ECONOMIC & INVESTMENT SUMMARY

For Quarter Ending March 31, 2020

Economic Activity

The first quarter of 2020 was defined by what happened in March as the Coronavirus (the "virus") disease spread globally. The virus has caused the global economy to come to a halt as people in Wuhan, China were not allowed to leave or enter starting on January 23 and since that date more countries around the world started local and national travel restrictions to almost shutdowns. The global cases continue to increase as testing increases as a preemptive way to reduce the spread of the virus. Prior to the pandemic we were still seeing excellent data in the U.S. as pending home sales were up 9.4% YoY in February, the unemployment rate dipped back to 3.5%, and job openings were just shy of seven million in the U.S.

Amidst the virus pandemic and the economic downturn within a few weeks, the U.S. government has passed a $2.2 trillion stimulus bill. The bill will pay out checks to individuals (plus additional amounts for each child) with phase out limits based on income, increase unemployment benefits for up to four months, $350 billion in small business loans with a portion that would be forgiven, $500 billion in loans to struggling industries, states, and cities, $150 billion to state and local governments, direct aid to airlines, and $100 billion to hospitals to fight the coronavirus.

Initial jobless claims for the week ending March 21. rose to a record high of 3.28 million, which is almost five times the previous record high of 695,000 in October 1982. A few other weak reports—the Dallas Fed Manufacturing survey fell to a record low and consumer confidence fell to its lowest level since October 2016. We expected this quick downturn in economic data and expect it to continue over the next few months, but we have hopes that this pandemic from the virus can be solved sooner than later and that both fiscal and monetary policy can quickly provide a floor to the economy and for the labor market to pick up quickly.

Interest Rates

As the virus has taken ahold of the global economy, the Federal Reserve has come to the rescue again. Since the last quarterly commentary, the Fed has cut their target rate two separate times for a total of 150 basis points bringing the rate to 0%-0.25%. They also will be adding an additional $700 billion of quantitative easing to the financial system by buying $500 billion of U.S. Treasuries and $200 billion of Agency Mortgage-Backed Securities.

After the Fed announced their decisions addressed in the previous paragraph, The Federal Reserve, the European Central Bank, the Bank of Japan, the Bank of England, the Bank of Canada, and the Swiss National Bank cohesively announced action to provide liquidity to the markets. This was an unprecedented move as central banks around the world coordinated drastic monetary policy changes.

Amidst all these drastic steps already taken it was clearly not enough as the price of non-government bonds began to plunge. The Federal Reserve announced policies that were created to support the investment grade corporate bond sector. They will purchase both investment-grade bonds and U.S.-listed exchange-traded funds ("ETFs") to increase liquidity. According to the Bond Buyer, "municipal money market funds can now rely on the Federal Reserve as a buyer of last resort." This move has restored stability to the municipal bond market.

Stock Market

Equity markets suffered their largest correction since 2008 with the S&P 500 down 34% and the Russell 2000 down 43% from their highs. This was the fastest bear market correction in history with the S&P 500 declining over 20% from the February 19th high in just 18 trading days. For the quarter the S&P 500 was -20%, the NASDAQ (technology) -12%, and the Russell 2000 (small caps) -31%. Equity markets entered 2020 trading at 18x forward earnings which was at the higher end of the valuation range. The catalyst for the correction was the unforeseen virus which was not a risk factor considered by market participants entering 2020.

The selling in the market has been entered indiscriminate as all companies and sectors bear market territory as defined by declining 20% or more. The energy sector has led the downside with the price of oil down 65% and the S&P 500 energy sector -51% in the first quarter. We are reminded of the quote "bull markets are about income statements and bear markets are about balance sheets". Many large energy companies are cutting dividends and selling assets to protect their balance sheets with the price of oil at $20 a barrel. The technology sector was the best performing sector for the quarter -12%+ with many companies in the sector having stellar balance sheets. Risk off sectors such as utilities and healthcare outperformed.

The VIX Index which is a measure of volatility reached 82 a level not seen since 2008. The market has seen numerous limit-down days in the trading of before market futures (max 5% loss) and twice the market was shut down during trading hours for 15 minutes due to a decline of 7%. These are unprecedented times and at 1st Source your investment team will continue to proactively manage your investments and identifying opportunities to take advantage of mispriced assets.

ABOUT THE INVESTMENT ADVISORS

1st Source Bank has been providing comprehensive financial planning and wealth management services since 1936 and currently manages over $3.5 billion in assets.

1st Source Corporation Investment Advisors, Inc. (1st Source Investment Advisors) is contained in the 1st Source Corporation holding company and provides investment management services to 1st Source Bank.

1st Source Investment Advisors is regulated by the Securities and Exchange Commission (SEC), and is a wholly owned subsidiary of 1st Source Bank.

PORTFOLIO MANAGERS

Paul W. Gifford, Jr., CFA

Jason W. Cooper

Robert E. Romano, CFA

Noreen A. Kazi

Christopher M. Davis

Erik D. Clapsaddle CFA, CFP®

Jackie A. Kronewitter, CFP®

Jon W. Cisna, CFP®

1st Source Corporation Investment Advisors, Inc.