FIRST QUARTER 2020

Matt's Market Update

IN THIS REPORT

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Market Review

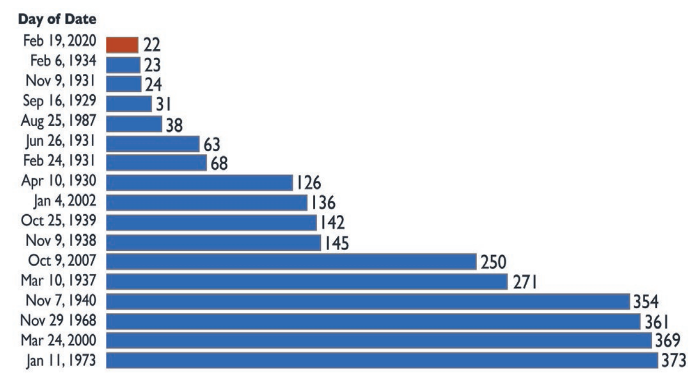
We hope you and your families are staying safe and healthy during these unprecedented times. Normally, a big challenge to writing a quarterly update is that by the time we've finished writing and editing during the early days of a new quarter, it often feels like the world can change very quickly before clients receive the update. This has never been more true than today. As we write this update in early April, the S&P 500 index is rebounding strongly after a YTD decline of -34% in mid-March.

The first quarter of 2020 will go down in history as one of the most tumultuous ever for capital markets. A black swan event in the form of a global pandemic has struck with wide-ranging (and yet to be felt) impact to our personal lives and the global economy. The COVID-19 coronavirus global outbreak has forced a lockdown of economies around the world and has resulted in stock market volatility reminiscent of the financial crisis in 2008. In a matter of weeks, global equity markets fell more than 30%, the fastest fall outside of a single day crash.

Also similar to 2008, serious questions over the liquidity of the bond market came to life and this prompted the Fed into action. Interest rates have been slashed to zero, QE (quantitative easing) is back and an extended number of additional emergency programs have been enacted to calm markets. The U.S. fiscal response has also been incredible in size and scope, with a +$2 trillion stimulus package from the U.S. alone. Other world governments are following suit with large stimulus packages. Another major event took place during the quarter that only added more stress to the global economy. Saudi Arabia initiated an all-out oil price war with Russia (causing a sharp and immediate drop in the price of oil), resulting in major stress across the oil sector. The first immediate impact was the risk to the high-yield credit market due to the significant exposure to the energy sector, coupled with the sudden fall-off in economic activity. The second is adding to the deflationary pressure already unleashed by the massive impact of the COVID-19 pandemic. The onset of a recession in the U.S. combined with the damage from the oil price declines will likely result in numerous debt downgrades and potential bankruptcies. Going forward, monitoring the global progress of the virus and the ability of the economy to make progress towards some sense of normalcy will be key. Clearly, we're in uncharted waters.

STOCKS POST FASTEST 30% DROP EVER

It's not often the S&P 500 stock index drops 30%. Here's how many trading days it took for the latest such pullback.



Source: BofA Global Research

Sentinel Benefits & Financial Group

Answering Client Questions

Needless to say, we've received many client questions on a variety of topics during the quarter. Therefore, we're going to change up our usual format and devote much of this update to those actual questions and our answers. The situation is fluid and our top recommendation is to reach out to us if you need help. Whether it's a small question on the markets or a something more complex related to financial planning, we're here to help you navigate through these volatile times.

Should we change how our money is currently invested? Or is it smarter to leave things as they were before?

We firmly believe you should be evaluating your asset mix on a periodic basis. One of the many benefits of working with a financial planner is that they'll keep you on track as you work towards your overall financial goals. For those investors doing it on their own, even a simple annual review of your assets can be very effective. How did your portfolio handle the extreme volatility of Q1? If the fluctuation in value was outside of your comfort zone (based on your time horizon and liquidity needs), then some adjustments to your strategy may be warranted.

I'm currently invested in a target date fund set to 2035. When should I start pulling back and invest conservatively?

This answer depends on several factors. First, what is the strategy of your 2035 fund? Different fund companies utilize different asset mixes in their products, even though they all claim to target somebody retiring in 2035. Second, do you plan to draw on the money in 2035 or will you likely be able to keep it invested past this date? Most 2035 funds still have significant exposure to equities and therefore volatility past their stated retirement date.

What measures are fund managers taking to minimize the loss of different retirement funds? Have any of the funds been moved to bonds and money market funds?

One of the benefits of utilizing an actively managed mutual fund is that the fund manager has the flexibility to make changes within the portfolio that hopefully can mitigate losses during these volatile periods. These changes include holding extra cash, tilting to more defensive sectors and in some cases holding fixed-income securities. Based on our calls with managers this quarter, each has been active in trying to re-position their portfolios to reduce risk, while staying within their investment strategy mandate. You, the investor, have the ultimate say in how much exposure you'll have to each asset class within your portfolio.

Do you recommend we re-allocate our investment choices? How do we know if we should do so?

This is where it really helps to contact a financial planner to discuss your individual situation. A well-designed plan will incorporate the possibility of large market drawdowns over the long-term to help you know if your asset mix is appropriate based on your time horizon, savings level and a variety of other factors. Every retirement plan where Sentinel Pension Advisors serves as the advisor has an assigned financial planner who you can speak to free of charge to help answer questions of this nature.

What is Sentinel's position on the "bottom" of the market?

We don't spend any time on this question as it's truly unknowable. It can only be answered after the fact. We would make the observation that we've received a number of client questions related to "the bottom" and wondering if it's time to get more aggressive in their portfolios. When the true bottom arrives, we don't expect to be getting these questions.

Are there any safe havens to park assets?

Within a retirement plan, the place to start in terms of safety is the money market or stable value option. These options provide principal stability and no exposure to the volatility of the stock market. The various bond funds in your plan would be a step up in risk (as they do have daily price volatility) from the money market or stable value options, but they tend to have significantly less volatility in comparison to equities.

What is the future of fixed income?

This is a fantastic question and our thoughts could reasonably take up this entire report. Interest rates have plunged to record lows (thus driving bond prices higher in many sectors of the market) and we feel like they can go even lower. As we've written about frequently over the years, the Federal Reserve has been very active in lowering short-term interest rates and manipulating longer-term rates through their various "stimulus" programs. As of this writing in early April, the Fed has enacted numerous new endeavors to print more money in an effort to prop up equity markets. In terms of the future, we expect the Fed to continue to have an outsized influence on the bond market and for yields to remain very low. Income oriented investors will be deprived of yield in the most secure bonds (ex. Treasuries) and be forced to take on more risk in areas like high yield bonds to reach for yield. In terms of portfolio construction, fixed-income still has a role to play as a diversifier and ballast against the price volatility ever present in equities, but all investors should lower their total return projections for fixed-income going forward.

Why doesn't my plan offer a gold fund?

The reason is volatility. Most gold funds are almost primarily invested in gold mining stocks. While these companies have the potential to do well if the price of gold rises, the daily price volatility will likely be very high. This same reasoning applies to why most plans don't offer exposure to sector oriented funds whether it's technology, financial services or other industry sectors. The price moves are simply too extreme and in our experience, most participant investors avoid less diversified options.

Do the target date funds make adjustments to their positioning in times like these?

The short answer is yes, but the changes are typically small and at the margins. Most target date funds have the ability to under or overweight holdings to various asset classes by a small amount depending on their views. The simplest example would be a few percentage points less in equity exposure and a few added percentage points in fixed-income. Adjustments are also made at the sub-asset class and sector levels. These funds though have a long-term strategic asset allocation and glide path which they manage towards over time. Therefore, they are designed to never make very large moves in the portfolio that would conflict with the long-term strategy.

If you are within 5 years of retirement, what steps should you be taking?

The answer falls under the umbrella of creating a comprehensive financial plan.

1. Determine how much money you will need in the present and in retirement:
   - Go through all of your fixed expenses and estimated income and make sure you are not in the red.

2. Rebalance your Portfolio:
   - Reassess your risk tolerance and ensure your investments align with the goals in your financial plan.

3. Review Health insurance(typically one of the largest expenses in retirement)
   - Cost of plan, type of coverage, etc.

4. Review your Estate Plan
   - Create estate planning documents with a qualified estate planning attorney. These documents should be reviewed and updated periodically as your situation and estate laws change.
   - Update Beneficiaries and retitle accounts as needed.

5. Review your tax situation:
   - Determine what tax bracket you will effectively be in.
   - Make sure you have diversified types of accounts (Roth, Pretax, After Tax, etc.)
   - Invest in Roth/After-Tax accounts as this will allow you to be more flexible in retirement and navigate through the taxes and Medicare brackets.

Finally, please visit our website, **www.sentinelgroup.com/Employers/COVID-19**, for additional resources related to COVID-19 and the various programs enacted recently.

Our Portfolio Strategy & Allocation Outlook

In response to the extreme equity market volatility, we took defensive actions across our private client portfolios in March. Equity ETF positions were trimmed back and this lowered the portfolio equity percentages to the lower end of our long-term strategic ranges. We allocated the proceeds from these sales into new positions in short-term treasuries and gold. Both of which historically provide low correlation and diversification benefits in relation to equities.

Specific to gold, the reasons for owning a small position within an otherwise diversified portfolio are many. In addition to the diversification reasons for owning gold, we feel now is an especially good time to hold gold for the following reasons:

1. Gold is a hedge against the policies of global central banks. As the Federal Reserve and other central banks react to every crisis by printing money and driving up deficits, this hurts the value of fiat currencies like the U.S. dollar. Gold's value should increase against currencies being devalued around the world.

2. Gold has traditionally performed very well during severe market declines. With interest rates so low, we believe investors will look to other asset classes like gold to diversify their portfolios as the appeal of fixed-income decreases.

3. The gold market is very small and under owned. All the gold ever mined in history would fill just two Olympic size swimming pools. Supply is very constrained as mine production has slowed in recent years. What happens when more investors (who previously didn't own gold) decide to add a position in their portfolios?

Please let us know if you'd like to discuss your personal investing and financial planning needs.

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Market Scoreboard

Index Returns (%)	Q1 2020	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	-19.60	-19.60	-6.98	5.10	6.72	10.53
DJIA	-22.73	-22.73	-13.38	4.42	6.86	10.00
NASDAQ	-14.18	-14.18	-0.38	9.21	9.45	12.37
Russell 2000	-30.61	-30.61	-23.99	-4.64	-0.25	6.90
MSCI ACWI Ex USA	-23.36	-23.36	-15.57	-1.96	-0.64	2.05
Barclays Aggregate Bond	3.15	3.15	8.93	4.82	3.36	3.88

Source: Morningstar

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S&P 500 TR: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the large-cap segment of stock market.

Russell 2000 TR: Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization often used as a proxy for the small-cap segment of the stock market.

Barcap Aggregate Bond TR: The Barclays Capital Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S.

MSCI EAFE NR USD: Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world.

DJ US Industrials TR USD: Computed by summing the prices of the stocks of 30 U.S. companies and then dividing that total by an adjusted value--one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies.

NASDAQ: Measures the performance of all issues listed in the Nasdaq Stock Market and is often used as a proxy for the large-cap technology segment of the U.S. stock market.

DJ/UBS Commodity: The DJ-UBSCI is composed of futures contracts on physical commodities and is often used as a proxy for broad-based exposure to the commodity markets.

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