GALECKI FINANCIAL MANAGEMENT — FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	-12.35%	-19.60%	-19.60%
Russell Midcap Index	-19.49%	-27.07%	-27.07%
Russell 2000 Index	-21.73%	-30.61%	-30.61%
Dow Jones Industrial Average	-13.62%	-22.73%	-22.73%
Morgan Stanley EAFE Index	-13.35%	-22.83%	-22.83%
DJ US Real Estate Index	-19.95%	-24.39%	-24.39%
S&P Commodity Index	-29.43%	-42.34%	-42.34%
Barclays Aggregate Bond Index	-0.59%	3.15%	3.15%

INDEX RETURNS

Equities experienced one of the fastest retreats to bear market territory in the history of the U.S. From peak to trough, the S&P 500 fell 34% in just a few weeks. For the entire first quarter, the S&P 500 finished down 19.6%. Mid-Cap stocks suffered even bigger declines with the Russell Midcap Index declining 27.07% in the first quarter. Small-Cap stocks as measured by the Russell 2000 Index dropped 30.61% in the first three months.

International stocks shared a similar fate. Developed International stocks as measured by the MSCI EAFE Index declined 22.83% in the first quarter. Emerging Market stocks were down 23.6% in the first three months, led by Brazil's nearly 50% contraction.

The Barclays Aggregate Bond index finished the first quarter with a gain of 3.15%. However, not all fixed income markets did well, as there was a big flight to cash and many bonds were hurt. High Yield bonds were down 11.99% in the quarter. Global Bonds were down 13.69% in the first three months of the year.

ECONOMIC REVIEW AND OUTLOOK

The U.S. economy grew at a 2.1% annualized rate in the fourth quarter following the 2.1% rate in the 3rd quarter of 2019. Early estimates for the first quarter are wide ranging. Although we got through January and most of February pretty clean, the economy grinded to a halt in March. We could see GDP anywhere from 0% to -5% in the first quarter. We stated in our last newsletter that it was likely that growth would slow and we had a potential for a contraction. It appears that this is indeed occurring. Now the question is how deep will the contraction be and how long will it last? It is possible that we see second quarter GDP come in around -25%!

The Leading Economic Index edged up 0.1% to 112.1 in February but this does not reflect the COVID-19 impact which did not fully impact the economy until March. Industrial Production rose 0.6% in February. The Capacity Utilization rate (which measures how much slack is in the economy) was at 77.0 percent in February which is still 2.8 percentage points below the long-term average.

Non-farm payrolls fell by 701,000 in March. The unemployment rate soared to 4.4% from 3.5%. Initial weekly unemployment claims were 6.64 million for the week ending March 28, 2020 which was an increase of 3.34 million from the prior week. Both weeks set records for the series and the coming weeks could see comparable results. If we add in the additional 10 million newly unemployed workers, then our actual unemployment rate is around 10.5%. Many economists expect that this number could increase to around 20% over the next quarter.

Manufacturing decreased in March to 49.1% on the ISM PMI index. The New Orders Index came in at 42.2 percent which was a drop of 7.6 percent from February. The ISM Non-Manufacturing index was at 52.5% in March which was a drop of 4.8% from February. The Business Activity Index decreased to 48% which was 9.8% lower than February. All of this data is reflecting the major disruption to economic activity that occurred at the end of the quarter. Second quarter economic activity is likely to continue to suffer, with a potential rebound in Q3.

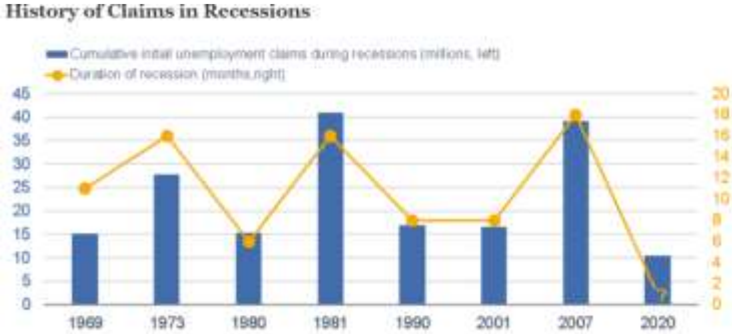
Global economies are seeing comparable results to the U.S. The JP Morgan Global PMI was at 47.1 in February and is trending towards 37 for March. Any reading below 50 represents contraction. The Euro Area is currently trending towards a reading of 26.4 for March and Emerging economies are suggesting a reading of 42.

EQUITY AND BOND MARKETS

"It is hard to see equities advancing dramatically higher off of these elevated levels. Expectations are for earnings to slow in 2020. If the U.S. consumer fails to carry the weight in spending, then look for equities to struggle." That was our equity outlook in January and we published that in the first quarter newsletter commentary. Nobody could have predicted COVID-19. However, we all know that economic expansions and bull markets don't last forever. Given that we were 10 plus years into both, it was not surprising to see both come to an end. The catalyst for the decline is always different. This time it was COVID-19. In 2008 it was sub-prime mortgages and an over-heated housing market that caused the Financial Crisis. But this too will pass.

In order to have some insight into what markets might do in the near-term, it is important to look at economic data and other markets around the world who are weeks/months ahead of the U.S. in this fight against Coronavirus. You can see in the chart below that unemployment claims peaked around 15 million in 1969, 1980, 1990, and 2001. Three of these recessions lasted less than eight months. This will clearly will be the quickest rise to 15 million unemployment claims. On average, recessions only last around 11 months. The good news is that the stock market is a leading indicator and will typically turn higher well ahead of the economy.

History of Claims in Recessions



Source: Charles Schwab, Bloomberg, as of 3/28/2020.

The broad market selloff was incredibly swift. Nearly all asset classes suffered major losses in a very short amount of time. There was a rush to cash for investors and they were selling almost anything to raise that cash.

It is hard to rely on current stock valuations. The P/E ratio for stocks is a metric that is commonly used. The "P" is just the current market price and is easily identified. The "E" is for earnings. The last four quarter's worth of earnings data is available and can be used. But how do you project earnings over the next four quarters given the current environment? When will companies open back up for business? These are the big questions.

Oil is trading under $25 per barrel. It is likely that this will crush many energy companies in the U.S. Many of our companies support the service sector in the U.S. and a good portion of this sector has been halted. It will be critical for the economy to have some type of normal consumer spending arise by the time third quarter arrives.

The good news is that stocks are cheaper than they were in January. The dividend yield for the S&P 500 is 2.5%. The 10-year yield for a U.S. Treasury is only 0.76%. So, if you can just ignore the volatility, you can pick up almost 2% more in annualized yield for equities than bonds, and that assumes no appreciation over the next ten years. It is likely that the market will retest the lows set recently. But five years from now, we will look back at these prices and realize what a great buying opportunity we were given.

PORTFOLIO MANAGEMENT

The Investment Committee spent most of 2019 looking at ways to de-risk the portfolio while staying fully invested. The inclusion of the new Innovator ETFs that offer downside 15% buffers for each asset class has truly helped the equity side of the portfolio weather this market selloff. Given current valuations that are significantly more attractive than they were at the end of 2019, we are looking again to modify our allocation. New purchases of Innovator ETFs will go into versions that have a smaller buffer and a higher cap. This will enable us to capture more of the market recovery over the next twelve months.

On the fixed income side of the portfolio, we have two positions that have not performed well. Our short-term floating rate bank loans and our high-yield bonds have both suffered during this downturn. The good news is that late last year we increased our exposure to intermediate-term bonds, and they held up quite nicely. We are in the process of shifting some of the intermediate money into the high-yield space which is now cheaper.

The next few months could continue to be volatile in the equity markets. Until there is a medical breakthrough such as a vaccine or treatment for COVID-19, expect a bumpy ride. It will be important to keep your focus on the long-term strategy and ignore the short-term fluctuations. Remember, "Panic" is not an investment strategy.

FINANCIAL PLANNING

As always, proper financial planning is something that must be continuously monitored and adjusted over time. Goals change. Life happens. This is especially true in our current environment.

Below are quick highlights of a few of the recent changes. We have started a video blog (Vlog) series where our Senior Financial Planners discuss these topics in more detail. You can find these videos under the Blog section of our website (https://galecki.com/blog/) and on our Facebook and LinkedIn pages.

1. 2020 Required Minimum IRA Distributions have been waived for 2020. It may still be beneficial to distribute funds from a retirement account to maximize a low tax bracket or complete a Roth conversion.
2. Taxpayers can deduct charitable contributions up to 100% of their Adjusted Gross Income (AGI) in 2020. In 2019 this was capped at 60% of AGI.
3. Most Federal Student Loan payments have been suspended through September 30, 2020. We recommend contacting your loan servicer directly for the most accurate information on your loans.
4. Small Businesses (less than 500 employees), sole-proprietors, and non-profits may be eligible for a loan under the Paycheck Protection Program.
    - The maximum loan amount is 2.5 times monthly average payroll. Payroll includes: salary, taxes, health insurance premiums paid by the business, retirement plan contributions, and more.

   - Loans are through the Small Business Administration (SBA), but can be applied for at most local lending institutions.

5. The IRS will be sending rebate checks to eligible taxpayers. The amount of the checks will depend on your family unit: $1,200 for single filers, $2,400 for married couples, plus $500 for each qualifying dependent who is under the age of 17. To qualify, your income must be below certain thresholds, which again depends on your family unit. For single filers with no children, it is $75,000 of AGI and for joint filers with no children it is $150,000 of AGI.

The rest of this section will be devoted to apps, websites, etc. that we've found helpful as we navigate ourselves and our families through this time.

Libby: This is a free smart phone application that allows you borrow eBooks and digital audiobooks from your local public library. You will need a library card to link into the app.

Peloton: Peloton is offering their app for free for 90-days. The app has a variety of pre-recorded workouts as well as live classes. You do not need to have a Pelton Bike or Treadmill to use the app. A few of our shareholders have used the app for 20-minute HIIT cardio workouts, outdoor running coaching, yoga, and strength training.

Zoom: We are sure by now everyone is familiar with or least heard of Zoom, the video conference service. Zoom allows multiple participants to video chat and share their screens. We've heard of families using the service to play games like Scattergories with family members near and far.

Charity Navigator: This site allows users to search for charitable organizations that match their personal passions. They have a section devoted to COVID-19, but also a variety of other topics such as Environmental Protection, Arts & Culture, Human Services, etc.

Kahn Academy: Kahn Academy is a non-profit that provides free online education tools. Subjects range from US History, to Calculus, to Macroeconomics. They also have subjects broken down by grade for children as young as 2. They are currently offering daily schedule guides for parents who are now homeschooling their children. They offer a smart phone app as well.

Company News

Our office has transitioned to working remotely as we do our part to slow the spread in our community. Although we miss seeing each other in person daily, we are all adapting and continuing to serve our clients during these unprecedented times. We've been holding all Staff Meetings via Zoom, which allows for some fun with virtual backgrounds.

In closing, we want to wish you all the very best. We hope you are all staying safe and healthy.

Thank you for your trust and confidence in GFM.

- Galecki Financial Management Investment Committee

Special Note: If you would like to schedule an appointment with a Certified Financial Planner™ Professional, please visit www.galecki.com.