This week, I’d like to share highlights from a Special Report released from our Global Investment Committee:

- The compounding effects of the breakdown in oil prices alongside the global growth disruption from the coronavirus pandemic suggest that the odds of a recession lasting at least two or three quarters are now very high.

- Importantly, bear markets in global equities and credit are now fully pricing a recession. This just means that in our view asset prices have already reflected much of the bad economic news and uncertainty that we are likely to face in the weeks ahead. Surprises could always cause lower lows, and if they do we will be ready to rebalance once again by selling bonds and buying stocks at floor level valuations.

- The last time the S&P 500 discounted a recession was the December 2018 bear market, when the index troughed at 2,346. In this bear market thus far, we’ve bottomed at 2,237 and are currently at 2,526 as of the time of this writing.

- Not all market shocks are alike, and the dual black swan events of the coronavirus and the collapsing of oil prices have certainly engendered understandable uncertainty and fear. While the economic outlook remains foggy, a data-driven, process-oriented approach to future scenarios implies that we may be close to pricing the most negative outcomes. Both these crises have the potential to be linked and reasonably short-lived, possibly resolved by this summer.

- We see global policymakers and central bankers doing “whatever it takes” to retain order in the economy and financial markets.

- The Fed’s emergency three-month program to convert its $60 billion repo plan to the entire US Treasury yield curve is likely to approximate a $1.5 trillion liquidity injection. It’s aimed at insuring smooth functioning of the repo, off-the-run Treasury and mortgage markets.

- While those actions may not completely “fix” the recessionary impacts of the coronavirus pandemic and oil price collapse, we see these likely initiatives as supporting critical market liquidity and helping to restore confidence.

- Long-term investors should understand that troughing bear markets are bumpy, but usually present opportunities.

- We believe that this 11-year-old business cycle may be ending. We also believe that on the other side of this recession is a cyclical recovery built on solid strength in US labor and housing markets and the strong position of consumer balance sheets that typically doesn’t exist during economic downturns.

- The relative market resilience of the past 20 trading days in China specifically, and in the emerging markets more broadly, suggests that hopes for a relatively short-lived crisis are not unfounded. For many of these important regions, the collapse in oil prices is largely stimulative and the potential for a swift rebound in global growth remains solid.

Related specifically to your assets, I want to bring your attention to the long forgotten resiliency of active management. Passive investing has been in vogue for the better part of the last decade, and for good reason. Cheap implementation and simplicity have reigned, and performance has been especially strong. We prefer to invest passively via low cost vehicles in more efficient and competitive markets. On the contrary, our bias is towards active management in those markets where managers have a greater likelihood of success in identifying and exploiting catalysts, mispricings and inefficiencies. It is worth noting that our active managers, taken as a whole, have shined on a relative basis through this most recent market downturn. We are pleased with their relative performance. A friend of mine in the capital markets business always reminds me
"you cannot eat relative returns, Jon." While he is right, it is also true that the cost of long term capital appreciation is enduring significant downside volatility from time to time. I feel strongly that we must live through periods like this in order to achieve our long-term performance objectives of growth and capital appreciation, albeit to different levels of downside participation and risk. In our view, the key is to stay invested. We believe that active management will continue to be fertile hunting ground for the foreseeable future due to the huge dispersions between corporate winners and losers in this environment.

I would also like to mention that, while performance and financial results are paramount, your capital is doing a great deal of good in the world and in your local communities – all in alignment with Catholic Values. As you know, we assertively seek to exclude ownership of companies generating revenue from activities that run counter to the teachings of the Catholic Church. It is during a health and economic crisis of this magnitude that our Catholic Values are of upmost importance in making and sustaining a positive impact on the world. We estimate that ~98% of your assets are invested in compliance with the United States Conference of Catholic Bishop’s guidelines. We are proud of this and hope that you are as well.

Below are estimated performance figures for the calendar year of 2020 through the market close on April 2nd along with the total return performance of the S&P 500:

- Strategic Growth Fund: -14.7%
- Moderate Growth Fund: -10.7%
- Capital Preservation Strategy: -1.95%
- S&P 500 Total Return: -21.4%

As always, please do not hesitate to reach out to us. We would love to hear from you.

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