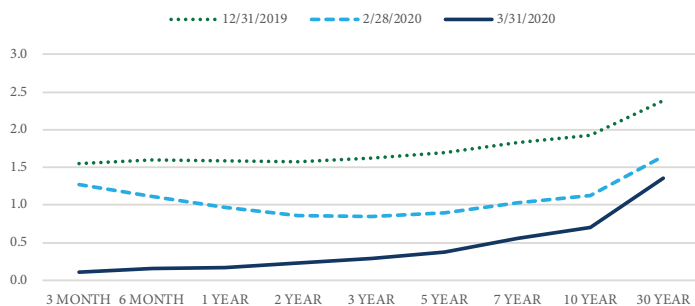


Like most of us working remotely today, the markets are adjusting to a new reality. The coronavirus pandemic has swept quickly across Asia, Europe, and into North America, disrupting both lives and markets. Expectedly, the stock market reacted with volatile moves and the U.S. Treasury curve fell to new all-time lows. While the U.S. has moved to protect those most at risk, the economy has slowed as an outcome of these extraordinary measures. The current conditions are not permanent and the economy, like our nation, will recover from this unprecedented emergency.

As with many times when facing fear, investors rushed to the safety of U.S. Treasury bonds. This pushed down the yield curve from already low levels to historic lows. Investors brushed aside the higher yields available on Corporate bonds in favor of the government guarantee backing Treasury issues. The negative yields seen on short-dated Treasury Bills still reflect the near-term anxiety. Buyers of these negative yielding issues are willing to lose money on their investment, simply for the protection afforded by the U.S. Government.

Figure 1 US Treasury Yield Curve



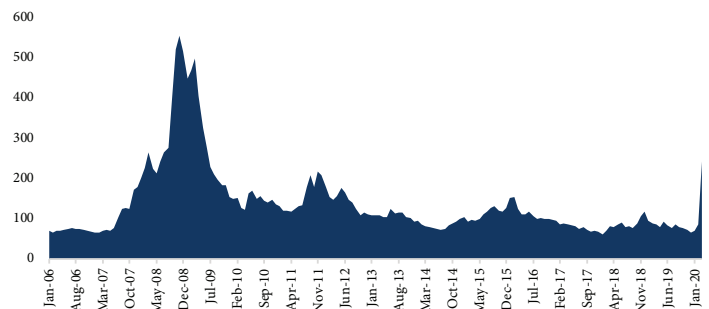
Source: FactSet

The FOMC reacted to the situation with sweeping vigor. They immediately cut the Fed Funds rate to 0% and instituted quantitative easing programs to support the liquidity of the short-term markets. In successive steps, the Fed established multiple liquidity and support programs that will assist not only short-term funding markets, but also a wide range of the market areas. These other areas of the market include U.S. Treasury issues, securitized and collateralized issues, corporate bonds (in both the new issue and secondary markets), Money Market instruments, and Municipal issues. In short, the Fed's response dwarfs anything seen before, including the reaction to the 2008 market downturn.

Corporate bonds weakened as concerns grew over the viability of businesses to function as dramatic virus containment steps were rolled out. Credit spreads, the additional yield investors require to

compensate for default risk, grew in late February and then soared in early March on investor fears. Volatility was very strong early in the month, but it is notable that we did not test the "high water mark" spread levels seen back in 2008.

Figure 2 Intermediate Credit Spreads December 2005-2020
Monthly Observations (in bps)



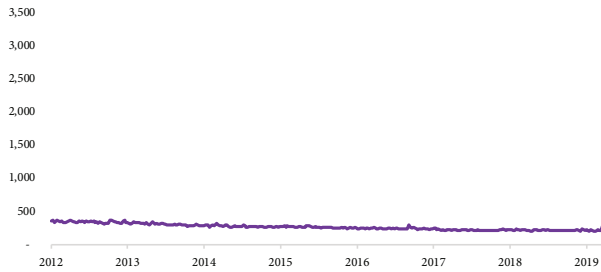
Sources: FactSet Bloomberg Barclays Intermediate Credit Index

The stress of the current environment manifested in other fixed income markets, not just in investment grade bonds. High Yield, or so-called "junk bonds," were very weak and credit spreads ballooned larger for these already levered borrowers. Municipal bonds, normally a low liquidity asset class, saw bond prices move erratically as some investors sought to sell securities on a large scale, spooking this market. These events highlight that in times of trouble high risk and low liquidity asset classes can come under duress, resulting in adverse outcomes for investors seeking to raise cash.

As March progressed, the investment grade Corporate bond market retained some of its higher credit spreads, but the tone recovered on trading desks. The liquidity facilities initiated by the Fed had its desired effects, calming roiled markets and improving investor sentiment. New issues began appearing as corporations sought to bolster their balance sheets with cash as they navigate the sudden economic slowdown. In fact, the rush for fresh cash saw March shatter issuance records for dollars raised, making it the busiest month of all time with over \$260 billion raised.

Prior to the self-imposed economic slowdown, economic reports showed positive results. However, in the coming weeks we expect that future data figures will be disappointing as we have likely entered a recession. A foreshadowing of this was seen in jobless claims in late March, which skyrocketed to an all-time high. We expect these figures to last only as long as the nation self-isolates and maintains social distancing. As the U.S. begins to recover, we expect our economic health to do the same.

Figure 3 Weekly U.S. Initial Unemployment Claims 2012-2020



Sources: U.S. Employment and Training Administration, FactSet

While today's reality is stressful and the near term is uncertain, as investors we are duty bound to look ahead. Undoubtedly in the next few weeks, and perhaps months, we will see additional information about the economy as to whether there will be lasting damage. Some sectors will clearly be more hard-hit than others, but Corporate America overall appears to be a long-term winner.

Performance for the first quarter of 2020 was a complete turnaround from previous quarters. High quality securities came strongly to the forefront while low quality issues languished. U.S. Treasuries were far and away the winner in the quarter, posting a very solid positive return as the yield curve fell. Corporate securities were the worst performers in our universe, where returns were predominantly negative. The gap between U.S. Treasury and Corporate bond performance figures was over 7%. Solely within corporate bonds, AAA-rated issues had low single digit positive returns while BBB-rated issues had mid-single digit negative returns.

Our allocation among U.S. Treasuries and Corporate bonds remains unchanged with our clients' portfolios at roughly a 50%/50% mix. At this point we do not expect to make any changes given the volatility and uncertainty in the market. Given the circumstances our performance is what we would have expected, and we remain pleased with our strategy's profile and characteristics.

As investors we take the long view, trying to look beyond the here and now. This is especially true as fixed income investors where investments easily last more than 24 to 48 months. Long lasting success for us means a well-diversified, liquid, and high-quality portfolio of bonds. Environments such as this are prime examples of why we have repeatedly advised our clients to faithfully invest their core assets in safety and simplicity.

We urge you all to be safe and healthy as we navigate through these extraordinary times.



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Two Seaport Lane • Boston, MA 02210 • 800.234.4516 • www.congressasset.com

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