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April 2020 Outlook

APRIL 2020 OUTLOOK

Key Observations

- The COVID-19 crisis may change our lives, the economy and capital markets for years to come.
- We expect unbound economic and financial uncertainty to gradually wane later in the year, but it will not be a quick process.
- The economic pain will be felt swiftly and we think markets are likely to remain extremely volatile for the foreseeable future.

Capital Market Factors

- Economic Growth: For the first time in history, we are entering what will be a steep recession and we will know it with near certainty before it technically arrives. This pre-packaged recession is a different dynamic than we've ever had in our nation's history.
- Monetary Policy: Since the COVID-19 crisis emerged, the Federal Reserve has fired cannon after cannon and has truly become the mass buyer of last resort in an unprecedented manner. It is clear the Fed is prepared to take any and every action it can.
- Fiscal: Trillions of dollars of spending that were not anticipated a few weeks ago will now occur. Furthermore, trillions in tax receipts will be lost as revenues to the Treasury will shrink meaningfully. We believe we will have massive budget deficits not seen since perhaps World War II and this crisis will alter the path of debts and deficits for decades.
- Inflation: Near-term, demand destruction and massive unemployment increases will keep inflation modest. However, necessary fiscal and monetary policy enacted to combat COVID-19 is likely planting the seed for higher future inflation levels.
- Currency: Given the extreme uncertainty, it is likely the U.S. dollar will continue to serve as a global safe haven.

For additional information on forecast methodologies, please speak with your advisor. Please see Index Proxy Summary slide at the end of this presentation for summary of indexes used to represent each asset class. Past performance does not indicate future performance.

APRIL 2020 - MARCH 2030 OUTLOOK

Scrap whatever assumptions you thought you had a few weeks ago.

The table below summarizes our 10-year outlook (from January to April) and you can see how our assumptions have changed in a very short period of time.

Asset Class	11/30/19 E(R)	4/1/20 E(R)	YTD Change
Cash*	1.58%	0.05%	-1.5%
TIPS	2.0%	0.9%	-1.0%
Muni Bond**	2.2%	2.7%	0.5%
Muni High Yield**	6.4%	8.3%	1.9%
US Bond	2.3%	1.6%	-0.7%
For. Dev. Bond	1.5%	0.4%	-1.2%
HY Bond	4.5%	5.2%	0.7%
EM Bond	2.9%	2.8%	-0.1%
Global Equity	7.2%	7.3%	0.1%
US Equity (AC)	5.7%	5.8%	0.1%
US Equity (LC)	5.6%	5.6%	0.1%
US Equity (MC)	5.8%	6.0%	0.2%
US Equity (SC)	5.8%	6.1%	0.3%
Int'l Dev. Equity	7.4%	7.7%	0.2%
EM Equity	9.7%	10.1%	0.4%
Real Estate	5.5%	5.1%	-0.4%
Midstream Energy	11.2%	13.5%	2.3%
Commod. Fut.	3.3%	3.3%	0.0%
HFoF Multi-Strat	6.3%	5.9%	-0.4%
Private Equity	8.7%	8.8%	0.1%

**3-month forecast*

***Tax equivalent yield based on highest marginal tax rate (37%)*

Summary of Changes to Process

- For all equity return forecasts (U.S., Intl Developed, and EM), we assume a 50 percent earnings reduction for the immediate year in CAPE and earning yields. Our historical analysis shows earnings declines of 20-40 percent during previous recessions.
- For REITs we assume a 25 percent dividend cut, which reduces the yield despite the recent sell off.
- Our CMA for Midstream Energy assumes a 1.1x distribution coverage (down from 1.4x) as midstream companies will spend some of their cash cushion. Alerian estimates a yield of 11.4 percent if there is a 50 percent distribution cut across the index.

Our Investment Themes for Remainder of 2020

1. We expect unbound economic and financial uncertainty to gradually wane.
2. The economic pain will be felt swiftly and markets are likely to remain extremely volatile for the foreseeable future.
3. Markets are moving at a torrid pace. Daily price swings have been moving at what used to be an annual pace. As a result, we anticipate revising our assumptions and Frontier Engineer™ modeling with greater frequency throughout the remainder of 2020.

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