GREENLEAF TRUST

Perspectives

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

I think we can all agree that the crisis we find ourselves in does not come with a step-by-step instruction book of solutions. The way out is complicated, includes self-sacrifice, social order of the highest degree, individual and societal self-discipline and the abandonment of political self-interests. You may observe this list of requirements and say, "good luck" with that.

We can all observe the very best and very worst examples of the execution of those requirements every day. We are Americans. We do not need to be thirsty to drink or hungry to eat. If we observe failure, our response is almost always to seek the cause of that failure and to place blame on the culprits. We often search for the blame in leaders and, in doing so, demand that solutions be found quickly and remedies developed to cure the situation.

COVID-19 is our villain and is neither a person, government nor corporate entity but rather a disease that is highly contagious and has elements to it that make it very difficult to deal with. What we have learned thus far is that consistent societal self-discipline seems to be the biggest contribution to slowing the spread of the infection. Things we thought we knew at the beginning of the pandemic are turning out not to be as true as we first believed. Deaths among younger and seemingly healthy patients reveal that age alone is not an insulator against mortality. The smug assumptions that we embraced about our country's abilities to battle the disease more effectively than other countries have given way to the realities of lack of preparation, equipment, materials, protocols and national directives resulting in wide disparities of success at slowing infection rates among states, counties and municipalities.

Globalization presents many opportunities as well as challenges. As mobility accelerates, so too does the reality of global growth of health care challenges among all of the populations of the world. What infects in one country will infect in another. It is precisely one of the foundational benefits of the World Health Organization (WHO), whose mission it is to "Improve people's lives, reduce the burden of disease and poverty and to provide access to health care for all."

WHO was created in 1948 by the United Nations with the knowledge

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Commentary, continued

and perspective that increasing globalization would break down many barriers, one of which would be the increased global transmission of disease. WHO is a tremendous resource for medical science and a foundational partner with global Centers for Disease Control to help create research pathways to understand viruses and the respective cellular structures of those viruses no matter where they exist. It is this essential research that allows for the cycle of disease eradication to begin. With each disease identification, the scientific community begins the cycle of understanding the pathogen of the virus so that they can then create the antigen that will ultimately provide immunity to the pathogen (virus) through vaccines.

This cycle of research often takes years — not days, weeks or months. Currently, we are early in the research cycle for the COVID-19 virus. The research activity is amazingly active, if not frantic, and includes many possibilities that all have to be tested prior to being made available on the coronavirus battlefield. In normal drug discovery processes, new or novel drug therapies have to first prove to be safe. In other words, the proposed cure that is being injected does not kill the patient along with the disease. Secondly, the drug testing has to prove therapeutic efficacy, which is proof that the drug works. These tests are normally conducted in phases enrolling hundreds and sometimes thousands of patients, whose progress or lack thereof needs to be monitored and evaluated over months, not days.

> "This cycle of [vaccine] research often takes years — not days, weeks or months. Currently we are early in the research cycle for the COVID-19 virus."

Our CDC, National Institute of Health and the World Health Organization are all working with the pharmaceutical industry on novel disease research on a daily basis for many global virus pathogens of which COVID-19 is but one of them. It is good to have a realistic understanding of where we are with respect to vaccination because in its absence we will by necessity be reliant upon identification of those infected and proper treatment protocols to effectively cure them. Simultaneously, all of the anecdotal information underscores the benefits of social distancing, hand washing and quarantining those symptomatic and those who have been in close contact with any active case.

The duration required of the above disciplines is not knowable because we are early in the process calendar. What will be the indicators that the adherence to the identified protocols are working? 1.) When the number of new cases identified is less as a percentage of those tested than it was previously. Do not be fooled by aggregate numbers. It makes sense that more people will be tested as new testing becomes wide spread. The key will be that the percentage of tested individuals testing positively is being reduced on a daily basis. 2.) Are active cases slowing and discharged cases growing? Currently, the condition is the reverse. 3.) Are ICU admissions declining on a daily basis? To be clear, these indicators have to be replicated consistently and have a trend line going in the right direction for weeks, not days.

The facts must determine progress, not artificial timelines. It would make no sense to abandon the required social disciplines to defeat the spread of COVID-19 prior to the evidence that we are making progress.

The economic consequences of our collective will as a nation to be self-disciplined and practice the required protocols will be staggering and it makes sense to understand that reality. On a seasonally adjusted basis, 3,283,000 people filed for an initial unemployment claim over the past two weeks representing 2.1% of our current workforce. The March unemployment report will be misleading because it will not include all of the new unemployment claims. We must also recognize that these claims do not include self-employed or those working part time. Where the unemployment rate will top out is not currently knowable; however, if we were to experience the depth of the 2008 recession loss of jobs we could see a return to the 10% unemployment level yet in 2020.

“The economic consequences of our collective will as a nation to be self-disciplined and practice the required protocols will be staggering and it makes sense to understand that reality.”

As we know, the consumer drives GDP growth. Prior to the 20th of February, the consumer was employed, earning wage increases and confident. Current consumer sentiment, as measured by the University of Michigan survey, reveals a near 30-point decline in consumer confidence in the last sixty days. Economic recovery will not come before disease control is evidenced and confidence begins to be restored. Restrictive controls on international and domestic travel, lodging, as well as dining have economic consequences, all of them negative. It will be some time before the evidence required on disease control allows for those negatives to be flipped to a positive multiplier.

Government’s role has been to step in place of the consumer. Congress passed, and the President signed, the 2.1 trillion dollar CARES Act representing nearly 10% of the projected 2020 GDP forecast. Philosophically, the aid package was designed to get cash to consumers through a variety of cash payments, tax relief structures and small business loan programs. Additionally, several industries were targeted that have been devastated by the coronavirus restriction protocols. The speed of the legislation was important and will have a dampening impact on the near-term economic fallout.

The recovery from the 2008 recession was incremental, averaging 2.2% annually for ten consecutive years, not typical of a V-shaped recovery normally associated with usual business cycle recessions. There are assumptions to forecasting the economic recovery of the coronavirus that are simply not visible at this time. If the assumptions of disease control within a reasonably short time similar to China’s experience pan out

Commentary, continued

and include only modest reoccurrence rates, then the probability of a late second-half of 2020 recovery have some validity. The fact is that we are in uncharted waters and we are early in the protocol adherence process.

What is true is that we are in unsettling times and the difficult path is still very much before us. There is much to be learned and we will learn and apply it. We are discovering heroes among us who are willingly serving those in the most desperate circumstances. Their stories are rightfully being told. Communities are coming together in ways not experienced since World War II. Students across the entire bandwidth of education are learning remotely. Employees of small and large corporations are adjusting to doing business in a way they have never done before. Families are together and discovering one another in ways that they had not experienced in their entire lives. Social networking support and care groups have developed across all platforms and content forums. Husbands and wives and significant others are walking together and those distantly separated are Skyping to maintain and build relationships. Virtual choirs have evidenced themselves, as have virtual team and staff meetings. During every aspect of this fight we are in, we are learning. We cannot put a dollar amount on that discovery, but it is real and important.

"We are discovering heroes among us who are willingly serving those in the most desperate circumstances."

I am honored and humbled to have witnessed the actions of the Greenleaf Trust team during these past three weeks. Their collective wisdom, innovation and collaboration has truly been remarkable as they take great care of our clients, their own families and themselves. As we say and believe at Greenleaf Trust, "We are with you and in every measure give thanks to you." We will prevail.

Michael F. Odar, CFA®
President

Separately Connected

Each year, starting in September, we purposely engage our entire company in discussion about our long-term strategic plan. Specifically, we ask and answer the question – what do we need to do next year to take one step forward in being top of mind? Because our culture is so important to us, each year it is a strategic initiative of ours to protect and nurture. As we prepared for 2020, we talked a lot about staying connected as a team considering we are growing, adding new teammates and new locations. Connectivity became a strategic tactic under our Workplace Culture strategic initiative in 2020. Needless to say, that as I began to contemplate the current pandemic's impact on our 2020 strategic plan, I began to worry about connectivity. How could we continue to build on our connectedness when we were going to be working from home?

What we have experienced over the last few weeks is the exact opposite from our initial fears about staying connected. Our connectivity to each other has actually grown and strengthened in some amazing ways over the last few weeks as the vast majority of our team is working from home. Our long-standing Communication and Culture Workgroup has risen to the challenge and is inspiring other teammates to implement their own creative ideas to stay connected.

Communication and social interactions are critical to connectivity. Early in March, we began daily morning video conference briefings with an extended version of our Executive Leadership Team to ensure necessary communication was reaching everyone in the company as pandemic concerns ramped up. In turn, every division leader and manager started having similar meetings with their teams periodically throughout the week. These types of scheduled virtual meetings involving teammates from all of our locations have helped to make sure that everyone is on the same page, collaboration is occurring, and important social interactions are occurring. We are currently averaging nearly 400 video conference calls per day among our teammates.

We have found that social interactions don't always need to be formal or serious to be important. We know this from our culture during normal times, and appreciate them so much more when times are not so normal. Just seeing the expression on someone's face can make a big difference and video conferencing has allowed us to visually interact with anyone in the company. Besides meetings, teammates are using this technology to get together for coffee at the beginning of the day, or a beverage at the end of a long week. We are using our virtual capabilities to host a company-wide trivia night and social media platforms are allowing teammates to share daily activities and participate in a wellness challenge. We have heard from offices outside our main Kalamazoo office that the teammates in those offices have never felt more connected.

For well-constructed teams, working towards a goal together brings them closer. Now more than ever, we are committed to our clients, colleagues and communities. Special efforts have been made by everyone on our team. Our connection makes us stronger and we are all in this together.

"Our connectivity to each other has actually grown and strengthened in some amazing ways over the last few weeks as the vast majority of our team is working from home."

Nicholas A. Juhle, CFA®
Senior Vice President
Director of Research

COVID-19: The Disease, the Economy, and the Market

Please note: Throughout this article, we focus on the economic and market implications of the coronavirus, but we also acknowledge the significant humanitarian impact of the outbreak. Our hearts go out to those who have been directly affected and we wish you and your loved ones safety and health during this difficult time.

What a difference three months can make. Starting the year, the US economy was on solid footing and the notion that a global pandemic would bring the world to a screeching halt wasn't even on the radar screen. Yet, here we are. We believe there are three main components to the situation we are in... the disease itself, the economic impact of containment efforts and the market's response. We share our thoughts on each below.

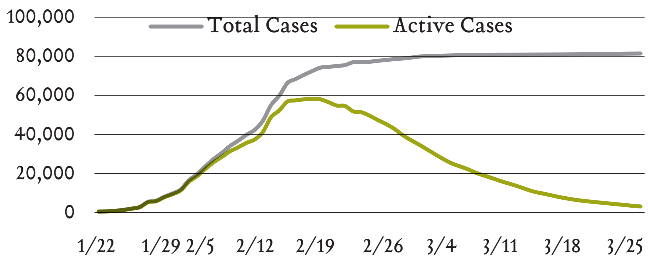
"We believe there are three main components to the situation we are in... the disease itself, the economic impact of containment efforts, and the market's response."

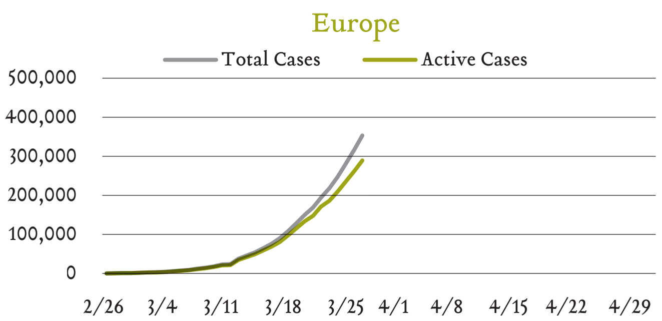
The Disease Itself

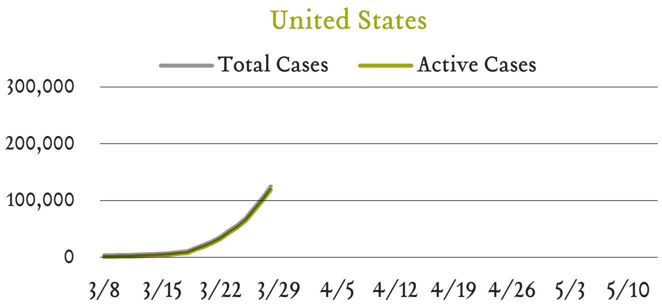
As of this writing, there are nearly 1,000,000 COVID-19 cases and more than 50,000 deaths confirmed in over 180 countries around the world. The unfortunate reality is that the number of cases and deaths will continue to climb higher in the days and weeks ahead. COVID-19 was originally identified in mainland China on December 30, 2019 and the country surpassed 500 cases by January 22. The virus then migrated into Europe, which surpassed 500 cases by February 26, and the United States, which surpassed 500 cases on March 8.

While an imperfect comparison, we believe China's experience provides some perspective on what lies ahead in Europe and the United States. In the accompanying charts, we use the 500 case threshold as a common point in each region's outbreak. If we can draw any inferences from China's experience, we can do so with the knowledge that Europe is four to five weeks behind China and the United States is tracking about two to three weeks behind Europe.

Mainland China







We have been closely monitoring "active" cases (total confirmed cases less deaths and recoveries). We believe active cases are most relevant because each active case represents risk in the form of an opportunity to further spread the disease. Active cases in mainland China peaked around 60,000 on February 17 and steadily declined to fewer than 2,000 today. The situation has stabilized in China, though the risk of resurgence remains high.

In Europe, active cases continue to grow, though we are seeing early signs of stabilization as the gap between total cases and active cases widens. We are paying close attention to Italy — the original European epicenter — where new daily case confirmations have started to slow and active cases may be nearing a peak. Continuation of this trend would bode well for stabilization in broader Europe in coming weeks.

The US is earlier in the process, so most confirmed cases remain active today. Active cases will continue to trend higher in the near term, with potential to peak in late April if increasingly austere containment efforts are effective. We note that the lack of test kits available to date likely means that total cases and active cases are meaningfully understated. As more testing capacity becomes available, we could see a spike in confirmed cases, which would extend our projected timelines.

> "We note that the lack of test kits available to date likely means that total cases and active cases are meaningfully understated."

Economic Impact of Containment Efforts

Efforts to limit the humanitarian toll of COVID-19 come at substantial economic cost and the worst is yet to come. You don't have to look far to see manifestation of containment measures. The White House has advised all Americans to practice social distancing through the end of April and

COVID-19: The Disease, the Economy, and the Market, continued

more than 35 state governors have taken even stronger action by issuing stay-at-home or shelter-in-place orders. Travel is extremely restricted and a walk down Main Street (if you were to take one) would reveal an economy that is largely closed for business. As a result, near-real-time economic indicators like jobless claims and consumer sentiment metrics have started to confirm what we already knew to expect.

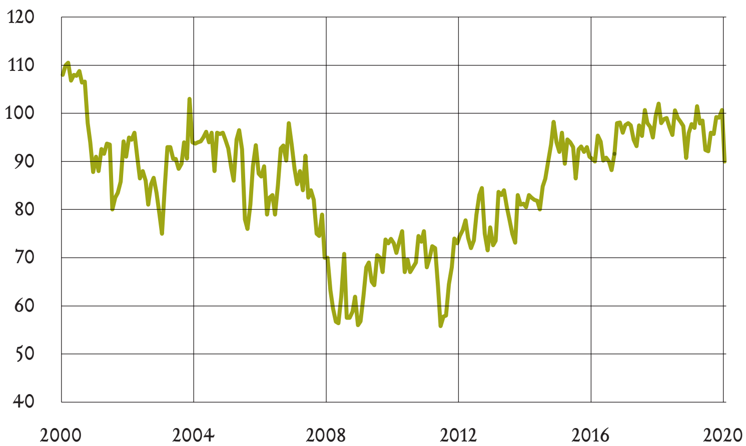
The shutdown of large portions of the economy is driving the largest layoff of American workers ever in a very short period of time. In the last two weeks, more than 10 million Americans have filed for unemployment benefits in the most sudden and severe shock to ever hit the labor market. We expect weekly jobless claims to remain extremely elevated in coming weeks before eventually trending lower. As a result, the US unemployment rate (measured monthly) will likely spike into the upper single or low double digits in March (released April 3) or April (released May 8) from a 50-year low of 3.5% in February.

"We expect weekly jobless claims to remain extremely elevated in coming weeks before eventually trending lower."

Intial Jobless Claims

In addition, US consumer sentiment (University of Michigan Consumer Sentiment Index) eroded significantly in March as mounting COVID-19 cases and business closures elevated concerns about the economy. The month-end reading (89.1) compared to a mid-march preliminary of 95.9, and a February reading of 101.0. The absolute number is less important than the relative change in the number — we want to know if people are feeling better or feeling worse — and they are clearly feeling much worse than they were a month ago. We anticipate a continued precipitous decline in consumer sentiment in coming weeks as unemployment rises.

U of M Consumer Sentiment



Most of the economic fallout is expected to show up in the second quarter of this year. Economists who updated their forecasts within the last week expect a second quarter GDP contraction of 13.5% with individual estimates ranging from a decline of 7% to a decline of 34%. For perspective, the economy contracted 8.4% in the fourth quarter of 2008. Consensus expectations also call for a return to growth beginning in the back half of the year netting a full year economic contraction of about 1% compared to 2.3% growth in 2019. We believe these expectations are reasonable, though significant uncertainties remain.

"... we expect volatility to remain elevated and believe it wouldn't take much for stocks to revisit recent lows in the short term."

The Market's Response

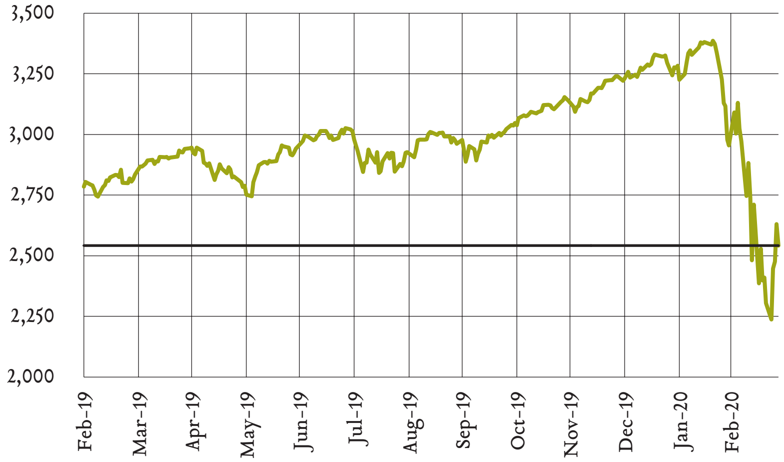
Equity markets are forward looking by nature. The S&P 500 fell 34% from a late February high of $3,386 not based on what had happened, but in anticipation of what was expected to happen. This sharp drawdown occurred as investors came to grips with the economic realities described above. At this point, the market is well aware that COVID-19 cases will increase before declining, that unemployment will spike and that GDP is set to contract significantly in the second quarter. The question, of course, is whether the market has over- or underestimated how bad things will get.

As of this writing, US stocks had bounced 10% from the March 23 low, but remained 27% below the late February peak. Investors have started to look beyond the medical and economic crises present today in anticipation of a recovery later this year, supported by monetary and fiscal stimulus in the meantime. From our perspective, the market may be leaning a little too optimistic given heightened uncertainty and numerous opportunities for the narrative to deteriorate. For these reasons, we expect volatility to remain elevated and believe it wouldn't take much for stocks to revisit

COVID-19: The Disease, the Economy, and the Market, continued

recent lows in the short term. In the intermediate to longer term, we think stocks will reward disciplined investors.

S&P 500 Price Trailing Twelve Months



"… maintaining discipline during periods of uncertainty is the most reliable course for growing and preserving wealth."

Conclusion

Remember, the most important investment decision you will ever make occurs when you and your advisor determine the appropriate high-level asset allocation for your portfolio (simply the ratio between stocks, bonds, alternative assets and cash). That decision is based on a deep understanding of your unique goals and circumstances, and your ability and willingness to take risk. The short term can be exceedingly unpredictable, but over the long term we know to expect bumps along the way (some larger than others). Don't lose sight of the fact that your financial plan, and the investment portfolio supporting that plan, were developed with a long-term lens and maintaining discipline during periods of uncertainty is the most reliable course for growing and preserving wealth. Please contact any member of our team if you have questions.

Sources:
Bloomberg LP
World Health Organization (WHO) Daily Situation Reports
Johns Hopkins University & Medicine Coronavirus Resource Center
National Health Commission for the People's Republic of China

Municipal and Corporate Bond Market Updates

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Investment Strategist
Senior Fixed Income Analyst

There have been disruptive flows in fixed income markets in March. Investors are concerned about the state of the bond markets. This article will give our current thinking on the municipal and corporate bond markets.

Municipal Bonds – Disruptive Outflows, Some Opportunities, & Pockets of Credit Concern

Municipal bonds are generally considered lower-risk investments and are used for stability and tax-advantaged income in client portfolios. However, in March, there has been unprecedented volatility in municipal bond prices. We believe that (1) the primary factor of this volatility is technical, not fundamental, (2) current prices represent an attractive value compared with other high-quality fixed income markets, but (3) there are pockets of concern for issuer credit quality, but that overall, default rates on the municipal bond market as a whole should remain low and well-diversified portfolios should experience minimal credit losses.

Background on the Municipal Bond Market

The municipal bond market is large, fragmented, high quality and typically less liquid than other parts of the investment grade market.

- Large: the size of the municipal bond market is roughly $3.8 trillion.
- Fragmented: Across the 50 states and 5 territories, there are over 50,000 issuers of municipal bonds. Issuers range across a variety of sectors, including:
    - ◊ State governments,
    - ◊ Local governments, like cities, counties and school districts
    - ◊ Various other governmental and non-profit entities providing transportation, water & sewer, utility and health services to citizens.
- High quality: The average rating of our municipal bond index is AA, and only 8% is rated BBB. Historically, from 1970-2016, investment-grade rated municipal bonds had a 10-year cumulative default rate of 0.09%, compared with investment-grade corporates at 2.38%, 26 times lower.
- Less liquid: About 50% of bonds do not trade much three years after they have been issued. Many buyers are 'buy-and-hold'. Retail investors are a larger portion of the investor base than in other investment grade markets. Other investors include financial institutions like banks and insurance companies. More recently, ETFs and Mutual Funds comprise a larger portion of the investor base as well.

> "Municipal bonds are generally considered lower-risk investments and are used for stability and tax-advantaged income..."

Simultaneous shocks to the market

The municipal bond market is grappling with several simultaneous shocks, including:

Bond Market Updates, continued

- State actions to combat the COVID-19 outbreak. As of Saturday, March 21st:
    - ◊ All states and territories have declared a public health emergency.
    - ◊ All 50 states have closed schools,
    - ◊ 28 states have mandatory and 14 states recommended, limits on public gatherings.
        - ○ California, Connecticut, Illinois, and New York have "stay at home" orders.
    - ◊ 35 states have limited or closed non-essential businesses, especially focusing on restaurants and bars.
- State, local, and healthcare system expenditures related to (1) treating a spike in patients, (2) supporting businesses impacted by government-mandated closures and (3) social safety net expenditures for workers who lose jobs due to COVID-driven economic disruptions.
- Exceptionally low oil prices (currently $21.55/barrel for West Texas Intermediate, down from $61.06 to start the year). This negatively affects revenues tied to gasoline sales or oil production.
- Increased interest rate volatility in US Treasuries.
- Very large outflows and inflows affecting the municipal bond market.

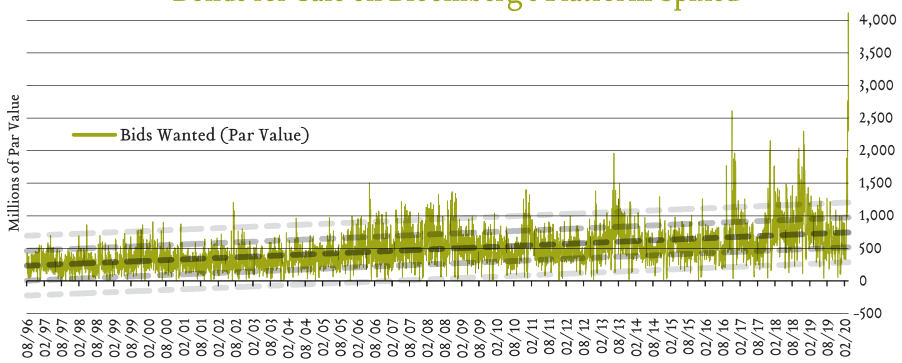
"The municipal bond market is grappling with several simultaneous shocks..."

Unprecedented Fund Flows

In every sell-off, investors are tasked with distinguishing fundamental problems (basically cash-flow problems) from technical problems (basically, prices being dislocated due to supply and demand shocks).

- Fundamental problems tend to be longer-lived, affecting asset value for an extended period of time. Technical problems tend to be shorter-lived, but the timing of reversals is very unpredictable.
- Although the muni market is facing both problems, we attribute the majority of the recent negative performance to technical factors.
    - ◊ On an average day, investors offer to sell about $750 million in par value in the secondary market. On Thursday this week, that number spiked to $4.2 billion. That is 5.5x higher than average and equivalent to a roughly 15-standard deviation spike in selling.

Bonds for Sale on Bloomberg's Platform Spiked



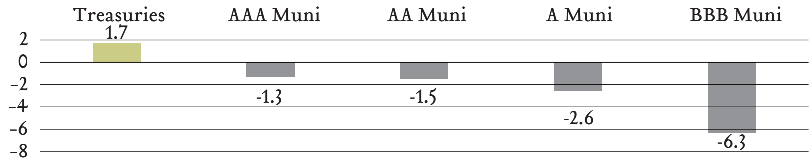
Source: Bloomberg

- That selling pressure was driven by a massive record-outflows from municipal bond funds. In the third consecutive week of outflows, municipal bond funds reported $12.2 billion of outflows for the week ended Wednesday, March 18. The previous record for outflows was around $5 billion back in 2013 around the Taper Tantrum. For context, in 2019, municipal bond funds had 51 weeks of inflows and only one week of outflows.

Municipal Bond Underperformance

These flows caused volatility and underperformance from municipal bonds in March.

Total Returns Month-to-Date: 1-10 Year Bonds



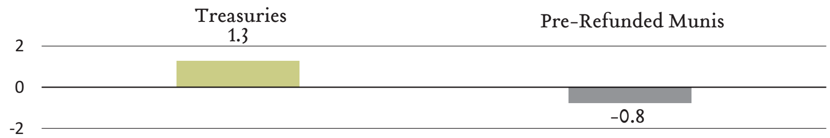
Source: ICE bond indices

Even the shortest-duration, most conservative municipal bonds were not spared. That is disappointing, as we rely on this portion of client portfolios for stability during equity market volatility.

Take, for example, pre-refunded or escrowed municipal bonds.

- These bonds are usually backed by government securities in an escrow account. They typically have no additional credit risk when compared with owning treasuries.
- They also carry the typical income tax advantages from owning municipal bonds.
- Nevertheless, these bonds have underperformed treasuries by over 2% so far this month. This performance difference must necessarily reverse over time.

Total Returns Month-to-Date



Source: ICE bond indices

Opportunities for Client Portfolios and Credit Outlook

Where appropriate, we have been active during this period of volatility in adding client exposure to high-quality tax-exempt securities. In particular, we have found securities primarily backed by property taxes and by essential service revenues, like water and sewer fees, to be attractive options for client portfolios.

However, we do expect issuer creditworthiness to deteriorate across the market. That deterioration, however, will vary widely depending on the type of issuer. The accompanying table summarizes our views about the likely

"… we have found securities primarily backed by property taxes and by essential service revenues, like water and sewer fees, to be attractive options…"

Bond Market Updates, continued

credit impacts of the COVID-19 and oil price disruptions, and our outlook for major sectors of the municipal bond market.

Sector	% of Index	Credit Impact	Outlook
Pre-Refunded & Escrowed	12.7%	None	Favorable
Local General Obligation	11.6%	Low	Mixed
State General Obligation	22.8%	Moderate	Mixed
Revenue - Tax	12.2%	Moderate	Mixed
Revenue - Transportation	7.3%	High	Unfavorable
Revenue - Leasing & Appropriations	6.3%	Moderate	Mixed
Revenue - Water & Sewer	3.7%	Minimal	Favorable
Revenue - Toll & Turnpike	3.7%	High	Unfavorable
Revenue - Utilities - Other	3.4%	Low	Mixed
Revenue - Education	3.0%	Low	Unfavorable
Revenue - Power	3.0%	Low	Favorable
Revenue - Airport	2.9%	High	Unfavorable
Revenue - Industrial Development	1.6%	Moderate	Mixed
Revenue - Health	1.5%	High	Unfavorable
Revenue - Hospitals	1.1%	High	Unfavorable

"In seeking to maximize after-tax returns for clients, we have responded to municipal bond underperformance in March by adding to client holdings where appropriate."

Municipal Bond Market Conclusion

In seeking to maximize after-tax returns for clients, we have responded to municipal bond underperformance in March by adding to client holdings where appropriate. As long-term investors, the after-tax yield advantage of high quality municipal bonds appears attractive relative to some other fixed income options. We are mindful, however, that markets can stay volatile over the short-term. Over the intermediate-term, the main risks are credit-related as municipal entities respond to this period of restricted travel and social distancing and the corresponding reductions in tax revenues. The impacts will vary widely by sector and we will be active in positioning portfolios appropriately. If you have any questions, please contact a member of your client centric team.

Corporate Bonds – COVID-19 & Oil Price Shocks Elicit Heavy Outflows and Policy Responses

The best thing that can happen when you own a corporate bond is... nothing. Investment grade corporate bonds are generally considered lower-risk investments. They are used in client portfolios to generate incremental income over government securities. Typically, when you lend to a highly creditworthy corporation, you can expect a modest amount of extra income. You are planning to simply clip your coupons and receive timely payment of principal at maturity. You hope that nothing happens to upset that plan. Unfortunately, in March, a lot has happened. Fortunately, we entered this selloff in a relatively defensive credit position in most client portfolios.

Corporate Bond Spreads Reach Lehman-Episode Levels

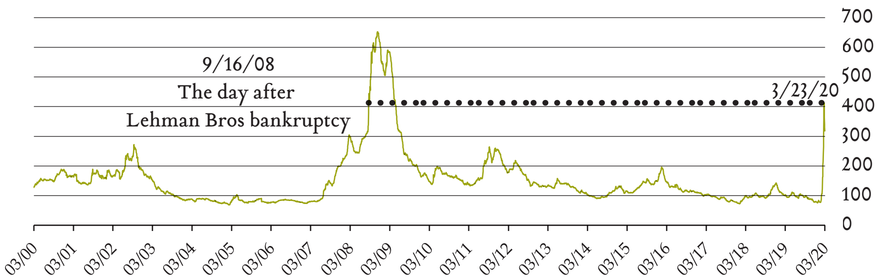
Corporations across every rating category are facing significant operating stress due to COVID-19 containment measures that will cause a global recession in 2020, an oil price shock that sent prices down to levels not seen since 2001, and much tighter financing conditions than have existed at any point since the Financial Crisis. Investors reacted by selling an unprecedented amount of investment grade corporate bond in mid-March. By month-end the market recovered somewhat as investors digested accommodative policy responses from the Federal Government and Federal Reserve. In total, investment grade corporate bonds, even the most conservative, highest-rated options, saw negative performance in March.

		Maturity Range			
Weight in Index	Rating	1-3 Year	3-5 Year	5-7 Year	7-10 Year
8%	AA	-1.1%	-2.1%	-2.2%	-4.1%
42%	A	-1.9%	-3.5%	-5.1%	-6.7%
48%	BBB	-5.0%	-8.4%	-9.9%	-12.0%
	Treasuries	1.5%	2.3%	2.9%	3.8%

Source: ICE bond indices

That selling pressure pushed short-to-intermediate maturity investment grade corporate bond spreads to levels similar to when Lehman Brothers defaulted in September, 2008.

1-10 Year Investment-Grade Corporate Bond Spreads



Source: ICE bond indices

"The best thing that can happen when you own a corporate bond is… nothing."

While we expect downgrades and corporate defaults to rise materially in the forward 12 months, the prices of corporate bonds may already fully reflect those expectations. Investors who held their corporate bond exposure through the Lehman Brothers period participated in a price recovery as 1-10 year investment grade corporate bonds outperformed treasuries by 9% from September 2008 – September 2009.

Credit Stress and Corporate Bond Performance Varies by Industry

While broadly negative, performance in March varied significantly by industry. Industries most exposed to COVID-19 and oil price disruptions performed the worst. Companies in energy, leisure, air travel and automotive all underperformed. Companies in healthcare, telecommunications and tech outperformed, but were still broadly negative.

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Bond Market Updates, continued

Weight in Index	Sector	Maturity Range 1-3 Year	3-5 Year	5-7 Year	7-10 Year
29%	Banking	-2.4%	-4.5%	-6.5%	-8.0%
3%	Financial Services	-6.9%	-10.6%	-9.7%	-11.9%
4%	Insurance	-3.0%	-6.1%	-7.0%	-10.0%
3%	Automotive	-5.5%	-9.3%	-13.5%	-13.4%
4%	Basic Industry	-4.4%	-7.7%	-8.5%	-11.6%
5%	Capital Goods	-2.2%	-3.9%	-6.5%	-7.1%
6%	Consumer Goods	-2.4%	-3.8%	-6.1%	-7.2%
9%	Energy	-7.3%	-12.6%	-15.4%	-19.3%
8%	Healthcare	-1.3%	-3.3%	-4.3%	-5.0%
1%	Leisure	-11.9%	-13.0%	-16.4%	-22.3%
2%	Media	-2.2%	-4.3%	-5.6%	-7.2%
3%	Real Estate	-4.3%	-8.2%	-9.8%	-11.4%
3%	Retail	-2.2%	-3.3%	-5.4%	-6.3%
1%	Services	-3.3%	-6.2%	-6.1%	-9.7%
8%	Tech & Electronic	-1.1%	-2.7%	-3.8%	-5.8%
3%	Telecommunications	-2.4%	-4.0%	-4.8%	-5.7%
2%	Transportation	-4.2%	-5.5%	-5.1%	-8.8%
6%	Utilities	-2.7%	-4.9%	-6.0%	-7.8%
	Treasuries	1.5%	2.3%	2.9%	3.8%

Source: ICE bond indices

This performance divergence creates opportunities for relative value trading in corporate bond portfolios. We are currently assessing our exposure to corporate issuers, with a particular focus on balance sheet strength to weather a 12–18 month disruption in cash flows. Where we find attractive opportunities, we will be active in repositioning portfolios.

> "We are currently assessing our exposure to corporate issuers, with a particular focus on balance sheet strength to weather a 12–18 month disruption in cash flows."

Policy Response & Market Reaction

Noting the stress in corporate funding markets, policymakers stepped in to provide support:

- Federal Reserve Actions:
  - ◊ On Monday March 23, the Fed announced two initiatives that will (i) allow the Fed to purchase bonds & make loans to investment-grade rated companies in the primary market, and (ii) allow the Fed to purchase investment-grade rated bonds and ETFs in the secondary market.
- Federal Government Actions:
  - ◊ The White House & Congress agreed on a $2 trillion stimulus package which was passed by the Senate on March 26.
  - ◊ The bill includes a range of Federal support, including:
    - Direct payments of $1,200 per adult and $500 per child, phased out for couples making above $150,000.
    - More than $500 billion in support for businesses:
      - Grants, loans and loan guaranties for specific industries, including $29 billion for direct lending to passenger and air cargo carriers,
      - An expansion of the Small Business Administration loan program, and
      - Support for the Federal Reserve's programs.

- ○ $250 billion Expansion of Unemployment Compensation
  - Expands the period of unemployment eligibility to 39 weeks,
  - Supplements weekly state unemployment benefits with a Federally-funded $600 per week payment for up to 4 months, and
  - Includes many independent contractors and gig workers.
  - In Michigan, this brings the maximum weekly unemployment benefit from $362 per week to $962 per week, or about $3,850 per month.
- ○ Support for state and local governments and hospital systems.

The market has responded favorably to these actions. Corporate credit spreads fell roughly 1% in the last week of trading in March. Importantly, the primary market for corporate debt issuance opened up. Many deals were "oversubscribed," meaning there was greater investor demand than the amount of bonds being issued. Issuers included many blue-chip companies, including:

- Oracle Corp (A3/A+) - $20 billion on 3/30
- Intel Corp (A1/A+) - $8 billion on 3/23
- Walt Disney Company (A2/A) - $7.25 billion on 3/21
- Nike Inc (A1/AA-) - $6 billion on 3/25
- Coca-Cola Co (A1/A+) - $5 billion on 3/23
- Home Depot (A2/A) - $5 billion on 3/28

If credit markets continue to thaw, we expect the vast majority of issuers to have the liquidity needed to weather the 12-18 month anticipated disruption from COVID-19.

Corporate Bond Market Conclusion.

We expect significant downgrades and defaults in corporate bonds over the forward 12-month period. Impacts will vary widely, and will be most severe in oil, leisure and travel-related industries. However, bond prices have already adjusted to Lehman Brothers-type levels. We will continue to assess the market environment, but for investors without significant near-term liquidity needs, corporate bonds can play an important role in portfolios now and into the future. If you have any questions, please contact a member of your client centric team.

"…for investors without significant near-term liquidity needs, corporate bonds can play an important role in portfolios now…"

Lucas W. Mansberger, CFA®, CAIA®
Investment Strategist
Senior Manager Selection Analyst

Money Market Funds Update

With all the market volatility lately, it is a little surprising that investors are concerned about the most stable part of their portfolios, their money market funds. We believe the concern has been driven by (1) a lack of knowledge about money market reforms instituted after the financial crisis, and (2) headlines in the financial press about the Fed intervening to support liquidity in money markets.

Money Market Reforms After the Financial Crisis

First, a little history — in 2008, when Lehman Brothers collapsed, the original money market fund, the Reserve Primary Fund, "broke the buck." Money market funds seek to maintain a stable net asset value (NAV), typically at $1 (that's the "buck" that got broken). Over the course of two days, the Reserve Primary Fund received investor redemption requests greater than 50% of the fund's value. The managers of the fund were unable to sell assets (including some of their Lehman commercial paper) quickly enough to satisfy redemptions. They deemed some securities worthless and marked the fund's net asset value (NAV) down to $0.97. Until that point, investors did not think they could lose money in a money market fund. Outflows across the money market fund industry ensued, prompting the Federal Reserve to support the market.

"In the aftermath of the [2008] financial crisis, the SEC implemented reforms to the money market industry which have been in effect since 2016."

In the aftermath of the financial crisis, the SEC implemented reforms to the money market industry which have been in effect since 2016. The key element of the regulation was breaking money market funds into three categories: Retail, Government, and Institutional.

Retail	Government	Institutional
Limited to retail investors	Open to all investors	Open to all investors
Maintains a $1 NAV	Maintains a $1 NAV	Maintains a floating NAV
May impose liquidity gates of up to 10 days & redemption fees of up to 2%. Prime funds can invest in commercial paper, asset-backed securities, etc.	Must invest at least 99.5% of assets in cash, US government securities, and/or repurchase agreements that are collateralized solely by US government securities or cash.	May impose liquidity gates of up to 10 days & redemption fees of up to 2%. Prime funds can invest in commercial paper, asset-backed securities, etc.

Greenleaf's Money Market Fund Selection

Our primary money market fund falls under the category of a 'Government' fund. It maintains a stable $1 NAV and invests in that much more restricted pool of government-backed securities. It is, therefore, insulated from issues in corporate funding markets.

Money market funds now also report daily and weekly liquid assets on their website. For our primary vehicle, daily liquid assets have averaged close to 90% over the past few months. Weekly liquid assets have been

97-100%. We do not have any concerns about the ability of this fund to maintain its stable NAV and meet our clients' needs. As noted in the table above, the fund is only invested in cash and US government securities. In addition, the fund has been seeing net inflows, not outflows, so far year to date.

Some investors are wondering if money market funds are FDIC-insured like savings account balances. They are not. However, in our fund, the manager invests exclusively US government securities, and the US government is the ultimate backstop for FDIC insurance as well.

While 'Government' funds have been seeing inflows, 'Prime' money market funds have been preparing to see large outflows. As a result, the managers of those funds have been unwilling to continue purchasing the same level of commercial paper as before. Commercial paper is basically short-term loans issued by corporations to cover cash flow needs like payroll and accounts payable. As a result of this caution, interest rates on commercial paper began to rise. The Federal Reserve took note, and instituted a couple of steps to support the market.

Federal Reserve Support of Money Market Funds Garners Headlines

Imagine you are a corporate borrower who uses commercial paper to finance its operations. All of a sudden, no one wants to buy your commercial paper. The typical buyers are prime money market funds, and the managers of the funds are preparing for outflows. The rates you have to pay spike, or you are unable to get financing at all. That's a big problem!

On Tuesday, March 17, the Fed announced an emergency measure, which they also used during the financial crisis, to begin buying commercial paper directly. This will temporarily ensure that funding is available to corporate borrowers who need it. The program is called the Commercial Paper Funding Facility and is operated in coordination with the Department of Treasury. Treasury Secretary Mnuchin stated that the Fed could buy up to $1 trillion in commercial paper. That's a lot. The total amount of commercial paper outstanding is about $1.1 trillion. The Fed is effectively stepping in to make short-term loans directly, and is willing to make a very substantial amount of loans.

On Wednesday, March 18, the Fed announced a second program to support money market fund called the Money Market Mutual Fund Liquidity Facility. Similar programs were instituted during the financial crisis as well. Through this program, the Fed will assist money market funds in meeting investor redemption requests by

"The Fed is effectively stepping in to make short-term loans directly, and is willing to make a very substantial amount of loans."

Money Market Funds Update, continued

making secured loans to banks, if those banks step in to buy assets from money market funds and thereby give the funds cash to make redemptions.

On both sides of this market, the Fed has stepped in to provide liquidity. For corporate borrowers, the Fed is now buying their commercial paper directly. For savers, the Fed has now stepped in to ensure you get your money market fund savings back near par.

"On both sides of this market, the Fed has stepped in to provide liquidity."

These interventions garnered a lot of attention in the financial market press. Reading those headlines, and remembering the losses incurred in the Financial Crisis, investors grew concerned. The situation today, however, because of new regulations and early Fed interventions, appears much more stable.

Conclusion

Our investment philosophy calls for maximizing expected returns for a given level of risk. We do not consider clients' money market funds as an attractive place to chase yield in search of higher returns. As a result, we are invested in a conservative option. We are satisfied with that choice, and we know clients appreciate the stability in these volatile times. If you have any questions, please feel free to contact a member of your client centric team.

Is Your Estate Plan in Order?

George F. Bearup, J.D.
Senior Trust Advisor

The world suddenly changed with the COVID-19 pandemic. We have all had to learn a new skill called social distancing. Millions now work from their homes. Isolation is the new mainstream lifestyle, albeit not by choice. Consequently, any discussion about estate planning seems pretty superfluous in this time of crisis. However, if an individual is optimistic that medical technology will ultimately overcome the coronavirus within a reasonable period, then there are decisions that should be made with regard to existing estate plans in light of the dramatic drop in market values of many assets, the very low interest rate environment and the likelihood that tax rates will increase in order to pay for the government's multiple stimulus responses. In short, some estate planning strategies might now be exploited to take advantage of prevailing market conditions.

General Considerations: Now is the time when individuals actually do have the time to review their existing estate planning documents. They might even have the inclination to do so in light of the reality that the conoravirus does not discriminate in its victims.

"Now is the time when individuals actually do have the time to review their existing estate planning ... in light of the reality that the conoravirus does not discriminate in its victims."

Review Role Players: Fiduciaries, like patient advocates named under durable powers of attorney for health care, agents named under durable powers of attorney for financial decision-making, funeral representatives, personal representatives named to administer a Will, and a trustee named to administer a revocable Trust all need to be re-evaluated. Those individuals may not be healthy enough, or even available, when called upon to serve in their assigned fiduciary role under an individual's estate plan. Or, they may be distracted caring for another loved one. Perhaps now is the time to name an institutional fiduciary that is not subject to health and disability risks or other family responsibilities. While it is customary to name a family member to serve in some, or all, of these fiduciary roles, more thought needs to go into that important decision.

Review Distribution Provisions: Many Will and Trust provisions, or transfer-on-death beneficiary designations, should be revised in light of the dramatic drop in market values. If a fixed dollar amount is to be allocated to a named beneficiary, use of the dollar bequest may no longer make sense. For example, assume that a parent's Trust provides that upon the parent's death, the trustee is directed to pay to the parent's son $500,000, with the balance of the parent's

Estate Plan in Order, continued

Trust estate set-aside to be held in trust for the lifetime benefit of the parent's daughter who is seriously disabled. At the time the parent's Trust was created the parent's estate was worth $1.8 million. The parent's estate is worth $900,000 at the time of his or her death as a result of the market sell-off caused by the pandemic. Under the terms of the parent's existing Trust, the son will still receive $500,000, but there will only be $400,000 available to fund the trust for the lifetime benefit of the disabled daughter. That is probably not the result the parent wanted or intended. Now would be the time to change the Trust to provide a fraction or percentage allocation to the son, so that an adjusting formula can be used to reflect to the actual size of the decedent's estate at the time of his or her death.

Planning Opportunities: For more affluent individuals, some basic estate planning strategies might be exploited in the current climate of low market values and very low interest rates caused by the coronavirus, along with the predictable increase in taxes needed to respond to the pandemic.

"…some basic estate planning strategies might be exploited… [in anticipation of] the predictable increase in taxes needed to respond to the pandemic."

Gifts: With current market values low, now is a good time to gift an asset that the donor believes will appreciate with the passage of time. A low value assigned to the gifted asset means that less of the donor's federal gift tax exemption (currently $11.58 million) will have to be used to shelter that lifetime gift from federal gift taxes. If the gifted asset generates income, that income will be taxed to the donee, not the donor, and thus could be exposed to the donee's marginally lower federal income tax bracket.

Intra-Family Loans: The April, 2020 applicable rate of interest (AFR) that is used for many planning strategies and transactions is historically low. The short-term AFR rate for a transaction that is less than three years is 0.91%; the mid-term AFR rate for a transaction between three years and nine years is 0.99%; the long-term AFR rate is only 1.44%. For a loan to a family member, the appropriate AFR rate must be used in order to avoid an implied gift due to a below-market interest rate charged. For example, a grandparent could enter into an 8 year, 11 month loan to a grandchild and charge annual interest on that almost 9 year loan of 0.99% per year. If the grandchild invested those loan proceeds and earned more than 0.99% per year on the investments, the grandparent will have shifted wealth from his or her taxable estate to their grandchild gift tax-free. The outcome is even better if the grandparent is at a marginally higher income tax bracket than their grandchild. While cash is normally the subject of a loan, marketable securities can also be the subject of an intra-family loan.

GRAT: Special provisions are included in the Tax Code to deal with a lifetime transfer, where the donor retains an interest in the transferred asset. With a grantor retained annuity trust (GRAT) the donor transfers assets to a trust and receives in exchange an annuity stream for a set period of time. At the end of the GRAT term (e.g. two or three years), the remaining assets held in the GRAT then pass to the trust remainder beneficiary. The Tax Code specifies the interest rate that must be used to value the grantor's retained annuity interest in the GRAT; that value is then subtracted from the value of the asset transferred to the GRAT, and the difference is a currently taxable gift to the GRAT remainder beneficiary. The mandated interest rate for April 2020 is 1.2% (IRC 7520). The lower the interest rate used in this valuation calculation, the larger the value of the retained interest by the grantor, and thus the lower the value of the gifted GRAT remainder interest. For the GRAT to effectively shift wealth gift tax-free, the assets held in the GRAT must grow more than the interest rate that is used to value the remainder interest. Thus, if the transferred assets to the GRAT grow at an annual rate more than 1.2%, that difference in rates will result in the residual assets passing to the remainder beneficiary free of any gift tax.

"…if an individual is optimistic that medical technology will ultimately overcome the coronavirus within a reasonable period, then there are decisions that should be made with regard to existing estate plans…"

QPRT: Just like the GRAT, a qualified personal residence trust (QPRT) functions much like the GRAT, in that a transfer of a personal residence is made to an irrevocable trust where the transferor retains the exclusive use of the residence for a specific number of years. That retained exclusive use of the residence right is also valued using the IRC 7520 rate (1.2% in April 2020). Again, using a low interest rate to value the transferor's retained exclusive use interest in the QPRT will tend to understate the value of the remainder interest in the QPRT when the transferor's exclusive use period ends. Like the GRAT, using the lower interest rate to value the transferor's retained interest will cause a much smaller gift of the remainder interest in the QPRT, thus using less of the transferor's federal gift tax lifetime exemption.

Sale to Grantor Trust: A grantor trust under the Tax Code is a trust that has its income taxed to the person who transferred assets to the irrevocable trust. While the trust's income is taxed to its grantor, the trust's assets are neither included, nor taxed, in the grantor's estate at the time of the grantor's death. Such a trust is often intentionally

Estate Plan in Order, continued

"These are challenging times for all of us. Reviewing existing estate planning documents is a good first step to confirm that the plan in place 'still works.'"

made a grantor trust by the grantor retaining the right to substitute assets of equivalent value with the trustee. A grantor trust is used to remove an asset from the grantor-transferor's taxable estate, by selling the asset to the grantor trust in exchange for an installment note. No capital gain is recognized by the grantor on this sale since the grantor is treated the same as the trust for income tax reporting purpose (i.e. it is treated as a sale to oneself). Interest paid on the note by the trustee is treated as paying interest to oneself. In a time when asset values are low, along with low prevailing AFR interest rates, a sale of an asset to a grantor trust carries strong appeal. With a low fair market value asset sold, there is a correspondingly smaller promissory note that will be included in the grantor's taxable estate at the time of his or her death if the note remains unpaid on that event, which means fewer federal estate taxes paid. With the low AFR interest rate used with regard to the trustee's promissory note given to the grantor, more wealth will be available to accumulate and be held in the trust, and not subject to estate taxes on the grantor's death. Such an installment note could also be structured as a self-cancelling installment note, or a private annuity, where there would be no residual value included in the grantor's estate at the time of his or her death, if the grantor had a better than 50% chance of living at least twelve months after the sale and actually he or she lives eighteen months after the sale.

These are challenging times for all of us. Reviewing existing estate planning documents is a good first step to confirm that the plan in place 'still works.' Other planning steps to shift wealth can also be taken to exploit current low fair market values and historically low interest rates.

Wealth Management is Crisis Management

Dan J. Rinzema, CFA®, CFP®, CTFA
Chief Client Officer

If you are like most, you're experiencing quite a bit of anxiety right now as we grapple with a pandemic health crisis. The human, economic and market fallout are unnerving. Unfortunately, we know the headlines will get worse before they get better. Confirmed COVID-19 cases will grow exponentially, and dismal economic data resulting from the economic shutdown will be jarring. Fear is a very natural response when faced with a crisis. However, despite the emotional response that may feel natural in the moment, maintaining discipline during periods of uncertainty is the most reliable course for preserving and growing long-term wealth.

While we do not have all the answers as to when the current situation will stabilize, one thing we can say with certainty is that the future will not look like today. History has consistently repeated itself with respect to how bear markets, pandemics and financial crises end. No matter how different these events have started out in the beginning (with each event's seemingly unprecedented nature at the outset) or how destructive the events may have been as they ran their course, they eventually wind down and pass, things regrow and life returns to normal.

> "… maintaining discipline during periods of uncertainty is the most reliable course for preserving and growing long-term wealth."

Navigating The Crisis – Have A Plan

Studying the navigation of prior crises reveals that the success formula almost always includes having a plan. In fact, a plan is foundational to successful wealth management. Understanding goals and objectives, cash flows, balance sheets, time horizons, and unique circumstances ensures a purpose-built plan weathers various economic environments and market gyrations. At Greenleaf Trust, financial plans are created for clients at the onset of each relationship and are reviewed regularly. Comprehensive wealth management plans serve as the rudder to navigate through choppy financial waters.

The plan identifies what's most important and what measures can be used to protect in periods of extreme uncertainty. Of which, asset allocation and diversification are the most powerful tools. While these tools are our best allies in the war against volatility, it does not mean one is immune to major drawdowns. Stress tests via advanced Monte Carlo modeling help provide assurance of goal attainment in the midst of a crisis. As evidenced by recent markets, the short term can be exceedingly unpredictable. Over the long term, however, we know to expect numerous shocks along the way and create financial plans as well as the investment portfolios supporting those plans to achieve each client's very specific goals with these unnerving periods in mind.

Wealth Management is Crisis Management, continued

Historical Perspective

Over the last 150 years, we've been through wars, pandemics, recessions, depressions, natural disasters, man-made disasters, political upheaval, etc. What happened with each crisis? The market met its floor and recovered. Even the worst market declines have generally been followed by a significant recovery. While no one knows exactly when major market drawdowns are going to occur, or how painful they will be, we do know that they will occur. In fact, they are part of being a long-term investor. From a historical standpoint, they also tend to lead to outperformance in the months and years that follow. In an ideal world, investors buy low and sell high. In the real world, investors often do the exact opposite—buy high and sell low—especially during volatile times.

History tells us that investors are much better off staying disciplined rather than trying to jump out, then back into, the market. This is because timing the market is incredibly difficult if not impossible. Selling after a major drawdown ensures that capital is destroyed unless one can perfectly time when to get back in. It is important to consider that when you take inflation and dividends into account, the re-attainment of prior bear market portfolio peaks takes just over two years on average from the market's bottom. Even in the case of the great depression, this equates to about 4.5 years when you take into account dividends and inflation according to Ibbotson data from Morningstar. Sitting in cash and missing the first month of a recovery can often be just as devastating from a long-term wealth perspective as enduring the first month of the bear market decline. For example, the first month of the 2008 financial crisis recovery saw a 30% equity market return.

"Comprehensive wealth management plans serve as the rudder to navigate through choppy financial waters."

What If This Time Is Different?

In short, it is always different. Successful investors know that it is best to stay disciplined to a purpose-built wealth management plan in order to achieve financial goals and objectives. However, stay the course is not the same as set it and forget it. It is simply a disciplined approach to meet specific goals. It works because it is really hard to do. It is hard to stay disciplined. It is hard to keep your head when others are losing theirs. It is even harder to rebalance out of investments that do well in crisis like US treasuries into investments that have been hardest hit like stocks. Conviction in this approach and discipline to execute it characterize historically successful investors. Not saying be calm and carry on. Not trying to provide short-term emotional comfort. Simply suggesting historical perspective reveals discipline has been the best approach to position for long-term goal achievement.

What Actions Should I Take Now?

We are not advocating wholesale changes like going to cash or doubling down on stocks. However, we do recommend reviewing each investor's situation and portfolio in light of their guiding financial plan for prudent moves to make in the current environment. Barring changes in your unique circumstances, your long-term strategy generally should not change. However, short-term tactics certainly will. Some timely tactics to consider may include:

- Focus on Cash Flows – Having an emergency fund is at the foundation of financial planning. Additionally, one should not invest short-term money into long-term investments. This is a given, but even more critical to remember during times of crisis. Surveying one's cash flow needs is often a good starting point to find comfort to stay disciplined. Demand on capital is the term typically used in this context. It is defined as simply the amount of capital you need from your portfolio on an annual basis to support your current lifestyle. For example, if you require 4% of the portfolio to sustain your current annual spending and hold at least that much in cash, you would have a year's worth of living expenses covered. Next, consider your allocation. For example, a 60/40 portfolio represents an allocation of 60% long-term growth oriented equities fully subject to the market volatility, and 40% principal preservation oriented fixed income and cash with return of principal as the primary objective and return on principal as secondary. In the above scenario, cash and fixed income would be sufficient to cover approximately 10 years of living expenses. So, unless the economy is permanently impaired and incapable of recovering in the next 10 years, you would not be forced to sell equity to sustain your current lifestyle at depressed prices in this scenario. If, after assessing cash flows, you find them more than adequate, you might even consider directing a portion of your emergency fund to help with the emergencies of others. Options to help the most vulnerable in your community might include local food banks, community relief funds and non-profits providing medical supplies to front-line responders just to name a few.

"… stay the course is not the same as set it and forget it."

- Rebalance – Simple rebalancing is a proven value-add technique that realigns the portfolio with your long-term target asset allocation. It rotates out of investments that have performed relatively better and into investments that performed relatively worse. Over-time, disciplined rebalancing forces the buy-low, sell-high practice that characterizes successful investing.

- Tax Loss Harvest – This strategy involves swapping into similar investments to capture losses that can be used to offset future capital gains. It is an easy way to generate tax alpha in highly uncertain environments. However, look at tax loss harvesting as an opportunity to reposition portfolios to better options as opposed to just a way to capture losses. This could mean better managers, more tax efficient vehicles, establishing asset location strategies, *Wealth Management is Crisis Management, continued*

facilitating distribution sequencing, exiting legacy holdings, reducing concentration risk, etc.

- Shop The Sale – Compelling investments at relative bargain prices often accompany a crisis. While "cheap" stocks usually come to mind in this context, don't overlook other asset classes as well. In late March, for example, we sold a number of US Treasury positions for clients at sizable gains in favor of pre-refunded municipal bonds yielding up to 10 times that of the corresponding Treasury. The pre-refunded status translates into essentially the same credit risk because US Treasuries are backing the full value of the municipal bond. Despite the same credit risk, however, the market disruption meant you could swap a two-year Treasury yielding almost nothing for a two-year pre-refunded municipal bond offering a relatively generous 3% yield. Given the preferential tax status of municipal bonds, this makes the investment for those in the upper income tax brackets comparable to a 5% after-tax equivalent bond – an incredible opportunity for the minimal level of risk brought to us by the crisis, but it was only available for a short window.

"Compelling investments at relative bargain prices often accompany a crisis."

- Consider a Roth Conversion – For many investors, calendar year 2020 may represent an opportune time to consider converting a traditional IRA to a Roth IRA. Relatively lower portfolio levels translate into lower taxes due upon conversion compared with just a few weeks ago. When the recovery takes hold, the assets grow on a tax-free basis as opposed to a tax-deferred basis. Additionally, calendar year 2020 may represent a lower income year for many given the depressed economic activity. This presents additional opportunities to manage tax brackets and convert a portion of an IRA to a Roth while staying within a targeted marginal tax threshold.

- Take Advantage of Low Interest Rates – The Federal Reserve has lowered interest rates and also increased the amount of short-term loans it offers banks to keep cash flowing smoothly. Refinancing a mortgage may be advantageous at this time. However, it does not always make sense to refinance debt, nor does this mean that mortgage rates will necessarily go down, so do your research and make sure you understand your options carefully. Low interest rates also present a number of estate planning opportunities that may help those with sizable estates shift wealth to future generations in a tax efficient manner. These strategies are outlined in detail within my colleague George Bearup's article entitled "Is Your Estate Plan In Order?" also found within this issue of Perspectives.

- Leverage Policy Responses – In response to the growing coronavirus pandemic and its resulting impact on the US economy, Congress passed the

Coronavirus Aid, Relief and Economic Security Act (CARES Act) on Friday, March 27. This stimulus package, estimated at more than $2 trillion, is the most expansive to-date. While the Act's nearly 800 pages are still being fully digested, a few of the potential tactics we believe investors should be aware of include:

◊ Small Business Support: The Act guarantees up to $349 billion in loans towards businesses with under 500 employees. Most appealing is the fact that loans may be fully or partially forgiven. Any portion of the loan used to make payroll, pay for utilities, rent, mortgage, and existing business debt may be forgiven, dollar-for-dollar. Among other qualifications to receive this dollar-for-dollar loan forgiveness, however, workers need to remain employed through the end of June.

◊ Taxable Distributions: Required Minimum Distributions (RMDs) have been suspended for calendar 2020 from qualified defined contribution plans and IRAs. In most cases forgoing these previously mandatory distributions and instead withdrawing from taxable accounts for living expenses may lower your tax bill. If you were considering a qualified charitable distribution (QCD) to satisfy your RMD, it might also make sense from a tax efficiency perspective to instead use appreciated assets or cash from a taxable account to satisfy the charitable intent in 2020. If you completed your RMD within the last 60 days, you may even be able to refund the amount to take advantage of this tactical opportunity via IRA rollover rules.

◊ Charitable Deductions: Adjusted Gross Income (AGI) limitations have been suspended in calendar year 2020 for charitable contributions made in cash to 501(c)(3) public charities (except supporting organizations and donor advised funds). This allows taxpayers who itemize deductions to elect to deduct up to 100% of their AGI remaining after accounting for all other charitable contributions subject to AGI limitations. For taxpayers that do not itemize deductions, the CARES Act provides for a new "above-the-line" charitable deduction up to $300.

While the current crisis is certainly unprecedented, humanity has an undeniable history of persevering and ultimately conquering seemingly insurmountable challenges — time and time again. So too will we get through this as life eventually returns to normal. While tactics evolve to fit the landscape, comprehensive wealth management plans are purposefully built for times like these. Maintaining discipline in the pursuit of financial goals and objectives will prove prudent as this crisis subsides.

"... humanity has an undeniable history of persevering and ultimately conquering seemingly insurmountable challenges — time and time again."

CARES Act Retirement Plan Changes

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On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES) was signed into law. In addition to numerous financial incentives provided to individuals and business, the CARES Act provides some major retirement plan changes allowing plan participants access to their retirement savings as a financial resource in this time of crisis. Employers have the choice to adopt these new provisions within their retirement plans and can effect the changes immediately. We are studying and digesting CARES provisions quickly but below are a few important details.

> "... the CARES Act provides some major retirement plan changes allowing plan participants access to their retirement savings as a financial resource in this time of crisis."

In-Service Distributions

- A qualifying participant can now take advantage of the CARES Act in-service distribution option, for Coronavirus Related Distributions (CRDs).
  - ◊ Qualifying reasons include: The participant (including spouse or dependent) is diagnosed with the virus; suffers heavy financial burden as a result of being quarantined, furloughed, laid-off or work hours reduced; is unable to work due to lack of child care; business closing or reduced hours; or other factors as determined by the Treasury Secretary
  - ◊ Participants are able to self-certify that they meet one of the above qualifications
  - ◊ Distributions can be up to $100,000 or 100% of their vested account balance
  - ◊ 10% penalty is waived & participant can elect federal withholding upon the distribution
  - ◊ Participants can spread the tax liability over three years
  - ◊ Participants may repay the distribution within three years to avoid taxation
  - ◊ CRDs are available until December 31, 2020

Loan Provisions

- Although individuals cannot "borrow" from an IRA, loans can be made available to participants within a qualified plan account.
- Temporary loan rules available through September 24, 2020 include:
  - ◊ Statuary limitations have increased from $50,000 to $100,000 for participants with the qualifying reasons listed above

- ◊ Participant can borrow the lesser of $100,000 or 100% of their vested account balance
- ◊ Loan repayments due March 27 through December 31 may be delayed for up to one year for qualifying participants

Additional Provisions

- Required Minimum Distributions (RMDs) are waived for 2020.
- The obligation for plan document amendments reflecting CARES Act changes are not required until the December 31, 2022.

As employers consider steps such as suspending matches or even temporarily terminating plans, finding additional ways to help employees is noble. Of course, many people enduring significant financial hardship may benefit from these CARES Act measures. Along the way, thoughtful analysis of employee needs today with the balance of their financial needs in retirement has to be considered. Participants should review other sources of short-term cash before withdrawing or borrowing from their retirement account.

Notably, the super abundant access to participant 401(k) plan accounts should not be celebrated as a long-term win for employees. It is hard to claim victory by encouraging people who may already be saving too little for retirement, to pull as much as $100,000 out of their 401(k) at the bottom of a stock market collapse. Even with waiving many of the penalties associated with early retirement plan withdrawals, some of these provisions could end up hurting the very people we are trying to help. The amount withdrawn today is not the participant's only loss to their 401(k) savings. The truly startling loss includes the years of investment growth and compound interest in their account that will not be there for their retirement years, which will undoubtly add to our country's already severe retirement savings shortfall. And that's not all, successful retirement savings is our country's single largest non-governmental tool to help augment the long term mathematical hazard that is our Social Security system. People need to be saving for themselves and for the sustainability of the retirement support structure of our great country.

Along with the well-intended provisions in this Act, we need to be mindful as we assist our employees in making sound decisions in regards to any withdrawals. Greenleaf Trust is here to support our clients through this challenging time, so do not hesitate to contact us with additional questions.

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Stock Market Pulse

Index	3/31/2020	Total Return Since 12/31/2019
S&P 1500	585.38	-20.58%
Dow Jones Industrials	21,917.16	-22.73%
NASDAQ	7,700.10	-13.91%
S&P 500	2,584.59	-19.60%
S&P 400	1,443.40	-29.70%
S&P 600	684.84	-32.65%
NYSE Composite	10,301.87	-25.45%
Dow Jones Utilities	756.16	-13.33%
Barclays Aggregate Bond	2,295.05	3.15%

P/E Multiples	3/31/2020
S&P 1500	16.9x
Dow Jones Industrials	15.5x
NASDAQ	48.6x
S&P 500	17.0x
S&P 400	14.9x
S&P 600	17.3x

Key Rates

Fed Funds Rate	1.50% to 1.75%
Tbill 90 Days	0.05%
T Bond 30 Yr	1.32%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	585.38	16.9x	2.35%
S&P 500	2,584.59	17.0x	2.34%
Dow Jones Industrials	21,917.16	15.5x	2.91%
Dow Jones Utilities	756.16	18.8x	3.43%

Spread Between 30 Year Government Yields and Market Dividend Yields: -1.03%

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