal Reserve, tight labor markets, and favorable consumer financial positions (see graph 2). With the COVID-19 pandemic and large scale "social distancing" measures, US economic activity is now seeing a wide range of impacts from complete shutdowns of service industries and mall retailers, to massive increases in demand at grocery stores, online retailers, and work-from home infrastructure companies. Without question, we are in recessionary times, but the positive is it has been a self-induced decline in economic activity. With the strong fundamentals entering the downturn (tight labor markets and consumer leverage) as well as the Fed and Congress providing a substantial bridge until full activity can resume, we remain optimistic that a V-shaped recovery is possible.

At this point, the decline in corporate earnings estimates for this year are largely reflected in this stock market decline to date. We are confident corporate earnings and the stock market will quickly recover once the economy re-opens. The risk is that we don't know how long it is going to take to contain the virus or how deep of a hole we are going to have to climb out of. Only time will tell the true severity of not only the economic impact of COVID-19, but also the tragic human cost of the global pandemic. We remain encouraged by the positive news stories of the great people in this country and believe together we will find an end to this fight.

In the meantime, the overall market will likely start moving higher before we get the "all clear signal". That is why we recommend taking advantage of any further market weakness to begin to rebalance accounts back towards the middle of one's targeted asset allocation.

Graph 2. U.S. Real GDP May Decline in 2020



It is in volatile markets like these that we truly appreciate our philosophy of investing primarily in high quality, consistent growth companies. No matter how volatile markets become, we take comfort in knowing that our clients own strong companies that have proven their ability to grow in both good and bad times. While their stock prices may fall, considerably in some cases, the underlying value and long-term growth potential of these companies have not changed. This virus will eventually pass. In the meantime, the companies that we have invested in are doing their best to grow their earnings, which will eventually be reflected in higher stock prices.

In accordance with SEC Rule 204-3(b), our Form ADV is available upon request. Please call or write to Susan C. Beaver, North Star Asset Management, Inc., One Neenah Center, Suite 300, Neenah, WI 54956.