PERFORMA

MAY 2020 MARKET UPDATE

MARKET PERSPECTIVE

INSIGHTS & REVIEW FROM PERFORMA'S INVESTMENT TEAM

WE ARE IN THE THICK OF IT NOW

Economic data, by nature, is backward looking - doing a better job of telling us what has already happened than what we can expect in the future. In the weeks ahead, data releases will confirm what we already know: the U.S. economy was all but shuttered during April. Economic activity didn't just stumble; it was purposely shutoff out of necessity. Physical distancing measures quickly became our only defense against COVID-19 and the resulting historic collapse in economic activity is sadly a sign of responsibility.

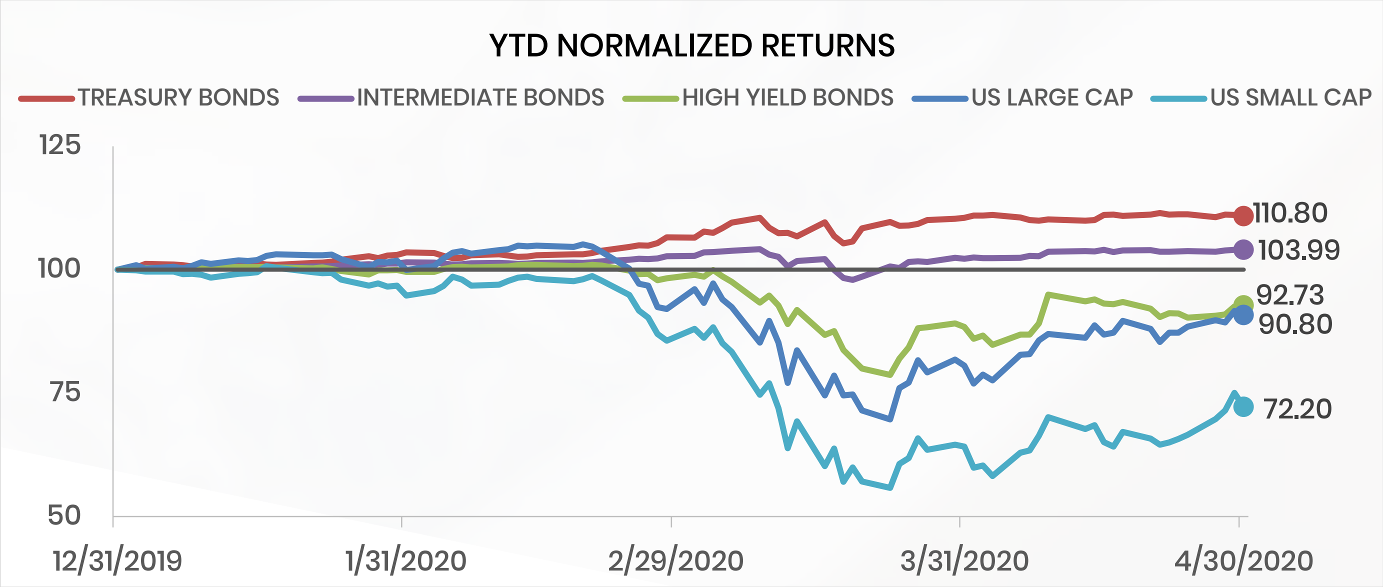
We believe that the scientific community will ultimately be successful in its tireless efforts. However, without an immediate vaccine or some way to prove herd immunity, we expect a slow reboot to the U.S. economy. Yes, there will likely be a rebound from the extreme lows, but void of a medical breakthrough, it is becoming increasingly apparent that economic activity will not be the "V" shaped recovery that markets had originally anticipated in late March and early April.

Undoubtedly, the response from fiscal and monetary authorities has been swift and aggressive by any historic comparison. While these policies have been supportive, they haven't come without challenges and unforeseen consequences. The Federal Reserve will be the first to tell you that zero interest rates, unlimited bond purchases, numerous new lending facilities and the promise to do more will neither stop the spread of the virus nor put millions of people back to work. However, actions taken by the Fed have worked to calm financial markets during a period of unthinkable stress and should assist in the recovery once we've moved beyond COVID-19.

On the fiscal side, stimulus has come sooner and far outpaced the response to the 2008 financial crisis. With that said, the delay and sheer number of businesses unable to access emergency lending will cause more permanent closings (and unemployment) in some sectors than many had initially anticipated. Additionally, we see issues with the national virus and antibody testing apparatus leaving much work to be done. With some 30+ million individuals filing for unemployment benefits in the past six weeks alone, the fallout is going to be dramatic and the suffering real. As such, lawmakers are already discussing a third round of stimulus for state and local assistance (we'll save the discussion of massive deficits and ballooning debt loads for another Market Perspective).

As states begin the unnerving process of reopening in the coming weeks and we sift through peak pandemic economic data, it would be naïve to discount the uncertainties that remain. If this virus has reminded us of anything, it's just how quickly things can change, for better and for worse. A breakthrough from the biomedical community would be a tremendous shot in the arm, while a spike in confirmed cases or a second wave of infections would be tragic. And this is exactly the type of uncertainty that COVID-19 has forced everyone to deal with.

These periods of extreme uncertainty and market volatility are an important reminder as to why we go through the effort of constructing well-diversified portfolios. Each asset class plays a role in solving the increasingly complex equation of liquidity management, income generation, return potential and prudent risk management.



SOURCES OF RETURNS ABOVE: ISHARES 7-10 YEAR TREASURY BOND ETF (IEF) FOR TREASURY BONDS; ISHARES INTERMEDIATE GOVERNMENT/CREDIT BOND ETF (GVI) FOR INTERMEDIATE BONDS; ISHARES IBOXX $ HIGH YIELD CORPORATE BOND ETF (HYG) FOR HIGH YIELD BONDS; SPDR® S&P 500® ETF TRUST (SPY) FOR US LARGE CAP; ISHARES RUSSELL 2000 VALUE ETF (IWN) FOR US SMALL CAP

The discussion below is kept at a high level, but it is important to note that the work does not stop at the asset class level. The above considerations should also factor into the underlying positioning within individual strategies.

During periods of market stress, liquidity management is crucial. Being able to satisfy unforeseen capital requirements without being a forced seller at distressed prices is not a luxury; it is a function of good planning and is precisely the role of cash and investment grade fixed income.

Going forward, income generation is going to be increasingly difficult. With the Fed holding interest rates at zero for the foreseeable future, high yield offers a significant income advantage over investment grade bonds with historically less risk than equities. Additionally, high yield plays an important role in dampening overall portfolio volatility while not giving up too much from a return perspective (versus equities) and remains an important risk management tool.

Finally, while harboring significantly more risk than fixed income, equity exposure plays a key role in boosting return potential for clients who can withstand the increased volatility. If the past two months is any indication, it's going to be a bumpy ride for equity markets in the short run. Investors will be forced to reconcile crumbling revenue streams, foggy outlooks and continued central-bank-driven asset price inflation. If allowed, equity exposure should be carefully calibrated to each client's unique risk tolerance and should be viewed from a long-term perspective.

Staying diversified and staying invested will be paramount as we progress through this historic event. As Mr. Jim Morrison said, "the future is uncertain, and the end is always near." Let's hope this is the end of coronavirus so we can all get back to our normal lives. Stay safe, stay patient and we look forward to seeing everybody live and in-person. As always, please contact us with any questions.

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ABOUT PERFORMA

Combining our extensive knowledge of the insurance industry with the institutional expertise of our investment team, Performa has been managing assets on behalf of captive and other insurance clients for more than 25 years. Our capabilities include asset allocation, active fixed income and equity management through diversified mutual funds and separate account portfolios. With offices in the world's largest captive domiciles, including Bermuda, Vermont and South Carolina, we are focused on delivering customized solutions to meet the unique investment objectives and liquidity requirements of our clients. We are 100% employee-owned and have $4.11 billion in captive assets under management and advisement as of March 31, 2020. Our investment philosophy is value driven and long-term in nature. Whether approaching asset allocation, fixed income or equities, our ability to be nimble, contrarian and decisive sets us apart from our peers and promotes capital preservation.

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