MIRACLE MILE ADVISORS

MARKET LANDSCAPE

Q1 2020

OVERVIEW

Q1 Performance Summary

While 2020 began with cautious optimism, Q1 brought investors a global pandemic, the fastest bear market in history, and the prospect of the sharpest economic slowdown on record. COVID-19 has wreaked havoc on the health and mindset of millions across the world and the steps taken to slow its growth have brought the global economy to a standstill. Though expectations for the spread of the pandemic and economic slowdown remain dire, global central banks and governments have responded sharply with unprecedented amounts of monetary and fiscal stimulus. As markets and sentiment have begun to price in fears of worst-case scenarios, it may soon be time to begin considering how the world will look after an eventual containment is achieved and an economic recovery may take hold.

Global equity and credit markets were roiled as the spread of the pandemic took hold in the United States. As redemptions and forced selling ensued, risk assets were indiscriminately sold off. Small Cap U.S. (Russell 2000) stocks led the way down, falling 30.6% in the quarter, followed by sharp declines in International Developed (MSCI EAFE) 22.8% and Emerging Markets (MSCI EM) 23.6%. The S&P 500 finished the quarter down 19.6%. Credit markets tracked equities, with High Yield bonds falling 13.1% in the quarter. High quality bonds provided some relief as interest rates moved lower, with the Bloomberg Aggregate index gaining 3.1%.

As liquidity evaporated across markets, massive dislocations forced pricing mechanisms to exaggerate the historic decline, leading mutual funds and ETFs to trade at substantial discounts to their underlying Net Asset Values (NAVs). These dislocations began to revert following the Federal Reserve's intervention in bond markets, bringing prices of these vehicles back in line with the value of their underlying holdings. It is likely that these exaggerated price declines will provide opportunities for investors moving forward, particularly in credit-related sectors.

Interestingly, the yield curve spread once again predicted the downturn we are facing. While the bond market could not have foreseen the pandemic that has crippled markets, it accurately identified embedded leverage in the system which was likely to unwind eventually. It is often said that history does not repeat, but it does rhyme. This has been accurate on the downturn and will likely be the case as markets heal and an economic recovery begins.

Q1 ECONOMIC HIGHLIGHTS

- An economic recession has taken hold as the global economy has been shut down in response to the COVID-19 pandemic. Forecasts for a negative GDP print in Q1 are nearly assured and Q2 will produce GDP declines of between 20%-35%.
- Unemployment increased at an unprecedented rate, with 17 million Americans filing for unemployment in a recent three-week period.
- The Federal Reserve cut interest rates to near zero and announced trillions of dollars of policy support with purchases of not only treasuries, but also mortgage, municipal, and corporate debt.
- Congress similarly responded quickly with a fiscal stimulus measure providing about $2.4 trillion of relief to individuals, businesses, and local governments impacted by COVID-19. Additional aid measures are expected.

MIRACLE MILE CORE INVESTMENT THEMES

RISK-OFF ENVIRONMENT WARRANTS SOME RISK TAKING

Stress in the credit and equity markets created severe price dislocations in Q1. While the future is usually cloudy in these periods, it is often the opportune time to increase risk in portfolios. As such, we took advantage of sell-off to add high yield bonds in fixed income portfolios.

DURATION & DEPTH OF IMPENDING RECESSION UNCERTAIN

Event-driven recessions tend to be sharp and short in duration. However, the economy has never experienced a complete shut-down like we are witnessing today. Therefore we remain conservatively positioned in most equity portfolios until it becomes more apparent as to the timing of the eventual recovery.

TIMING A POTENTIAL RECOVERY

The duration and depth of the recession will likely be determined by how quickly health officials can slow the curve of new cases and eases the existing quarantine measures. We are closely monitoring countries ahead of us on the curve, such as China, to get a gauge of when economic activity will be able to resume. There still remains a possibility that a second wave of infections could create another round of quarantine measures.

Sources: SPDR Indices, MSCI, Bloomberg Barclays, Institute for Supply Management, US Federal Reserve of Economic Data, ycharts.com

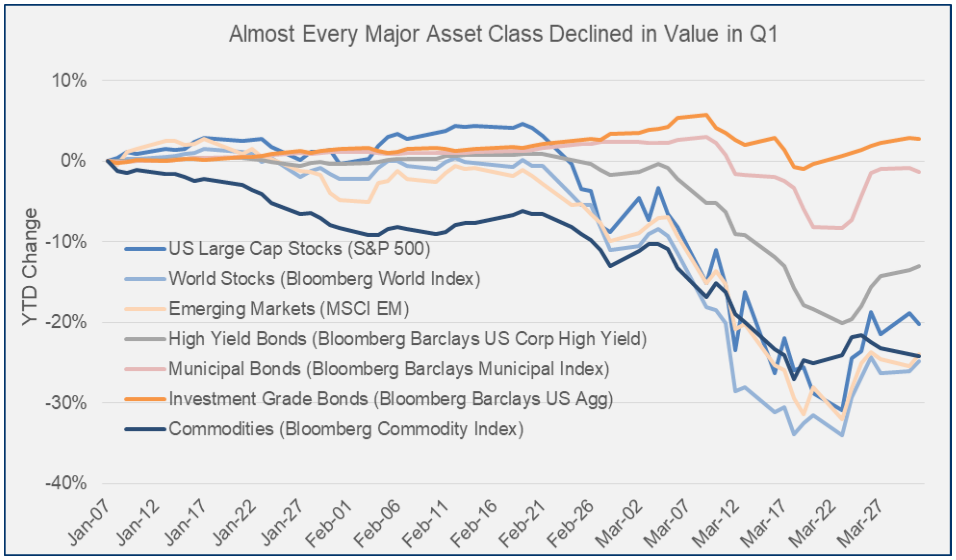
MIRACLE MILE CORE INVESTMENT THEMES

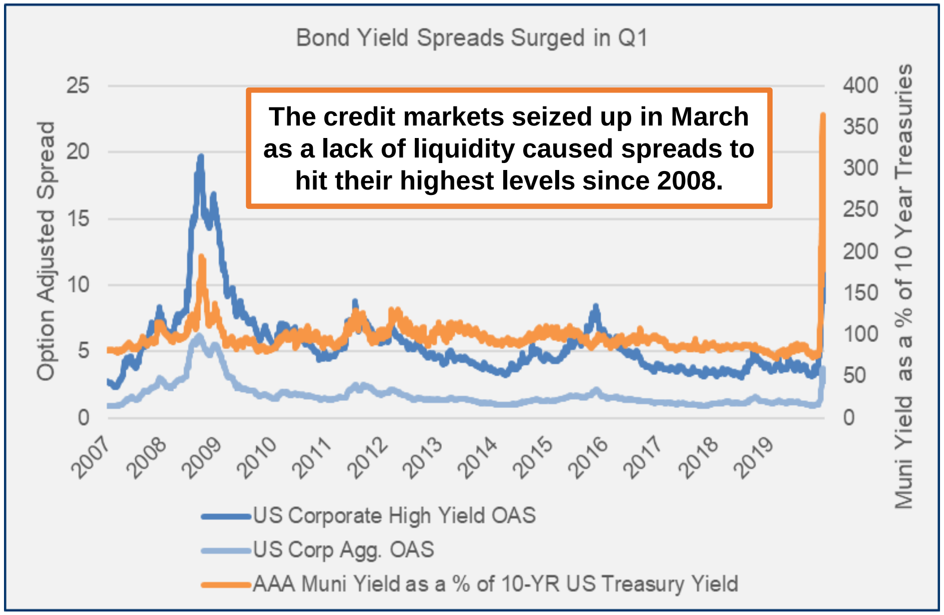
Risk-Off Environment Warrants some Risk-Taking

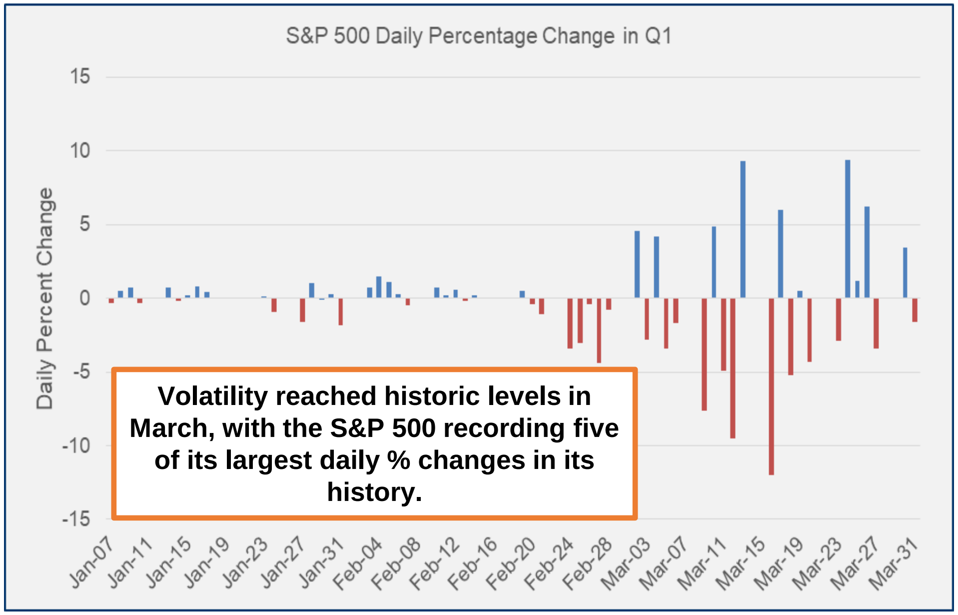
- **Global equity markets were roiled in Q1.** As the global pandemic took hold, equity markets plummeted. The S&P 500 experienced its fastest bear market ever as investors sharply reduced their equity exposures.
- **Credit markets seized up.** Like equity markets, prices of riskier corporate debt declined to levels not seen since 2008. Investor concerns, forced selling, and a lack of liquidity exaggerated price declines.
- **Volatility spiked to 2008 levels.** Volatility quickly priced in the market risks which unfolded during the quarter. A peak in the Volatility index (VIX) tends to forecast an eventual bottoming in risk asset markets.

ACTION ITEMS:

- In fixed income portfolios, we began to increase credit exposure, shifting away from lower yielding treasuries, whose prices had benefitted from the market turmoil, towards higher yielding bonds which had sold off significantly in Q1.







Sources: SPDR Indices, MSCI, Bloomberg Barclays, Institute for Supply Management, US Federal Reserve of Economic Data, ycharts.com

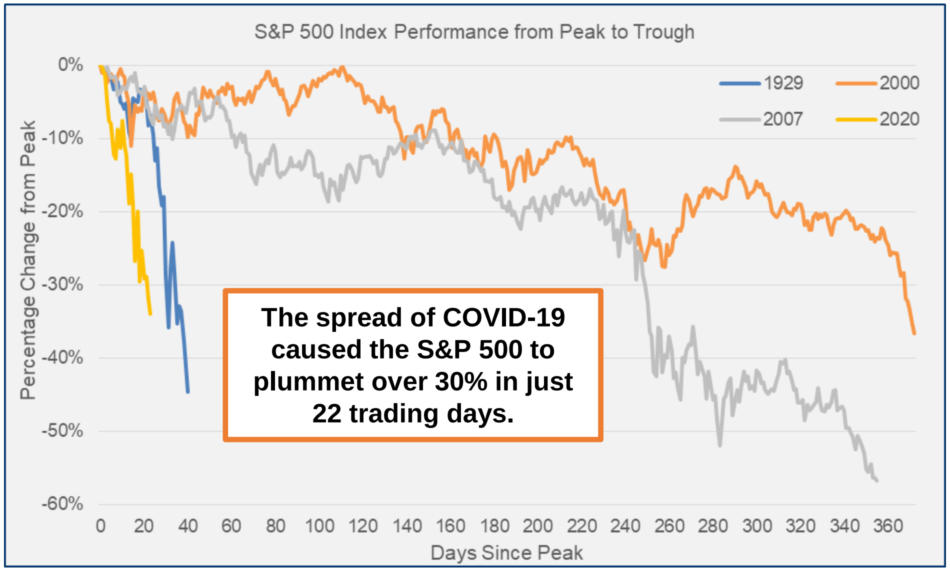
MIRACLE MILE CORE INVESTMENT THEMES

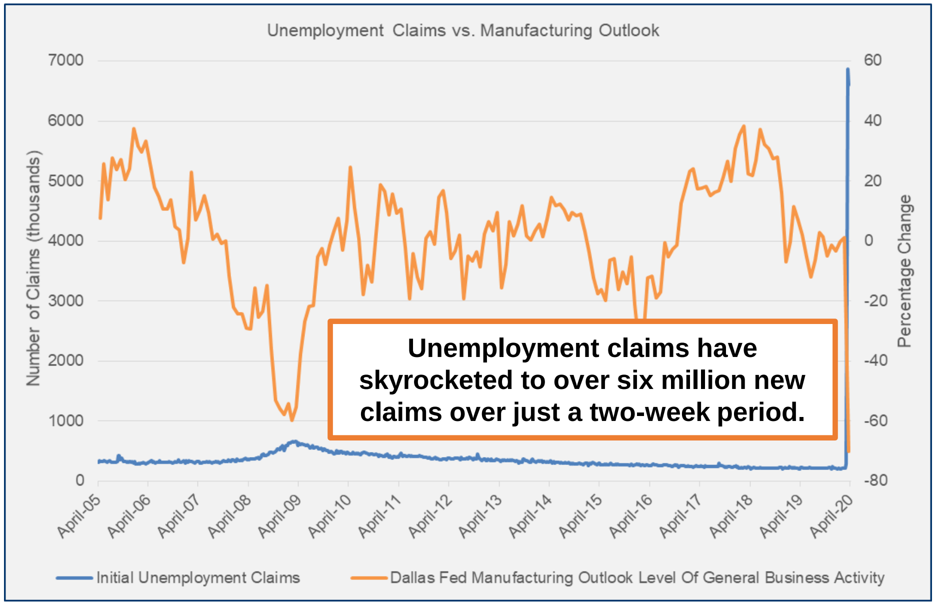
Duration & Depth of Impending Recession is Uncertain

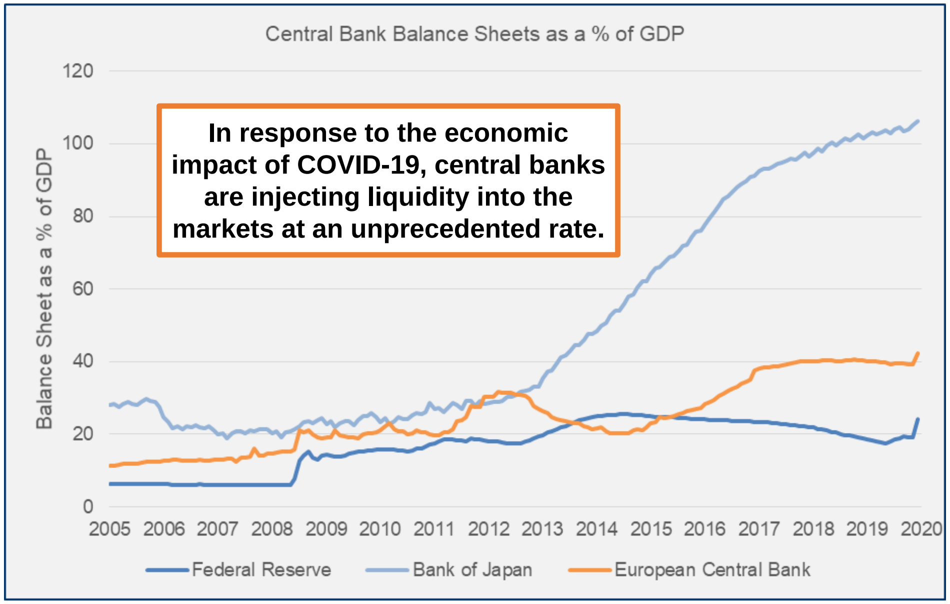
- **Event-driven recessions tend to be sharp but short.** We have had recessions triggered by exogenous events (e.g., a pandemic) before. The historical analogs provide some basis for assessing the timing of an eventual recovery in the economy and asset prices.
- **Expectations for the economy and earnings have plummeted.** Expectations for economic growth and corporate profits have begun to price in worst case scenarios as investors struggle to assess the path of a widespread economic shutdown, the likes of which has been seen before. Many corporate earnings forecasts have been pulled entirely.
- **Policy responses have been massive**. Actions taken by Congress, the Federal Reserve, and global central banks have provided support to markets many times larger than that provided in 2008-2009.

ACTION ITEMS:

- We have maintained a conservative stance in our equity positioning but are expecting attractive opportunities to increase equity exposure.







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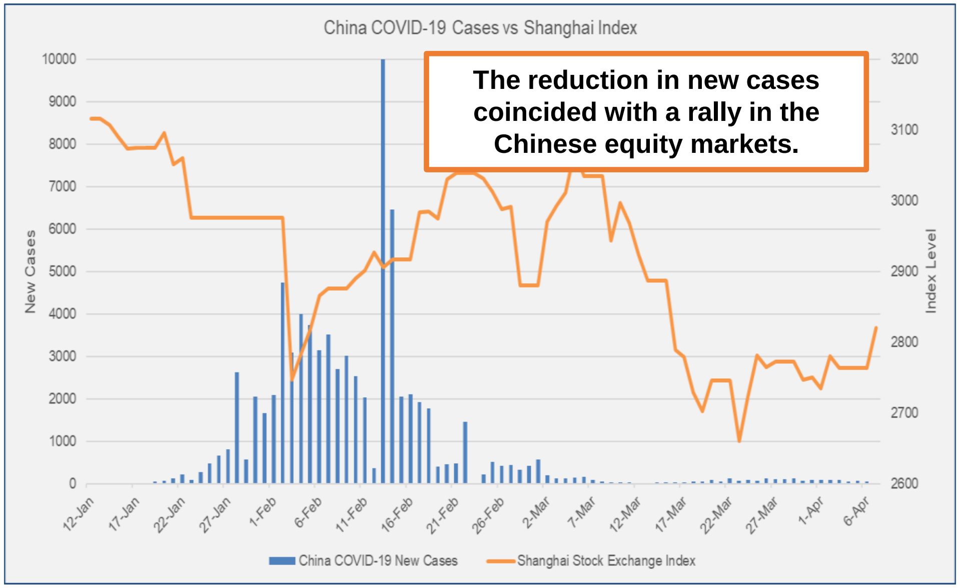
MIRACLE MILE CORE INVESTMENT THEMES

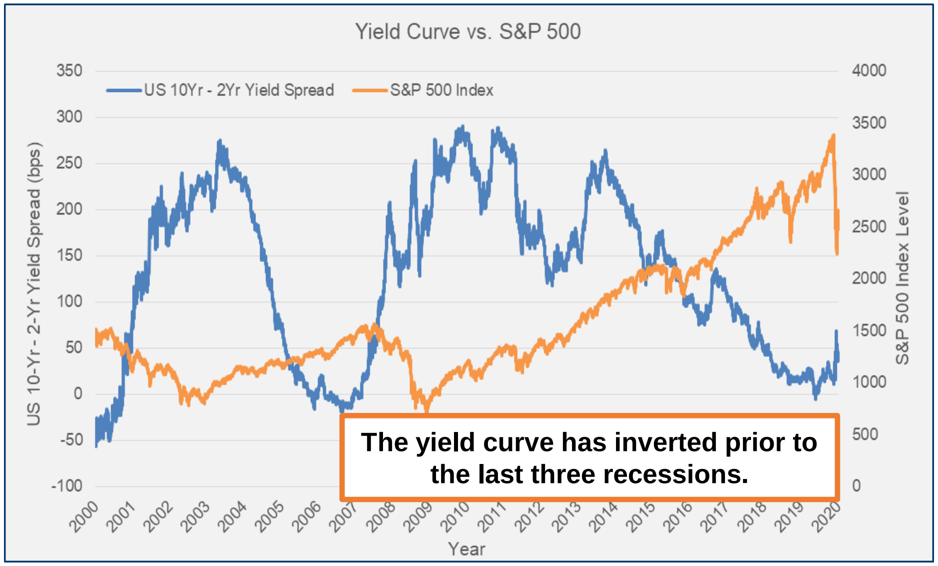
Timing a Potential Recovery

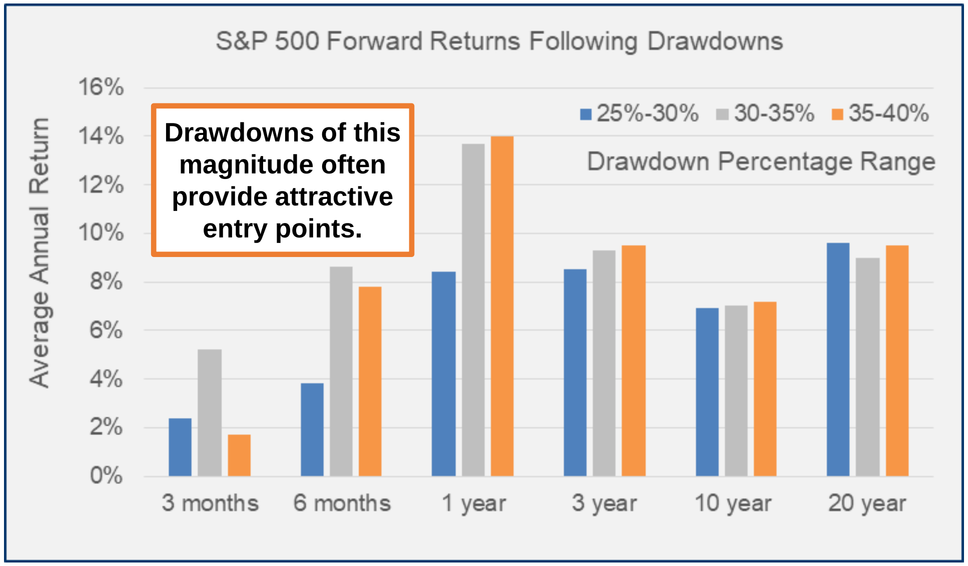
- **Regions with early COVID-19 effects may provide forward guidance.** China and South Korea have provided indications of how the pandemic might come under control. As the spread of COVID-19 moderates in those regions, markets will increasingly reflect the expected duration of shutdowns and the timing of recovery.
- **Markets will front-run a rebound in economic activity.** Forward returns become more attractive following steep price declines. After the S&P 500 has experienced declines of 35%+ historically, future returns have averaged double-digit gains in following years.
- **Signals from the yield curve are now pricing in the pace of recovery.** The previous three downturns have been preceded by an inverted yield curve. Although a pandemic was not predicted, the yield curve signaled financial distress at the end of 2019.

ACTION ITEMS:

- Monitoring COVID-19-related economic effects in affected regions, along with market metrics, to gauge timing of a move to add equity exposure.







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Q1 2020 MARKET OUTLOOK

Market Risks and Opportunities

KEY RISKS

NEAR TERM

Spread of COVID-19 and timing of the economic shutdown are uncertain

- While some areas are showing success in "flattening the curve," the ultimate pace of the virus throughout the world remains unknown. With countries addressing the shutdowns differently, timing the re-opening of the global economy and its pace is highly uncertain.
- Markets will likely need to see either a substantial containment in cases and/or a medical breakthrough in therapy or prevention before pricing in an eventual recovery.

Oil market declines have added further stress to markets

- The leveraged energy sector will see severe economic and credit stress even after COVID-19 shutdowns ease.

LONGER TERM

COVID-19 market dislocations may uncover other unforeseen risks

- Rapid price dislocations may rattle previously uncorrelated markets. Forced deleveraging (redemptions, margin calls) may exaggerate price movements.
- Actions by the Fed and Congress, (e.g., debt payment suspension, loan guarantees, etc.) may elicit negative responses from the markets whose support will be required by these programs.

Consumption and investment patterns may change

- Companies may substitute technology expenditures for headcount and office space.
- Individuals may choose savings and more frugal expenditure patterns rather than a return to pre-crisis consumption levels.

KEY OPPORTUNITIES

NEAR TERM

Corporate credit markets have become attractive

- Credit market dislocation has provided an attractive entry point for various bond markets offering attractive yields.
- Actions taken by many corporations to address the slowdown (e.g., reduced stock buybacks, lowered dividends) tend to be credit positive.

Monetary and fiscal counter-measures will provide support

- If the pace of COVID-19 can moderate, unprecedented support from the Federal Reserve and Congress may successfully bridge the gap to the post-crisis recovery.
- Policy responses are already showing results, with more normal functioning in higher grade fixed income markets.

LONGER TERM

Broad economic conditions will provide a tailwind for recovery

- Consumers were in good shape heading into this recession. Excesses in cyclical sectors of the economy (housing, autos, etc.) were largely absent.
- With interest rates at historic lows, oil prices at low levels, and unprecedented monetary and fiscal support flowing into the economy, risk assets will have substantial tailwinds when a recovery emerges.
- The relatively short duration of past event-driven recessions suggests that recovery could come sooner than feared by many.

Future returns across equities and credit markets may be above average

- Historical analogs and current valuations across equity and credit markets suggest that future returns could exceed long-run averages.
- Opportunities will exist to boost future returns by timely adding of risk assets.

DISCLOSURES

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Investing in securities involves risk and the possibility of loss of principal. Investing should be based on an individual's own goals, time horizon, and tolerance for risk

Page 3:
Asset Class Returns - Bloomberg
High Yield Spread vs Investment Grade Spread vs Muni/Treasury Ratio - Bloomberg
S&P 500 Daily % Change - Bloomberg

Page 4:
Number of Days to Drawdown 30% - Bloomberg
Initial Unemployment Claims and Manufacturing Outlook - Bloomberg
Global Fed Balance Sheets - Bloomberg

Page 5:
China Covid-19 cases and Shanghai Index - Bloomberg
10-2 year treasury spread vs. SPX - Bloomberg
Returns After a Drawdown - Bloomberg