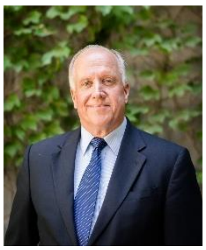
fortress
ASSET MANAGEMENT

2020 – 1st Quarter Review & Outlook

Economic and Investment Review



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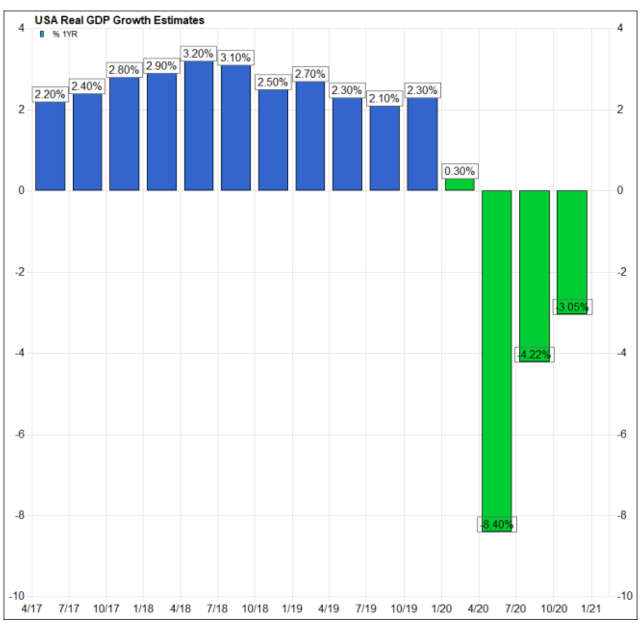
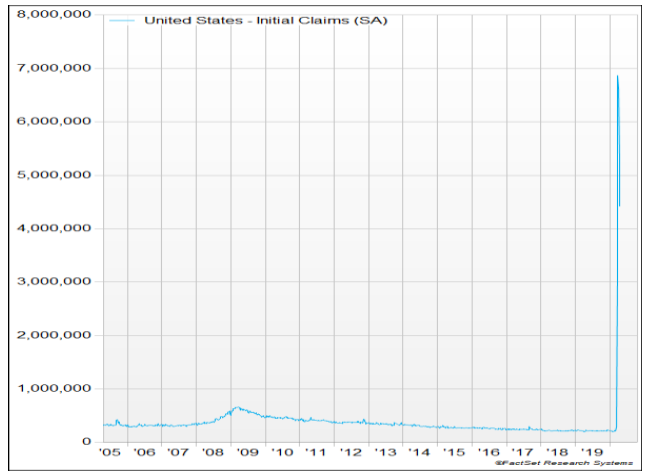
Chief Investment Officer

Economic Growth: Economic impacts of the COVID-19 Coronavirus are devastating at least for the short run. The consensus estimate for the second quarter GDP is -8.4%. However, the estimate is likely to be revised down further to between -10% and -20% and could be the worst decline in GDP growth in history.



Source: FactSet

Goldman Sachs forecasts 2020 GDP to fall -5.7% and rebound in 2021 by 5.5%. Unemployment is likely to spike at post World War II highs. JPMorgan forecasts that unemployment is likely to go up to about 13-14% in the second quarter. Over 26 million jobless claims have been filed over a five-week period through April 17. Initial claims began to spike on the March 20, 2020 report.



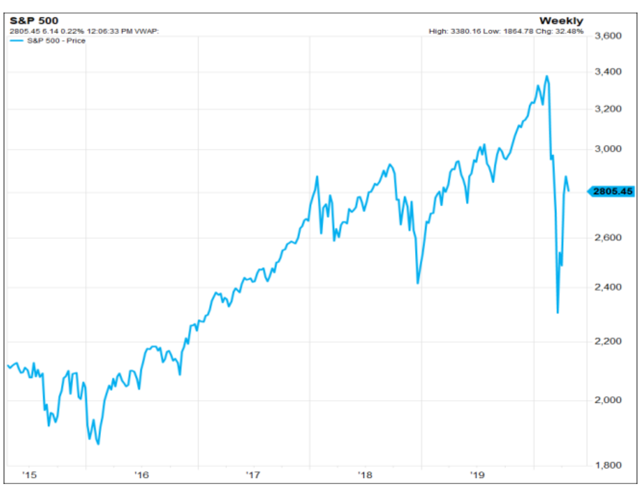
The Fed's monetary policy response has been massive and extremely active. The Fed will do what it takes to maintain liquidity and promote credit market stability. The global monetary response is immense and surpasses the response from the global financial crisis in 2008-09. Globally, 94% of central banks have cut rates in the last six months and are buying bonds to create liquidity and stability. Interest rates are at record low levels. The quantity of dollars being pumped into the economy could be inflationary in the long run but not likely in the short run. The current demand for goods and services has been significantly reduced as result of the virus and actions taken to contain it.

The government's fiscal policy response focuses primarily on the Coronavirus, Aid, Relief and Economic Security (CARES) Act. The CARES Act provides over $2 trillion in relief from public health and economic impacts of COVID-19. The Act is an attempt to keep the economy in suspended animation until there is a vaccine or at least until there are effective therapeutics available. Unemployment insurance provisions now include an additional $600 per week payment to each recipient for up to four months through June 30. The Paycheck Protection Program is meant to help small businesses impacted by the pandemic and economic downturn to make payroll and cover other expenses. Stimulus checks for individual taxpayers are being deposited and delivered to help them through the coronavirus crisis. The CARES Act represents about 10.8% of GDP. As necessary as all the government spending may be in the short-term, it will more than likely result in higher taxes in the long-term.

Dr. David Kelly – JPMorgan Chief Global Strategist - gives coronavirus related economic timeline indicating a big fall in Q2, a smaller fall in Q3 and a boom and party by Q4. On a longer-term basis, he terms 2020 as the year of the virus, 2021 as the year of recovery and 2022 as the year that the economy is back on track. He also points out that a recession isn't forever and that even in a worst-case scenario, in which an economic rebound has to wait for a safe and effective vaccine, 2021 should be the first year of a strong recovery in both economic growth and corporate earnings. Whenever we do emerge from stay-at-home status there will likely be pent up demand for cars, vacations, various forms of entertainment and restaurant meals.

Equity Markets

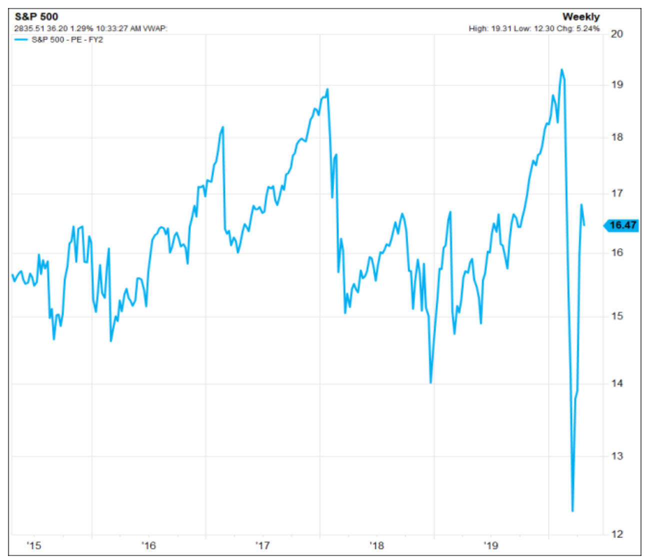
The high point of the U.S. equity market (as measured by the S&P 500) was reached on February 20, 2020 at 3373.



Source: FactSet

The most recent low point was reached on March 23, 2020 at 2237. The decline from the high point to the low point was 33.7% and was the fastest 30%+ decline in history.

The consensus estimate for 2020 S&P 500 earnings is currently 137.85. The 2020 estimate has declined significantly since February and the global spread of COVID-19. The estimate indicates a decline in earnings of 14.9% from 2019. If 14.9% is the actual decline for the quarter, it will mark the largest year-over-year decline in earnings reported by the index since Q3 2009. Investors are still holding out hope that there will be a strong rebound in 2021. The market is a forward-looking mechanism and will look forward to a rebound in 2021. The consensus estimate for 2021 earnings per share is 169.94. Based on these EPS numbers the market is trading at 20.5X 2020 EPS and 16.5X 2021 EPS.



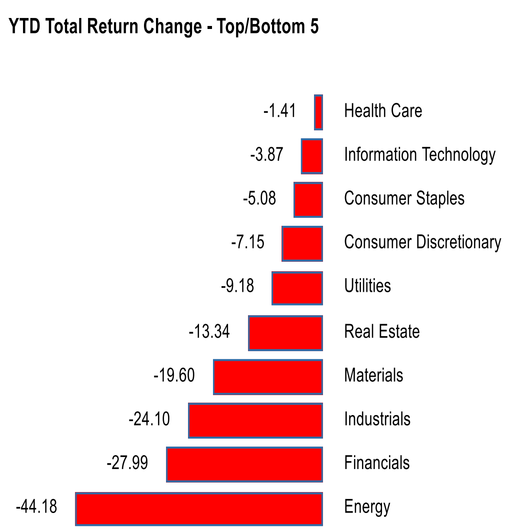
Source: FactSet

The 12-month consensus target price for the S&P 500 is 3164. This target price indicates a 12% upside from current levels. The price/earnings multiple required to reach the target price is 22.5X the 2020 EPS estimate and 18.4X the 2021 EPS estimate.

Earnings estimates for the S&P 500 are mostly guestimates at this point and they vary greatly. Raymond James is forecasting $130 for 2020 and $160 for 2021. These earnings numbers put P/E multiples at 21.7x for 2020 and 17.7x for 2021. Goldman Sachs is forecasting $110 for 2020 and $170 for 2021. These Goldman Sachs earnings numbers put P/E multiples at 25.7x for 2020 and 16.6x for 2021. Goldman Sachs forecasts that the S&P 500 will decline to 2000 before reaching 3100 in 12 months.

Larry Adam, Chief Investment Officer – Raymond James, stated "In assessing previous recessionary bear markets, it would be very unusual for the S&P 500 to just glide back to the previous highs. On the other hand, it is very common for exhaustive selloffs to be followed by sharp bounces, and then a 'grind it out' pattern with potential 'retests' as more information surrounding the issues of the day are gained."

The most affected sectors, which include Energy, Financials, Industrials, Materials, Real Estate and Consumer Discretionary (excluding Internet & Direct Marketing), account for about 41% of the capitalized value of the S&P500. The other 59% of market cap comes from tech, health care, utilities, communications, consumer staples and internet retailing, all of which should be less impacted by the downturn.



Source: FactSet

It will likely take 2-3 years to get back to the peak of the U.S. equity market. However, equities are still one of the main wealth generators and we must remember that owning stocks should be considered to be a long-term endeavor. The average returns required to get back to peak levels over the next 2-3 years still exceed potential fixed income returns. In order to get back to peak levels in 2 years, equity returns would have to annualize 10.1 percent and 6.6 percent for three years.

Stock valuations should benefit from several long-term trends. The issuance of stock, or the supply of shares has been declining at the same time the demand for stock has been increasing. The need for income in a low interest rate environment will drive investors to dividend paying stocks. The average dividend yield for S&P 500 companies is 2.12% compared with the yield to maturity for the 10-year U.S. Treasury of 0.61%. However, there are a number of companies reducing or suspending their dividends. Goldman Sachs expects dividend suspensions, cuts, and eliminations will result in S&P 500 dividends per share falling by 25% vs. 2019 levels. Companies will also preserve cash by slashing capital expenditures and share buybacks. Because of these changes, it becomes even more important to actively select companies with strong balance sheets. It is also important to search for companies that can weather a sharp recession and social distancing and companies that will succeed in a recovery.

It may be tempting to try to time the market because of the extreme volatility that we have been experiencing. However, without a crystal ball it can be a very hazardous pursuit. More often than not timing hurts returns. Several reasons for this are: 1) the best and worst days tend to be clustered and 2) it is very hard to call or time a bottom.

There are very few appealing alternatives to stocks with Treasury yields at historically low levels and corporate bonds threatened by the recession. Every recession is different; however, equity markets can and typically do rebound quicker than overall economies. The massive amount of stimulus being applied to the economy will have a positive impact on the equity market.

The S&P 500 was down -19.6% for the quarter and was down -7.0% for 12 months through March 31, 2020.

Mid Cap stocks were down -29.7% for the quarter and -22.5% for 12 months. Small Cap stocks declined -32.6% in the first quarter and -25.9% for 12 months.

Developed international stocks, as represented by the MSCI EFA index, were down -23.1% for the quarter and -14.9 for 12 months. The MSCI Emerging Markets index was down -24.4% in the first quarter and -18.9% for 12 months. Growth stocks significantly outpaced value stocks for the quarter and year.

2020 Q1 Returns				
EQUITY	**Q1 2020**	**YTD 3.31.20**	**1 Year 3.31.20**	**3 Years Annualized**
S&P 500	-19.60	-19.60	-6.98	5.10
S&P 500 Value	-25.34	-25.34	-12.20	0.05
S&P 500 Growth	-14.50	-14.50	-2.47	9.59
Dow Jones Ind Avg	-20.46	-20.46	-8.49	4.35
S&P Mid Cap 400	-29.70	-29.70	-22.50	-4.09
S&P Small Cap 600	-32.64	-32.64	-25.89	0.45
MSCI EAFE	-23.51	-23.51	-14.92	-1.97
MSCI Emerging Mkts	-24.40	-24.40	-18.91	-0.90

Source: FactSet

Our 12-month forecast for the S&P 500 has been adjusted down to 3000, indicating an upside of about 7% from current levels.

Fixed Income Markets

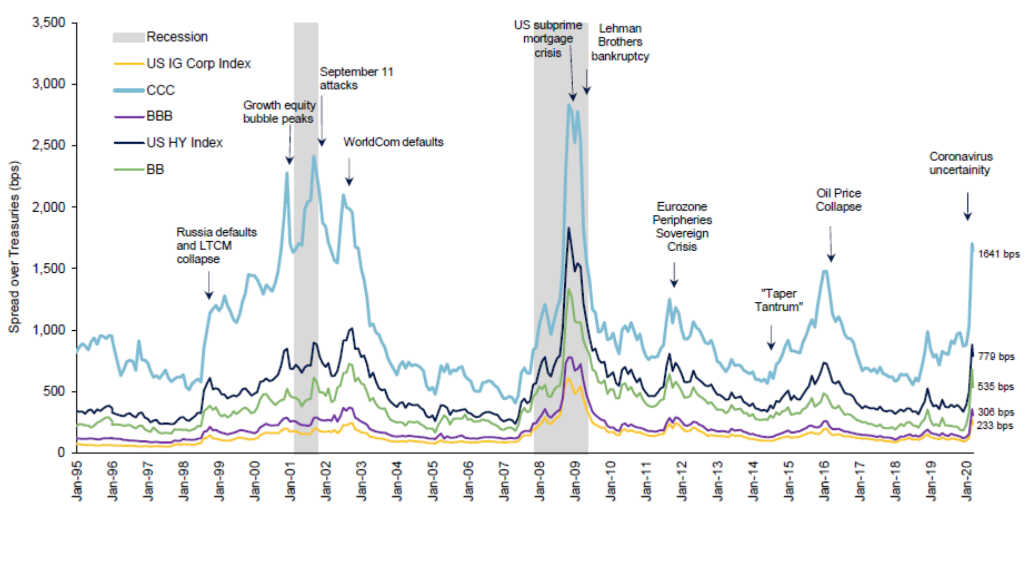
Before Fed action taken to improve liquidity and stability, corporate spreads relative to U.S. Treasuries widened dramatically.

Spreads for investment grade securities traded at three standard deviations above the mean and high yield securities at two standard deviations above the mean. The investment grade spread was only exceeded by the Financial Crisis and the Great Depression. Emerging Market debt also moved to spreads not seen since the financial crisis.

Spreads have narrowed significantly from their widest levels in the third week of March but remain wider than yearly averages. If the Coronavirus and economic expectations improve, spreads will narrow further and of course the opposite is true for negative news and expectations. However, there is significant backstop being created by the Fed. There is concern that there will be credit downgrades in the corporate market and particularly in the lowest level of investment grade. Some company's credit ratings will be downgraded from investment grade to high yield. If there is significant downward movement, the high yield market would not be able to absorb it smoothly. It is estimated that 8-12% of high yield debt could default before the end of the year compared with 1-2% annual defaults on a historical basis.

Yields on municipal bonds also spiked up with concern for the ability of states and local entities to generate adequate tax and revenue funds. However, yields have retreated somewhat in response to Fed announcements and additional federal aid to state and local governments.

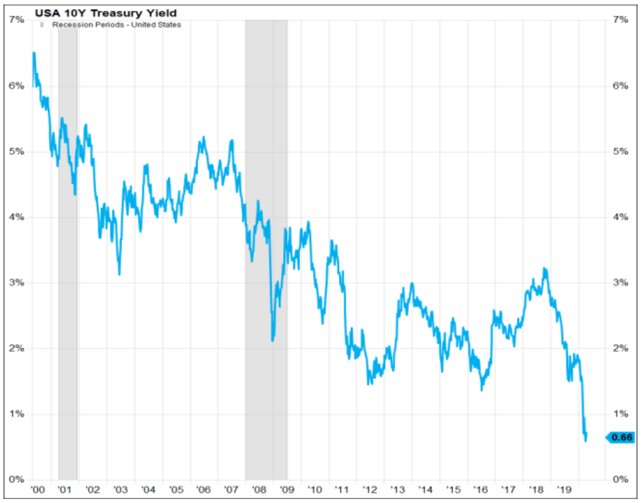
Return for fixed income investments in 2020 will likely be largely confined to income generated by coupon payments adjusted for premiums or



Source: Barclays, GSAM. As of 09-Apr-2020.

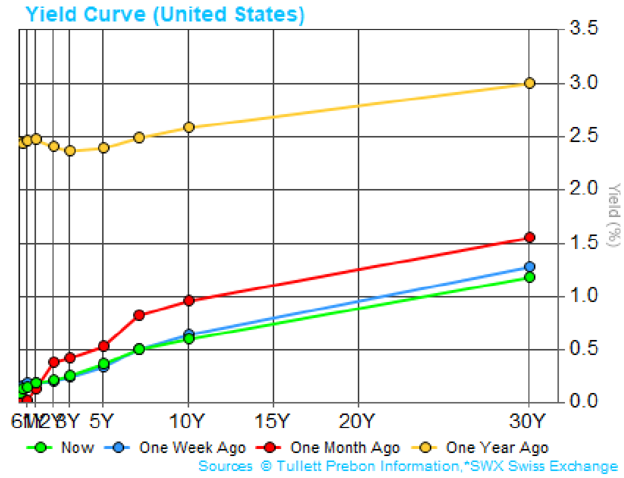
discounts. An allocation to fixed income remains important, not just for income, but also as a tool to manage investment portfolio volatility.

The 10-year U.S. Treasury yield has been driven to historically low levels due to demand for risk protection.



Source: FactSet

The U.S. Treasury Yield Curve shifted down over the past month as investors sought shelter from equity and credit concerns related to the developing recession.



Source: FactSet

The Bloomberg Barclays US Aggregate Bond Index was up 3.15% in the first quarter and up 8.80% for one year through March 31, 2020. Municipal bonds, as measured by the S&P National Municipal Bond Index, were down -0.44% for the quarter and were up 4.05% for the prior 12 months. The Markit iBoxx US Dollar High Yield Index declined -11.99% and -6.14 for 12 months. High yield bonds have a higher correlation to equities than other fixed income segments.

Disclosures

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