CENTURION COUNSEL MARKET COMMENTARY Q1 2020

First and foremost, we hope this letter finds you, your family and loved ones healthy and safe.

Market volatility surged in the first quarter to levels last seen more than a decade ago during the financial crisis, as the COVID-19 pandemic swept the globe and prompted the partial shutdown of most major global economies, including the U.S., EU and most of Asia. But while the pandemic was the main cause of the historic volatility we've witnessed over the past several weeks, the coronavirus outbreak was not the only source of volatility in the markets during the first quarter, as geopolitics and domestic political developments also impacted markets over the past three months.

In sharp contrast to the relatively calm market environment of 2019, the new year started with a geopolitical shock when, on January 3rd, the United States executed a tactical strike that resulted in the death of Iranian General Qasem Soleimani, whom many considered to be the second most powerful person in Iran. Tensions between the U.S. and Iran rose sharply as Iranian leaders promised retaliation, and stocks dropped on the news while oil rose as investors feared a potential regional war. Positively, the Iranian response, a small rocket attack on a U.S. base in Iraq, did not cause further escalation. Additionally, Iran mistakenly shot down a Ukrainian commercial airliner during the rocket attack, tragically killing all 176 people on board, and the global fallout from that all but ended the conflict. Ultimately the geopolitical crisis was short lived, but it proved to be a harbinger of what was to come later in the quarter.

As the geopolitical scare faded, investors' focus turned back to the U.S.-China trade war, as both China and the U.S. signed the "Phase One" trade deal in mid-January. The agreement did not provide material tariff relief, however it did importantly signal no further tariff increases. As such, it provided needed clarity to global industrial companies and the markets. In response, stocks moved steadily higher, powered by the favorable combination of the U.S.-China trade "truce," low interest rates following the rate cuts of 2019, historically low unemployment and steadily rising corporate earnings. Fundamentals for the economy and the stock market were very strong, and the S&P 500 hit several new, all-time highs between mid-January and mid-February.

But, starting February 20th, market volatility rose sharply as the number of active coronavirus cases began to dramatically accelerate in South Korea, Iran and Italy. The swift spike in new coronavirus cases outside of China resulted in a sharp drop in stocks in late February. Those declines were then compounded throughout March as the number of active coronavirus cases in the U.S. began to increase rapidly. The S&P 500 tumbled more than 25% from the mid-February highs to the late-

March lows, amid rising fears that "social distancing" measures being implemented globally to stop the spread of the disease, would have a broad and substantially negative economic impact.

Positively, the U.S. government has acted to support the economy as the Federal Reserve cut interest rates to zero percent and implemented several important measures to provide short-term cash for corporations and ensure there's plenty of capital for the broader banking system. Congress also passed multiple economic relief bills, the largest of which was a $2.2 trillion stimulus package aimed at providing support for businesses and displaced workers. Those actions are working to help keep the banking and financial systems functioning in an orderly manner as well as supporting the economy through this unprecedented shutdown. Stocks reacted to these positive events by rallying sharply during the last week of March, although the major averages still finished the first quarter with large declines.

As we begin the second quarter of 2020, it's fair to say investors and markets are facing a level of uncertainty that we have not seen in over a decade. But it is also true that the government has acted in a historically forceful way to support the economy and foster growth once the coronavirus pandemic has passed, and despite a volatile quarter, that is a comfort as we move forward.

1st Quarter Market Performance Review

The major U.S. stock indices all dropped sharply in the first quarter on concerns about the economic fallout from the coronavirus pandemic. But, the tech-heavy NASDAQ relatively outperformed the other three major indices, thanks to large-cap tech companies being viewed as somewhat insulated from the economic fallout compared to many other industries. The S&P 500, Dow Jones Industrial Average and Russell 2000 (the small-cap index) all saw larger declines in the first quarter.

By market capitalization, large caps outperformed small caps in the first quarter, and that is what we'd expect when market declines are being driven by concerns about future economic growth, because large caps are historically less sensitive to slowing growth than small cap stocks. From an investment style standpoint, growth relatively outperformed value, yet again, due to strength in large-cap tech.

On a sector level, all 11 S&P 500 sectors finished the first quarter with negative returns. Traditionally defensive sectors, those that are less sensitive to changes in economic activity like utilities, consumer staples, and healthcare, relatively outperformed, which is historicallyp typical in a down market. Technology shares also outperformed the S&P 500, again due to relative strength in large-cap tech companies as their businesses are thought to be more resilient than other parts of the market.

Conversely, cyclical sectors, those that are more sensitive to changes in economic activity, badly lagged the S&P 500 in the first quarter. Energy was, by far, the worst performing sector in the S&P 500, as it declined sharply due to plunging oil prices. Material and industrial stocks also underperformed on fears of reduced future earnings if there is a prolonged global economic slowdown.

US Equity Indexes	Q1 Return	YTD
S&P 500	-19.60%	-19.60%
DJ Industrial Average	-22.73%	-22.73%
NASDAQ 100	-10.29%	-10.29%
S&P Midcap 400	-29.80%	-29.80%
Russell 2000	-30.61%	-30.61%

Source: YCharts

Looking internationally, foreign markets also declined in the first quarter, and again underperformed the S&P 500.

Commodities endured a historic collapse in the first quarter driven by steep declines in industrial commodities such as oil and copper. Oil plunged to multi-decade lows over the past three months on a combination of potentially reduced demand stemming from the global economic shutdown paired with surging supply due to the global price war that broke out following the failed "OPEC+" meeting in early March. Ultimately, prices declined to levels not seen since the early 2000s in the final days of the quarter. Gold, meanwhile, rose slightly in the first quarter as investors sought protection from uncertainty, although gold was very volatile in the month of March.

Commodity Indexes	Q1 Return	YTD
S&P GSCI (Broad-Based Commodities)	-42.34%	-42.34%
S&P GSCI Crude Oil	-66.84%	-66.84%
GLD Gold Price	7.01%	7.01%

Source: YCharts

Switching to fixed income markets, the total return for most bond classes was positive in the first quarter, which is not surprising given the potential economic fallout from the coronavirus pandemic. The leading benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, experienced positive returns for the sixth straight quarter.

2nd Quarter Market Outlook

What a difference a quarter can make.

At the beginning of 2020, market fundamentals were arguably as positive as they had been in years. Interest rates were low, the labor market was historically strong, the U.S. and China achieved a potentially lasting truce in the long-standing trade war, and the global economy was showing signs of acceleration following a sluggish 2019.

But all that was upended by the coronavirus, which not only caused historic and unsettling volatility across global financial markets, but also upended normal society in a way none of us have ever seen before.

Across the nation, and the world, roads are mostly empty, office buildings are vacant, schools are closed and normal life as we have known it has largely ground to a halt.

Yet it's important to point out that, as Fed Chair Powell stated in a recent interview, there was nothing "wrong" with our economy before the coronavirus hit. There was no tech stock bubble and no housing bubble, like we saw in the last two U.S. recessions. As mentioned, economic fundamentals were rather positive prior to this unprecedented shock, and that offers some comfort when we look at investing over a longer time horizon.

To that point, it is also important to remember that this unprecedented market volatility, along with these societal disruptions, are temporary. At some point, the spread of the virus will peak and begin to recede.

Similarly, these social distancing measures, while unsettling, also are only temporary. Our children will once again return to school and adults will return to work. Air travel will resume, and the U.S. economy, which is by far the most flexible and resilient in the world, will recover, and that recovery will come sooner than previously thought thanks to the actions by the U.S. government over the past few weeks.

Over the past month, we have all witnessed a degree of panic, both in regular society as well as in the financial markets. But as we all know, the worst thing to do during a panic is to panic. That's because panic leads to hasty, short-term decisions that jeopardize your long-term best interests.

Although no one could foresee this virus or the impact it would have on the markets and the economy, events such as this are why we have spent time with you designing a long-term, balanced financial plan.

Through this difficult, but ultimately temporary disruption, that plan is designed to help you achieve your personal long-term financial goals. Meanwhile, shares of some of the most-profitable, well-run companies in the world are now trading at substantial discounts to levels at the beginning of the year, and history has shown us that over the longer term, these tumultuous episodes can create fantastic investment opportunities, and some of the most ideal buying conditions the market can offer.
Past performance is not indicative of future results, but history has shown that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of heightened volatility, market corrections, and even bear markets.

At Centurion Counsel, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first quarter is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it’s critical for you to stay invested, remain patient, and stick to the plan. We’ve worked with you to establish a personal allocation target based on your financial position, risk tolerance, and investment timeline. Therefore, we aim to take a diversified and disciplined approach with a clear focus on longer-term goals.

We understand that volatile markets are both unnerving and stressful, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this difficult market environment.