Atherean
Wealth Management, LLC

121 Newark Avenue, Suite 531
Jersey City, NJ 07302
Ph: 347-409-1499
cgething@atherean.com
http://www.atherean.com

April 29, 2020

Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending March 31, 2020, as well as an investment advisory fee statement for the second quarter of 2020. The portfolio summary report shows the holdings in your accounts as well as an overview of your portfolio asset allocation as of the close of the first quarter of 2020. It also provides a summary of your investment objectives, time horizon, and risk tolerance as per our records. It is important that you review this information and let us know if any of it is incorrect.

Fiscal and Monetary Actions

Central banks around the world continue to take unprecedented actions since the Covid-19 pandemic began several months ago. In the U.S., the Fed continues to purchase fixed income securities, with the total assets held by the Fed increasing to over \$6.5T over the past few weeks, up from about \$4.2T just before the crisis began (see Figure 1 in the *Appendix* for details). This is the most extensive Fed purchase program since September and October of 2008. The Federal Funds rate is now zero and just today the Fed reiterated its commitment to continue fixed income asset purchases across all levels of credit quality for the forseeable future.

Equity, Fixed Income and Commodity Markets

We last wrote to you on March 25, which was two trading days after the recent market bottom on March 23. As of today the S&P 500 is up 33%, the Russell 2000 is up 37%, and the MSCI EAFE (Europe, Australasia and Far East) index is up 25% from the March 23 bottom. Year to date as of the writing of this letter the S&P 500 index is down 8%, the Russell 2000 index is down 18%, the MSCI EAFE (Europe, Australasia and Far East) index is down 17%, the MSCI US IM Real Estate 25/50 Index is down 16%, and the Barclays Aggregate Bond Index is up 5% on a total return basis. The CBOE S&P 500 Volatility Index ("VIX") was close to the 31 level as of today, which is down considerably from its high of around 85 in late March (see Figure 3 in the *Appendix* for details). We find this very encouraging as there is somewhat of a historical correlation between VIX peaks and market bottoms. It is hard to say for sure whether or not the March 23 market bottom will be tested again, but we believe that most of the possibilities of negative economic outcomes were priced into the equity markets rapidly during the swift market drop of February and March.

Primarily as a result of the unprecedented policy actions of the U.S. Fed discussed above, the ten year treasury yield closed at 63 bps today, close to its lowest level ever (see Figure 2 in the *Appendix* for details). As of the writing of this letter the 10-2 treasury yield "spread" was close to 40 bps, reflecting a yield curve which has steepened significantly over the past few quarters and is no longer inverted.

Oil futures contracts for April delivery fell below zero earlier in the month, which reflects the extent of the immediate "demand shock" to the economy. As of the writing of this letter CME Crude Oil contracts for June 2020 delivery traded close to the 17 level, while those contracts priced for December 2020 delivery traded close to the 29 level. While the factors driving the oil futures "curve" are numerous, we believe that the steepness of the curve ("contango") primarily indicates the anticipation of increased aggregate demand in the economy toward the end of the year.

Economic Review and Outlook

As of today the U.S. GDP numbers have been released for the first quarter of 2020, and the 4.8% contraction is the largest since the fourth quarter of 2008 (see Figure 4 in the *Appendix* for details). While the April employment report is yet to be released, there is a strong consensus view that the unemployment rate will exceed 10% for the month of April, the highest level since October of 2009.

There is much concern about an air of sluggishness hanging over the economy for a long period of time, based upon the belief that it is harder to restart an economy than it is to stop one. The news cycle seems to oscillate between two extremes with two underlying narratives: an "armageddon" narrative and a narrative that things will return to "normal" within a few months or quarters. While we believe that the "new normal" will be materially different from the "old normal", we also believe that the U.S. economy has some of its best years ahead of it, and that in the long run, "this too shall pass".

Portfolio Management

In order to put the current situation in perspective, we believe that now is a good time to reflect on the past few years of equity and fixed income market performance. To summarize: we expressed on and off caution throughout the years leading up to the COVID-19 crisis. In mid-2017 we were concerned about overvalued equity markets and discussed the historically high Shiller cyclically adjusted price to earnings ("CAPE") ratio (see our Q2 2017 and Q3 2017 letters and Figure 5 in the *Appendix* for details). Throughout 2018 we saw earnings catch up somewhat with high equity prices and valuations pull back significantly from their highs as a result (see Figure 6 in the *Appendix* for details). In mid-2019 we expressed concern about the possibility of a recession due to an inverted yield curve (see Q2 2019, Q3 2019 quarterly letters for details), and in 2019 the S&P 500 was up almost 31% on a total return basis despite negligible earnings growth. Which brings us to the current point in time. We now believe that stocks are historically cheap by most standards. The Shiller CAPE ratio has pulled back to a level of about 23 as of the writing of this letter, well below its recent high of around 33 set in January of 2018 (see Figure 5 in the *Appendix* for details). While we believed stocks to be overvalued and were cautious coming into the start of 2020, we are now of a more "risk on" mindset. As we stated in our writing in late March, we believe that stocks are historically cheap and that the current crisis could be a historic buying opportunity. We want to emphasize, however, that, as always, your risk tolerance, time horizon and liquidity needs should take precedence over any attempts to "time" the market and take advantage of buying opportunities.

We are of course available, as always, via phone and email should you wish to discuss your portfolio, the markets, or the economy. We will seek to update you again within the next few weeks. In the meantime, stay safe and healthy.

Sincerely,

Atherean Wealth Management, LLC

Appendix

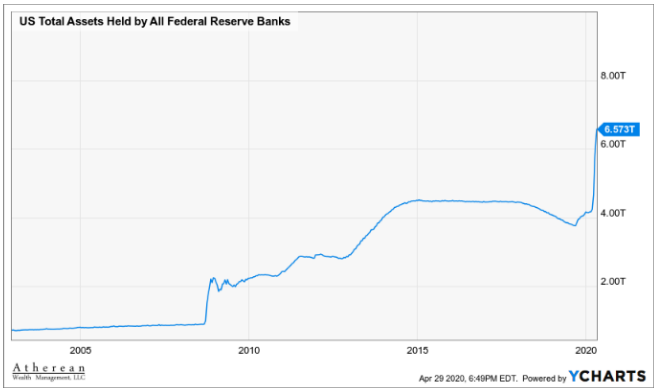

Figure 1: Total Assets Held by All Federal Reserve Banks
December 2002 – Present (source: YCharts, U.S. Federal Reserve)

Figure 2: 10 Year Treasury Rate
January 1990 – Present (source: YCharts, Department of the Treasury)

Figure 3: CBOE S&P 500 Volatility Index
January 1990 – Present(source: YCharts, Chicago Board Options Exchange)

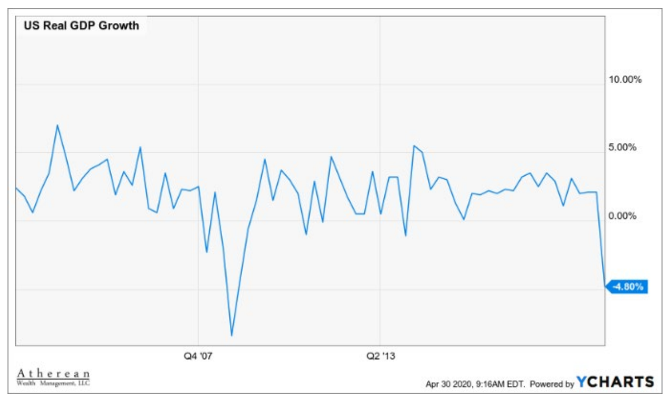

Figure 4: U.S. Real GDP Growth
Q2 2002 – Present (source: YCharts, Bureau of Economic Analysis)

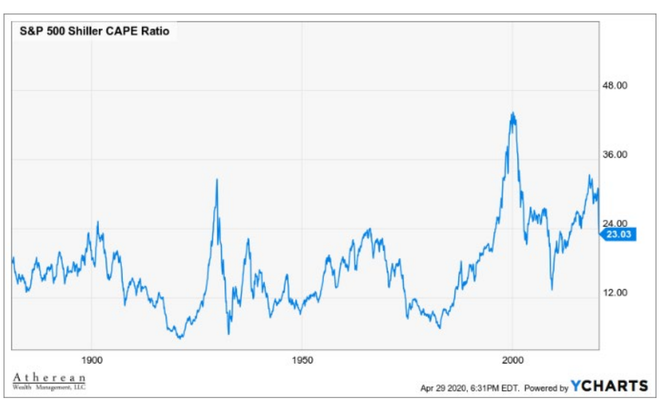

Figure 5: S&P 500 Shiller CAPE Ratio
March 1881 – Present (source: YCharts, Robert Shiller)

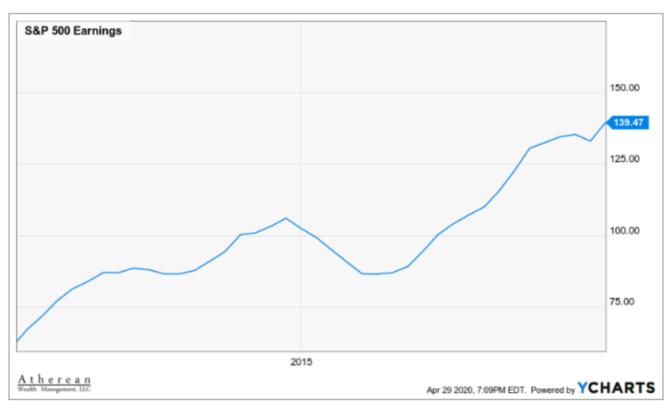

Figure 6: S&P 500 earnings April 2010-December 2019
April 2010 – Present (source: YCharts, Robert Shiller)