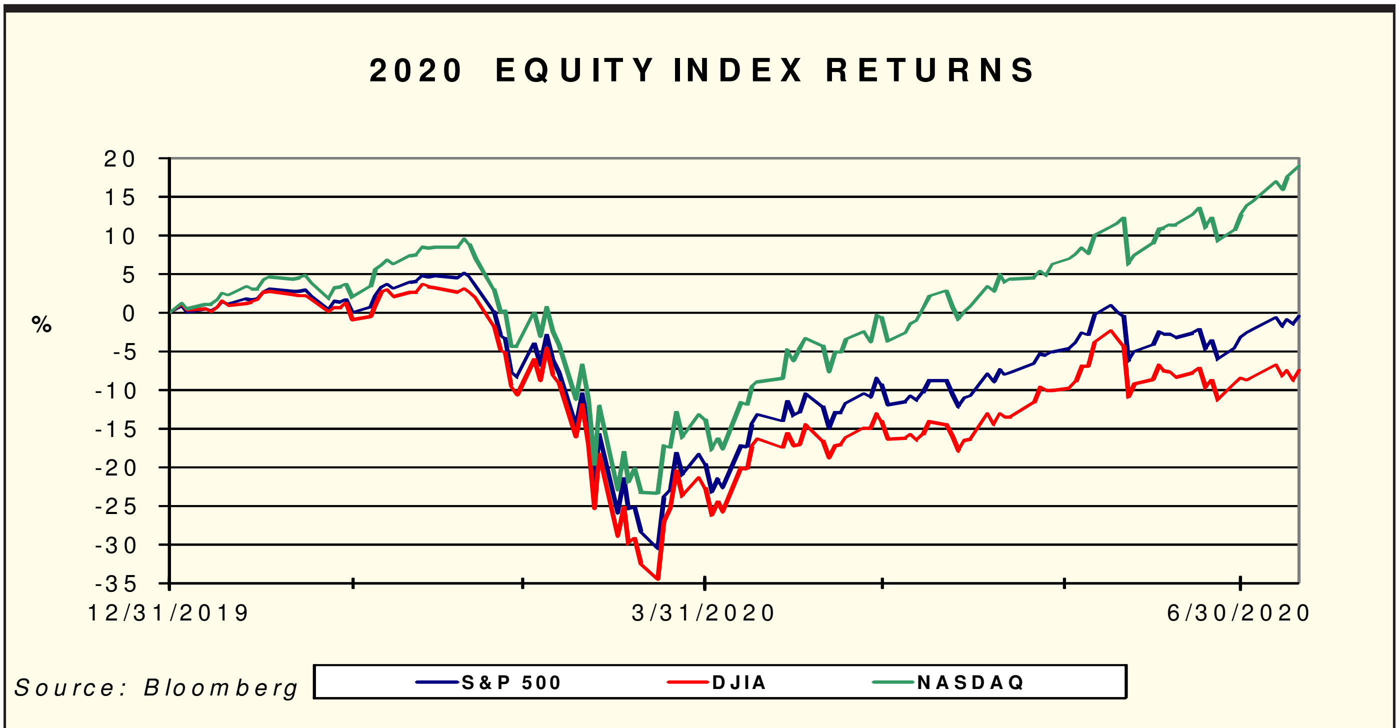
WINDWARD CAPITAL

Risk Averse Asset Management

2020 Second Quarter Review

Volume 25, Issue 2 July 15, 2020



Beware of Magical Thinking

"As we experienced firsthand, you cannot fight the pandemic with lies and disinformation any more than you can fight it with hatred or incitement to hatred. The limits of populism and denial of basic truth are being laid bare. Democracies need truth and transparency."

—Angela Merkel
Chancellor of Germany

The major U.S. equity market indices continued their advance off of the March 23 lows during the Second Quarter of 2020, with the Standard & Poor's 500 Index (S&P 500), Dow Jones Industrial Average (DJIA), and NASDAQ Composite Index (NASDAQ) returning +20.54%, +18.51%, and +30.95%, respectively, for the period. As a result, for 2020 Year-to-Date, the S&P 500, DJIA, and NASDAQ have returned –3.09%, –8.43%, and +12.74%, respectively—a dramatic recovery from the approximately –30-36% declines experienced from this year's historic highs to the depth of the March lows.

These recent positive financial market trends continued into mid-July and appear to be primarily related to recognition of a near-term bottoming of the U.S. economy and optimism regarding the future outlook. The bullish sentiment among investors is predicated on strong monetary and fiscal policy support amid significant uncertainties regarding the extent and speed of the economic recovery. As a result, despite the dramatic recovery in the equity markets, we anticipate ongoing volatility as financial market participants wrestle with what we believe will be an uneven global macroeconomic recovery due to the lingering effects of the coronavirus pandemic and a potentially uncoordinated political and societal response to its mitigation.

As we have discussed previously, the economic effect of the coronavirus pandemic is different from that of previous financial crises: this is, at its essence, a health crisis, not a credit crisis. The current global macroeconomic downturn is not due to an endogenous event: this is an exogenous shock that has resulted in a conscious effort on the part of governmental authorities to artificially freeze parts of the economy as a medical intervention in order to slow down the spread of the coronavirus. That strategy should be viewed positively because responsive and appropriate monetary and fiscal policies can alleviate the negative economic side effects of this "treatment" until health authorities are successful in their coronavirus mitigation efforts.

Although the depth and duration of the pandemic's impact on the world economy remains unknowable and may differ on a country-by-country basis, we remain confident that global health authorities will eventually succeed in controlling the spread of the coronavirus, and that the monetary and fiscal policy measures currently being implemented will mitigate a significant amount of the economic impact. Certainly, the tragic loss of life will continue for some time, and businesses—from small to large—will be disrupted to varying degrees over both the short and the long term: corporate bankruptcies, restructurings, and consolidation appear inevitable for some.

We believe, however, that the risk associated with the resultant financial market volatility is mitigated in *Windward* portfolios—especially over the long run—to a large degree by the fact that we are invested in "high quality," dominant, financially-strong, leading companies with best-in-class managements, high incremental returns on invested capital, and business models with sustainable competitive advantages. As a result, we believe that, on the whole, the businesses in our portfolios will survive this crisis and ultimately prosper. Consequently, we have not raised cash or made any changes to the investments held in *Windward*'s portfolio strategies.

Despite current poor—and entirely expected—underlying economic data, it should be remembered that financial markets are "discounting mechanisms" and, as such, will eventually look ahead toward an economic recovery—the shape of which remains indeterminate at this time.

Relieving the disruptions in the credit markets and restoring the flow of credit to households and businesses are essential to the resumption of sustainable economic growth. In addition, it is important for the government to help fill the gap created by the drop in consumer spending and temporary business shutdowns. Finally, and most importantly, the negative health impacts of the coronavirus must be mitigated.

These policies—monetary, fiscal, and health—represent the three legs of a stool that is necessary for supporting the U.S. economy's return to prosperity reasonably quickly. We discussed these policies in depth in our *Windward Capital 2020 First Quarter Review*, which we encourage you to re-read. In this *Review*, we will update you on our view of the progress that policymakers have made in formulating and implementing the components of those strategies/policies, as well as the effectiveness of the results achieved to-date.

Easy Money

As discussed in detail in our *Windward Capital 2020 First Quarter Review*, the U.S. Federal Reserve (Fed) has delivered a series of extraordinary policy moves and interventions to calm investors and protect the economy from volatility and damage inflicted by the expanding coronavirus pandemic and its restrictions on activity. The Fed's steps have exceeded the scale, scope, and speed of the measures adopted during the 2008 Financial Crisis. It has announced one liquidity program after another, as central bankers around the world collectively work to remove roadblocks interfering with the flow of credit to their economies.

In March, the Fed lowered its short-term Federal Funds policy interest rate to near zero, and we expect them to maintain interest rates at this level until they are confident that the economy has weathered recent events and is on track to achieve their maximum-employment and price-stability goals. (Indeed, Fed officials recently predicted that they would keep interest rates close to zero until at least the end of 2022.) In addition to slashing its main interest rate, the Fed has also sharply expanded its balance sheet with open-ended asset purchases and set up a series of emergency lending facilities to provide credit to struggling businesses and local authorities. The Fed took forceful measures in four primary areas: open market operations to restore market functioning; actions to improve liquidity conditions in short-term funding markets; programs (in coordination with the U.S. Treasury Department) to facilitate more directly the flow of credit to households, businesses, and State and local governments; and measures to encourage banks to use their substantial capital and liquidity buffers built up over the past decade to support the economy during this challenging period.

As a result of all of these actions, we estimate that the central bank's balance sheet could grow to more than $10 trillion in the coming year (from $4.2 trillion at the start of 2020) and may potentially exceed 50% of nominal U.S. Gross Domestic Product (GDP). Despite the scale and scope of these current actions, the Fed is clearly not out of ammunition, nor is it done exhausting its potential liquidity commitments based upon the Congressional backstop provisions within the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The Fed's response to these extraordinary developments has been guided by their mandate to promote maximum employment and stable prices for the American people as well as their role in fostering the stability of the financial system. Their actions and programs directly support the flow of credit to households, to businesses of all sizes, and to State and local governments. These programs benefit "Main Street" by providing financing where it is not otherwise available, helping employers to keep their workers, and allowing consumers to continue spending. In many cases, by serving as a backstop to key financial markets, the programs help increase the willingness of private lenders to extend credit and ease financial conditions for families and businesses across the country. The passage of the CARES Act by Congress was critical in enabling the Fed and the Treasury Department to establish many of these lending programs.

In our view, the Fed remains strongly committed to using these programs, as well as other tools, to do what they can to provide stability, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy. In other words, Fed Chairman Jerome Powell and the other Fed Board members are not yet thinking about when to pull back from the lending programs, when to scale back the Fed's balance sheet, or when to raise interest rates. Powell is very clearly trying not to repeat the mistakes of the last cycle in which the Fed repeatedly issued premature predictions that policy would soon need to be tightened. He does not want to encourage such expectations among financial market participants because it may lead to tighter financial conditions that stifle economic activity through a rise in longer-term interest rates or a stronger U.S. Dollar, for example.

In addition to implementing extraordinary monetary policy measures, Chairman Powell has also emphasized the need for ongoing fiscal policy to support the economy. Indeed, the Fed is counting on Congress and the Trump Administration to continue providing fiscal support to the U.S. economy in addition to the $3 trillion in stimulus already passed since the crisis began. Unfortunately, however, the likely size and timing of a new stimulus package has recently fallen short as Congress has balked at additional spending on aid to address State budget shortfalls as well as on extended jobless benefits.

This is particularly disconcerting given the upcoming expiration of a significant portion of these benefits on July 31.

Mind the Gap

As discussed in detail in our *Windward Capital 2020*

First Quarter Review, U.S. fiscal policymakers are utilizing a bridge strategy to support the economy's eventual return to prosperity. To reach that positive outcome, the U.S. government has engaged in massive spending measures to ensure that those who lose their jobs do not experience personal catastrophe with long-lasting effects and that these individuals have jobs to return to—i.e., that businesses with sound long-term prospects do not collapse in the interim. Besides these direct effects, the goal is to minimize the magnitude of potential second and third order impacts resulting from the shutdowns.

A key reason the economy has not experienced a more significant decline is that enhanced unemployment benefits keep pumping money into people's pockets even with the unemployment rate at 11.1%. The stimulus checks and Payroll Protection Program are providing a boost as well. Unfortunately, it appears that the economy will not have time to heal before those enhanced benefits expire—especially given the recent surge in coronavirus cases. Therefore, an extension of these unemployment benefits is needed to smooth the transition into recovery. Although certain firms may cease to exist as a result of the pandemic, if households have money to spend, they will support a new, post-virus range of businesses. If they do not have money to spend, the economy will get locked into a substantially lower equilibrium.

Congress is reportedly balking at additional aid, claiming that they are worried about the deficit and complaining about the fiscal irresponsibility of States. Neither claim is relevant at this point.

Currently, the interest rate that the Federal government pays on its bonds is less than the expected rate of inflation; i.e., in essence, the government can borrow "for free." This means that even as fiscal spending increases, it is actually relatively affordable for the government to go deeper into debt—and there is little justification for letting debt-level concerns, per se, stop the country from doing what is best for the public health and for long-term U.S. economic growth, especially given the alternative. Aid to State and local governments is also critical: due to a decline in tax revenue, increase in pandemic-related expenses, and States' balanced budget requirements, the shortfalls at the State level will lead to a reduction in critical public support services as well as an increase in unemployment.

As a result, we believe that Congress should commit to stay the course and continue to provide relief until the economy is back on track (this could include triggers based upon specific economic criteria to determine when the relief can be phased out, rather than an arbitrary time limit). Most importantly, Congress needs to pivot from viewing this crisis as a temporary situation to one that is likely to need to be managed on a long-term basis, from both a public health and economic perspective. They need to be thinking about how to handle the economic fallout for regional outbreaks in the future and planning on how to develop a public health infrastructure to manage the virus for an extended period. These are the sorts of actions that will enhance the resiliency of the economy until a treatment or vaccine emerges.

Fits and Starts

The U.S. economic narrative is complicated. It is obvious that the economy has plenty of room for improvement. It is also obvious that the economy is improving. However, the recovery remains vulnerable to waning confidence among consumers due to surging coronavirus infections. An additional wildcard is the extension of fiscal support: a premature reduction of fiscal spending could be detrimental to the underlying base of the economy.

There is plenty of evidence that the economy is on the upswing. This had to happen once the lockdowns eased. (Once activity fell to zero for many firms, there was nowhere to go but up.) Unfortunately, coronavirus infections are also on the rise, with multiple hotspots in Texas, Arizona, California, and Florida, among other States. Regardless of whether or not States respond to these outbreaks by rolling back phases of reopening or by renewing lockdown orders, a lack of confidence in personal safety could delay the pace of the recovery.

We expect to see a widening range of firms experience slowing activity in places where the virus is growing unchecked. This, however, raises a number of questions. First, will the virus hotspots lead to rolling region-specific slowdowns and closures, or to a virtual nationwide shutdown? If the former, the economy would likely manage to continue to climb forward, albeit at a weak pace of growth. Second, will particular States' mitigation strategies (e.g., test and trace, mask mandates, etc.) lead to a general acceptance of these strategies as a pandemic fighting tool that ultimately ends up turning the tide on the virus? If so, we could see cases decline by the end of the Summer. Third, if coronavirus is brought under greater control in the coming months, will we be prepared for the Fall and Winter seasons when many people are driven back into enclosed spaces? If so, this should further support an economic recovery while providing additional time for the development of effective therapeutics and/or a vaccine.

In our view, the uncertainty surrounding the answers to these questions suggests that there will not be a rapid, "V-shaped" U.S. economic recovery.

From an equity market perspective, this implies that there may be a potential series of sentiment shifts on the horizon. The worst outcome is, of course, a renewed nationwide lockdown. On the other hand, a series of rolling shutdowns would be less damaging, and equity market participants would likely view such a situation as one of "general" improvement and thereby look forward to a full economic recovery on the other side of the pandemic.

As previously discussed, a wildcard in this situation remains the expansiveness of the next fiscal support package. The generally-positive near-term economic data flow could cause legislators to support a less comprehensive fiscal package. In our opinion, such an inclination would be a mistake. Expanded unemployment benefits, in particular, are providing critical support at the base of the economy and is almost certainly the reason that retail sales and consumer confidence are holding up better than might be expected given the magnitude of the pandemic shock. It also allows workers to cover their fixed costs, which includes paying the rent and mortgage, for example. If this base support of the economy suddenly fell over a fiscal cliff at the end of July while the virus prevents a full recovery and the second and third order impacts of the initial shock are still flowing through the economy, a cascade of bankruptcies and foreclosures could cause financial distress. Because the negative consequences are severe, we find it hard to believe that Congress will not find a way to continue to pump money into households' wallets.

Regardless of these uncertainties, it is our view that the U.S. economy has "bottomed."

The U.S. experienced a sudden stop in economic activity due to the coronavirus. As a consequence, there will likely continue to be negative economic data reports in the weeks and months ahead given the severity and swiftness of the transition to the shutdown and the uneven nature of the recovery. This is to be expected. Indeed, current dour economic data are meaningless and backward-looking, in context. This drop in activity is by design as the impacts of social distancing and the various shelter-in-place policies are implemented around the country. Virtually all industries are affected by the drop in consumer demand, changes in staffing patterns and work-from-home policies, knock-on effects across supply chains, and the like.

Unlike the 2008 Financial Crisis (where the initial shock was in the housing industry) or the dotcom bust (where technology companies suffered the most), this downturn in the economy is different than previous declines. This initial shock is primarily concentrated in the consumer services, retailing, travel, leisure, and hospitality industries. Beyond those sectors, other factors impacting the severity of U.S. local or regional economies include demographic issues.

It is clear that the economic fallout currently being experienced is a direct result of the response to the public health situation and global pandemic. Certainly, once the health situation improves, the economy will revive. In fact, the economy can come back earlier than the consensus expects due to the aggressive and extraordinary magnitude of the monetary and fiscal policy response as well as positive and/or successful health outcomes (via increased testing, incident curve flattening, contact tracing mitigation, and therapeutics and vaccines). These measures should restore confidence.

In the long run, a significant short-lived downturn will not "break" the U.S. economy. Ultimately, however, the health of the economy depends upon controlling the virus. Whether or not this economic downturn becomes more severe is therefore contingent upon the actions of scientists, healthcare officials, and citizens in the coming months.

Health is Everything

Extraordinary monetary and fiscal policy measures are necessary, but not sufficient, to return the economy to "normalcy." Ultimately, the way out of this health crisis will depend upon successful mitigation and/or control of the coronavirus.

In that regard, the nascent restart of the U.S. economy has begun to falter as a surge in new coronavirus cases dampens consumer and business activity across a variety of States. After weeks of a pandemic-induced contraction, the economy had started rebounding faster than many economists expected from mid-April into June, as infection rates stabilized or fell across much of the country and the Federal government injected trillions of Dollars into the economy. States began to reopen, shoppers increased their spending, and employers started to hire back furloughed workers.

But there were signs in late May and early June that the pace of recovery was beginning to slow, even before another wave of infections swept through States that had moved too quickly to ease limits on public gatherings without proper mitigation measures. In recent weeks, as that wave intensified, real-time, high-frequency economic data began to show the economy moving backward as rising infection fears spooked consumers.

When the coronavirus pandemic began, the goal of the nationwide lockdown was to "flatten the curve" in order to avoid overwhelming the hospital system. It also afforded an opportunity for developing a robust nationwide mitigation approach that included a system of testing and contact tracing. With enormous effort, the nation came close to achieving some of those goals, but most of that effort was squandered as proper mitigation was not fully embraced on a national basis. Now the curve has come undone, and daily new cases in the U.S. are re-accelerating.

Unfortunately, the road back will be more difficult than it was in March. The U.S. is experiencing multiple outbreaks from coast to coast that will seed more infections in the weeks and months ahead. The hopes that Summer's warm weather would help, that the sacrifices made in March and April would be sufficient, and that a miracle cure would arrive, have all been dashed. As a result, the U.S. faces a crisis unseen in recent generations. If it deepens, the consequences may be additional illness and/or death, along with distress in the educational system and economy.

For a variety of reasons, the U.S. appears to have passed the possibility of containment and is now dealing with mitigation efforts. Although more difficult, mitigation, if properly adopted, can be effective in delaying the onset of widespread community transmission, reducing peak incidence and its impact on public services, and decreasing the overall attack rate. Experts have identified the primary components of a successful mitigation strategy: test, to find out who is sick; trace, to find out who else may be sick; and isolate those who are suffering. Personal habits must accompany this: wearing face masks, hand washing, physical distancing, and avoiding crowds in enclosed spaces. Encouragingly, other countries (e.g., South Korea, Germany) have shown that the implementation of these mitigation measures—although complex and logistically involved—can successfully control the virus. In fact, the economies of these countries have already returned to a state of near-normalcy. It is therefore important to monitor the data from these countries on an ongoing basis in order to learn from their experiences.

It remains unclear, however, to what degree the U.S. will be able to enact similar measures (e.g., widespread testing and contact tracing, masking, etc.) given a variety of logistical, political, and societal constraints.

Clearly, minimizing the size of the outbreak or suppressing its peak at the local or regional level will reduce deaths by providing healthcare facilities with the opportunity to scale up and respond more effectively, thereby slowing down the spread until therapeutics or vaccines become available. However, although a few States have done better than most, the virus map demonstrates that the power of the pandemic is greater than the States alone can bear. In our opinion, the nation still lacks a coordinated and comprehensive Federal response. The coronavirus is relentless and opportunistic—but the response has been patchwork and uneven. Unless that approach is rectified, we could be subjected to an unnecessarily prolonged period of suffering.

Science remains the most powerful tool that we possess to contain the pandemic. The "scientific method" (by definition) requires discipline, rigor, and intellectual honesty. As a result, it is critical to rely on scientific experts—not politically-motivated commentators, "snake oil" salesmen, or people who masquerade as scientists. We are neither epidemiologists nor virologists—and we do not profess any expertise in those areas. We defer to and are reliant upon the research of scientists and healthcare professionals to guide this discussion. Despite the recent setbacks in the U.S., we are optimistic that—given the unprecedented and extraordinary global scientific talent and financial resources being devoted to combating this coronavirus—their efforts will ultimately prove successful via the development of vaccines and/or therapeutics.

In the current absence of these breakthroughs, however, coping with a pandemic remains one of the most complex challenges a society can face. In order to minimize death and damage, leaders and citizens must orchestrate and coordinate a huge array of different resources and tools. Scientists must explore the most advanced frontiers of research, while citizens attend to the least glamorous aspects of personal hygiene. Physical supplies matter—test kits, protective gear—but so do intangibles, such as "flattening the curve" and public trust in official statements. The response must be global, because the virus can spread anywhere. But an effective response also depends heavily on national policies, combined with implementation at the State and local level. Businesses must work with government, and epidemiologists with economists and educators. The imperative for policymakers, therefore, is not a choice between "shutdown" versus "no shutdown"—it is a securing of public confidence and safety. Saving lives demands minute-by-minute attention from healthcare workers and emergency crews, but it also depends upon advance preparation for threats that might not reveal themselves for many years. As a result, this effort requires a comprehensive "whole of nation" response.

In our view, the economy's full potential cannot be realized as long as individuals remain concerned about their safety—and ensuring that safety will only come with measures that control the spread of the pandemic and empower people to preserve their health.

Truth Will Out

We continue to believe that a U.S. economic recovery will not be "V-shaped"—it will be more like a dimmer switch—for reasons discussed in detail in our *Windward Capital 2020 First Quarter Review*. In addition, the three policy "legs" of the stool necessary for supporting the U.S. economy's return to prosperity reasonably quickly include monetary, fiscal, and health strategies. We remain extremely confident in the Fed's monetary policy capabilities and the potential for further actions. Although we are encouraged by the fiscal policy actions undertaken so far, we are somewhat less confident that Congress and the White House will enact further substantive fiscal policy measures soon—in addition to economic stimulus packages after the pandemic wanes. With regard to health policy, we are becoming increasingly concerned that the U.S. has not aggressively enacted the mitigation measures recommended by healthcare experts and successfully implemented by many other countries (i.e., widespread testing and contact tracing/tracking); however, we are optimistic that, at some point, given the unprecedented global scope and scale of the intellectual capital being devoted to defeating the coronavirus, the scientific community will develop effective therapeutics or a vaccine. Until then, an ongoing resurgence of the virus in the coming months remains a potential risk that we will continue to monitor.

In terms of the equity markets, consistent with historical precedence seen in past recoveries, we have noticed that "lower-quality," more speculative types of stocks (e.g., stocks of distressed companies in the Energy and Financial Services sectors, as well as stocks of virtually valueless and literally bankrupt companies) have outperformed in the initial rebound off of the March lows. This is behavior that we also witnessed in 2009 and 2010 after the Financial Crisis. Higher-quality companies—like those held in *Windward*'s portfolios—typically lag to the upside in the initial stages of a market recovery but, eventually, surpass the performance of the more speculative entities as the recovery progresses (for obvious reasons).

As detailed in our *2020 First Quarter Review*, on an overall basis, our investment strategy during the current pandemic crisis remains consistent with the investment strategy that we have followed in the past—essentially: to invest in high-quality businesses at the right valuations and hold them for as long as they remain high-quality businesses. In fact, the competitive strengths of these businesses could, perversely, *increase* as a result of this pandemic as lower-quality businesses fail to survive. As a result, this dynamic may drive the valuations of companies held in *Windward*'s portfolios dramatically higher than previously seen.

Similarly, crises usually accelerate real, pre-existing trends in society and technology—they do not create or destroy them. Subject to constraints, therefore, we believe that there is a deep underlying propensity for human habits to persist over time, and that, human nature being what it is, individuals will have a strong inclination to return to their former way of life as soon as reasonably practicable. As a result, we are not making changes in *Windward*'s strategies to invest in those companies that may be deriving benefits from near-term coronavirus trends (e.g., telecommuting, media streaming, etc.) because we believe that those trends will not persist. In addition, we are not investing in any speculative Healthcare companies involved in the potential discovery of a therapeutic/vaccine because we believe that the benefit to be derived from this discovery will primarily accrue to the existing businesses held in *Windward*'s portfolios. We continue to believe that the long-term secular investment themes that we have previously identified remain intact.

If the U.S. economy reaches its nadir during the next couple of Quarters, then the most important issue for investors is not whether the stock market has "bottomed," but whether the recent equity market rally is sustainable. In other words, has the equity market correctly forecasted the timing of an economic recovery? If so, then the market could continue to advance. If not, then the market could re-test its previous lows.

Although the market is often prescient, its forecasting ability will be challenged due to the unusual nature of this downturn and the characteristics of financial market participants. In our opinion, attention should not be focused on companies' earnings outlooks for the remainder of the year. It is obvious and well understood that there is tremendous uncertainty regarding the corporate earnings outlook, and that the variance in forecasts is much greater than normal. This is due, in part, to the extremely high degree of uncertainty about the economic recovery because of the unusual nature of the drivers of this downturn.

Offsetting this uncertainty is the positive impact of unprecedented and extraordinary fiscal and monetary policy measures.

We believe that, at the March lows, the oversold nature of the markets served to highlight an extremely compelling risk-reward tradeoff, and helped to neutralize the overwhelming sense of negativity that prevailed with respect to the economic and earnings outlook. This sentiment shift should continue to drive the accumulation of stocks and help slow the magnitude, and speed, of future declines—and lend weight to rally efforts.

In our opinion, there are several factors relating to investor psychology that, qualitatively, should serve to support the market in the near-term:

- There seems to be less focus on trying to pick the absolute bottom for the market and more conviction in initiating, or adding to, core positions at lower cost bases.
- The violence of the recent rally reminded institutional investors how holding excessive cash can destroy performance when there is a shift in sentiment.
- There is a sense that it is less easy now to short stocks and be successful at it for an extended period of time.
- There appears to be a willingness to look past 2020 and into 2021, when the coronavirus mitigation efforts should, if properly enacted, produce more successes, the economy will be "reopened," and corporate earnings growth will resume.

In terms of current overall global financial stability:

- Risk asset prices have rebounded following the precipitous fall early in the year, while benchmark interest rates have declined, leading to an overall easing of financial conditions.
- Swift and bold actions by central banks aimed at addressing severe market stress have boosted market sentiment, including in emerging markets, where asset purchases have been deployed in a number of countries for the first time, helping bring about the easing in financial conditions.
- Amid huge uncertainties, a disconnect between financial markets and the evolution of the real economy is starting to emerge—a vulnerability that could pose a threat to the recovery should investor risk appetite fade.
- Other financial system vulnerabilities may be revealed by the coronavirus pandemic. For example, high levels of debt may become unmanageable for some borrowers, and the losses resulting from insolvencies could test bank resilience in some countries.
- Some emerging and frontier market economies are facing refinancing risks, and market access has dried up for some countries.
- Fiscal and monetary policymakers, while continuing to support the real economy, need to closely monitor and remain vigilant regarding potential financial vulnerabilities in order to safeguard current financial stability.

As a result of these issues, the direction of the stock market will not be straight up from here, and we expect a volatile backdrop over the balance of the year. Serious fundamental economic and structural financial issues need to be resolved—and this will take time. More importantly, headway must be made on coronavirus mitigation—particularly in the United States.

Although the long-term societal and economic implications of the pandemic, if any, remain unclear, specific companies are taking advantage of the changes in their operating environment to create long-run opportunities for their businesses. Those leading companies whose superior business models are best positioned to withstand the current shocks to the system will emerge stronger as the economy recovers.

Our goal, as always, is to identify those companies and invest in them for your *Windward* portfolio. Our risk averse approach to managing your investments causes us to take a more measured and unemotional view of extremes in bullish or bearish sentiment and find ways to outperform the market with less volatility by focusing on specific companies' fundamentals. Our results over the course of various market cycles demonstrate our success.

We appreciate your support as we continue to navigate through this challenging period and invite you to call us should you have any questions or concerns.

Sources:

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World Health Organization

HAS YOUR FINANCIAL CONDITION CHANGED?

Portfolio decisions are based on an individual's income requirements, tax bracket, time to retirement, risk tolerance, and other characteristics. If your financial condition has changed, or is about to change, please call us. We strive to prepare a portfolio that meets each investor's objectives, and the more information we have, the better the job we can do. If you have any questions regarding your portfolio, your asset allocation, or any investment within your portfolio, please let us know.

THE FUTURE IS NOW

As you may know, we post a weekly commentary on our website every Friday afternoon. We only mail some of these comments out when markets are particularly unsettled. Please be aware that these notes will continue to be available on-line, and we want to encourage you to sign up to receive a password for access to our secure web-site.

Our website provides the capability for clients to review their portfolios, their year-to-date realized capital gains, and income and expenses. Clients also have access to our weekend market comments. These reports are updated after 8:00pm each Friday, and are available to clients who have requested access. Clients may also request that their accountants and/or attorneys have access to the same information. We hope you will visit us at www.windwardcapital.com.

If you have interest in these capabilities, or if you would like to receive a copy of our Form ADV Part II or Form CRS free of charge, please email Steve Pene at: spene@windwardcapital.com, or call Mr. Pene at our main number: (310) 893-3000.

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