Regency
INVESTMENT ADVISORS℠

FOCUS360°

May 2020

Market Commentary


Judson Myers
Chief Investment Officer

It was a three-month period like no other. Frightening, catastrophic, crushing, deadly and surreal are just a few of the words that come to mind. The one certain thing is that nobody will look at life in quite the same way again.

But here we are, so let's review some of the critical market events that have taken place since Covid-19 made its way outside China and to our shores (and the rest of the world).

For the year through the end of April, the S&P 500 was down "only" 9.3%, the Dow Jones Industrial Average "only" 14.1% and the Russell 2000 small-cap index 21.1%. We say "only" because the major April rally took the large-cap indices back from deep into bear-market territory. Major international stocks fared in between US large and small caps, dropping 17.8%. Safety was paramount and bonds did well, although not without some March hiccups—the Bloomberg Barclays US Aggregate Bond Index gained 5%, while cash (3-month Treasury bills) returned 65 basis points. Remarkably, the S&P 500 was up from the end of April 2019 by a little less than 1%.

The market was oddly calm and even bullish in the first half of February, aware of the virus but believing it to be contained. (We actually discussed February and its late-month unraveling after the virus took hold in the previous letter). But March was where things really came apart in the markets. With US deaths starting small and then skyrocketing, particularly in New York and then New Jersey but also in pockets throughout the country, the markets seemed to have one limit-down day after another, interspersed with notorious bear-market rallies. The virus first took hold domestically in Washington State but soon had its biggest impact in New York (City and State).

The market actually tried to rally back the first week of March, hoping the late-February selloff was just a fast correction, but ultimately failed and cracked in the next couple of weeks. When deaths were just starting to curve exponentially upward, the markets hit what may prove to be a bottom on Monday, March 23rd. Ironically, the night before, the Federal Reserve had announced what some call a "bazooka" to help with student loans, credit cards and other liabilities, as well as extending its previous $700 billion commitment. The Fed had cut short-term rates to effectively zero a week earlier. President Trump predicted the stock market would like the Fed's announcement, but he was sadly mistaken. The markets apparently felt far more help would be needed and that there was a limit to what the Fed could do without fiscal help from Congress. At this point the market was down about 37% from its highs reached barely over a month earlier in what was—excluding the ultimately short-lived crash of October 19, 1987—the fastest and sharpest bear market ever.

The next day, March 24th, the S&P 500 rallied 9% on speculation of an unprecedented fiscal response (the CARES, or Coronavirus Aid, Relief, and Economic Security Act), helping small businesses retain employees and expanding unemployment benefits. The following day saw a morning continuation that faded in the afternoon. Still, the market managed to gain about 11% for the rest of the week from the Monday bottom. With bumps and starts the rally continued, and by midday on April 17—the first trading day following promising news regarding a treatment, remdesivir, from biotech giant Gilead, the market, the S&P 500 had recaptured well over half the loss from February's high watermark. Few were prepared to say that this trend would necessarily remain in place, but it was a source of relief for many investors.

Other markets took their lumps as well. The yield on the 10-year Treasury predictably dropped sharply, playing its safe-haven role, as stocks sold off. It fell about 100 basis points (one percentage point, a huge move) between mid-February and March 9th. Then something surprising, and disconcerting, happened. Even as stocks continued to sell off, the Treasury yield backed up to 1.18% on March 18th. This suggested investors were rushing not just to safety but to cash, the ultimate risk-free asset. This move quickly reversed, however, and the 10-year drifted back down near where it had been on March 9th.

Credit also was a major issue, and one where the Fed's actions played a huge role in stabilizing the market. Investment-grade bonds, which typically pay less than a percentage point above Treasuries of comparable length,

Continued on page 2

Client Corner:

We write to notify you of an update to our Form ADV Part 2A Brochure, which was last updated on March 16, 2020. We are required to notify you of our annual update, as well as certain material changes to that document. This year, there were no material changes to our Brochure. As a courtesy, you may find the document at regencyinvests.com. You may also request a copy at no charge by calling us at 559-438-2640.

Key Indexes Source: Morningstar	YTD Base Currency	1 yr Base Currency	3 yr Base Currency	5 yr Base Currency	10 yr Base Currency	20 yr 2000-05-01 to 2020-04-30 Base Currency
DJ Industrial Average TR USD	-14.07%	-6.16%	7.67%	9.06%	11.01%	6.72%
S&P 500 TR USD	-9.29%	0.86%	9.04%	9.12%	11.69%	5.58%
Russell 2000 TR USD	-21.08%	-16.39%	-0.82%	2.88%	7.69%	6.29%
MSCI EAFE NR USD	-17.84%	-11.34%	-0.58%	-0.17%	3.55%	2.59%
BBgBarc US Agg Bond TR USD	4.98%	10.84%	5.17%	3.80%	3.96%	5.19%
USTREAS T-Bill Sec Mkt 3 Mo	0.65%	2.15%	1.74%	1.12%	0.60%	1.63%
IA SBBI US Inflation	0.55%	1.11%	1.86%	1.78%	1.71%	2.08%

Market Commentary Continued

were suddenly yielding 3-4% more. Again, investors wanted to get out of what they could sell, even if the prices seemed astonishingly unattractive. High-yield investors fared far worse. HYG, an exchange-traded fund for lower-rated bonds, fell by about 22% from peak to trough before rebounding. Municipal bonds suffered a similar decline in a less than two-week span. While banks are universally acknowledged to be in far better shape than they were in the financial crisis, they are still exposed to huge potential loan losses and a nearly flat yield curve (discussed in a previous letter). But the Fed is buying not just Treasury securities but also investment-grade and even some high-yield corporates. It is focusing on so-called "fallen angels", formerly investment-grade bonds downgraded to junk status, to keep those bonds from going into contagious free-fall from forced selling.

Perhaps the most telling financing event through the crisis involved Carnival Cruise Lines. The cruise operator, traditionally an investment-grade credit, lost about 80% of its value from the beginning of the year as travel ground to an essentially complete halt. To raise $6 billion to give itself the best chance of survival until the virus is contained, the company on March 18th issued stock at $8 per share (it had been above $50 at year-end), while also issuing bonds paying 11.5% and secured by most of the company's fleet. Months earlier the company could raise unencumbered money 10 percentage points lower. Capping it off, Carnival issued a convertible bond paying a healthy 5.75% coupon that would be convertible at $10 per share—a fifth of where the company began the year. Investors were taking the risk that the company would not recover, but they stand to profit handsomely if it does. About a month later, the stock had risen by more than 50%, and convertible investors were marking their bonds at a 35% gain.

One of the most astonishing events in the crisis was the collapse in May oil futures that took place the day before expiration on Monday, April 20. The futures dropped from around $18 to negative prices in a single day as traders feared they would have no place to put the oil they received. Such an event had never taken place before, and it's particularly remarkable that such a drop could happen on a single day when the oil market has been increasingly distressed since the coronavirus crisis took hold. Oil prices rallied back considerably over the rest of the week but remained at depressed levels.

By the weekend of April 24th the U.S. case and death tolls had exceeded 900,000 and 50,000, respectively. Yet, despite a losing week, the S&P 500 was only about 1.5% below the high that followed bear-market low set on March 23rd, and had recovered more than half its losses. The investment-grade, high-yield, and municipal markets had similar recoveries, even with Senate Majority Leader McConnell talking about allowing states to declare bankruptcy.

April 29 was a memorable day. Gilead announced positive results in a trial of remdesivir, its Covid-19 treatment, and that took the markets up more than 2% in the morning despite a first-quarter reading showing that the economy shrank by 4.8%, significantly worse than the expected down 3.5%. The S&P 500 continued to advance throughout most of the day, closing up better than 2.5% and trading higher in the aftermarket after good earnings from Microsoft and Facebook. Meanwhile, CNBC reported that pending home sales had fallen nearly 21% in March, but that realtors expected prices to remain stable. Southwest Air Lines, like Carnival, sought liquidity: it raised $4.6 billion through issuing stock and a convertible bond. Unlike Carnival, it didn't have to give away the store: its $2 billion convertible issue pays a coupon of only 1.25%. The same day, Fed Chairman Powell proclaimed (unsurprisingly) he would keep interest rates near zero until the economy had, essentially, fully recovered from the crisis. Deaths in the US surpassed 60,000 while cases passed the million mark.

The optimism of April 29 faded on the final day of the month, as the weekly unemployment toll of 3.8 million took the total count to a stunning 30 million. Markets fell nearly 1% out of the gate despite overnight strength. California announced the closing of all beaches despite being on a path toward gradually reopening the state's economy over the coming weeks. The month closed with lukewarm results from Apple and Amazon saying it was spending all its earnings on coronavirus-related issues.

Throughout this incomparable period, it's important for investors to remember one thing. Investment advisors add value not just by selecting investments, financial planning, or asset allocation. An advisor adds value by managing both clients' fears and optimism to help keep them on track to reach their goals. This has rarely, if ever, been truer than it is right now. While periodic rebalancing is a good tactic, an impulsive and emotional response to market volatility is not. Your advisors are here to help you stay focused on the long term.

Hope Now For Youth

Wanting to break the cycle of gang violence and car thefts that got Fresno ranked the least desirable place to live out of 227 American cities, Rev. Roger Minassian founded Hope Now For Youth (HNFY) in February 1993. Rev. Minassian hired Christian college students, often street youths themselves, to work out of churches and provide vocational counseling for at-risk young men, including many gang members, aged 16 to 24. While HNFY has been a great success, the Covid-19 crisis means the program is collecting a variety of items. Specifically, the program is looking for toilet paper, Kleenex, diapers, wipes, canned goods, dry foods, bottled water, hand sanitizer, Tylenol, cold & cough medicine, store gift cards, and other items.

In 2004 Pastor Roger Feenstra took over from Rev. Minassian and led HNFY through 2017. Today Pastor Bryce Naylor leads HNFY from its headquarters at 2305 Stanislaus Street in Fresno. HNFY goes throughout the city recruiting gang members in the same 16-24 age range, finding young men in and on parks, malls, bus stops and streets. Over the years some of the youth that HNFY has taken in have become staff members. Others have been employed at dozens of local businesses, beginning with Valley Children's Hospital, which started by hiring four HNFY graduates in 1994. The first hire at the hospital still works there today, 26 years later. The hospital ended up hiring 25 more graduates, of which 21 proved successful. Some of the other employers have included Pepsi-Cola, Piccadilly Inn Hotels, Radisson Hotel, Fresno State, the City of Fresno, and local businesses including Valley Truck Parts, Quiring Corporation and Quickie Designs. Around 300 businesses have been involved in the program.

Since 1994 HNFY has placed thousands of at-risk young Fresno men in jobs. With 23,000 gang members in Fresno in 185 gangs, there's a lot of work still to be done.

HNFY's mission is to take these young men from the streets to Christ and a job. It hopes to turn former gang members into fathers and family men. It succeeds because the counselors have been where the recruits are. The recruits see men who used to be where they are now but now have jobs, homes and families. They want the love and acceptance they lack. "To fall short of providing loving encouragement and gainful employment for any young man who sincerely desires our assistance in leaving the streets is to consign him to prison or death. God helping us, we will not fail to always offer life."

The five pillars on which HNFY builds its mission are:

- A caring relationship which builds self-worth and confidence.
- Models of Christian values and work ethic which inspire productive citizenship.
- Preparation for and placement in a job as an achievable economic alternative to gang crime and violence.
- Scholarships which encourage further education.
- Training of families in healthy relationships.

Gang members, once recruited from the streets, begin a four-week program with HNFY counselors, who pray for and encourage them. During these four weeks the recruits engage in classes, Bible studies, and sports, while getting official ID and Social Security cards. Graduating from this program is often the first tangible achievement these young men have experienced. It positions them for the Job Ready Crew (JRC), where they do odd jobs as they gain experience and await full-time employment, which HNFY job counselors arrange. Once a recruit obtains a job, HNFY provides a bicycle if necessary and makes sure the recruit shows up for his first day at work, praying for him, holding him accountable, while inviting him to attend local church with his family.

Here are a few of HNFY's key team members and their stories. Counselor Johnny Trujillo was introduced at age six to the gang lifestyle by his father, Mr. Trujillo completed an 18-month prison term and went into carpentry and roofing. In 2011 he became a counselor with HNFY. Now married with five children, Mr. Trujillo is completing his high-school diploma online and serves as a Vocational Placement Counselor. He aspires to be a chaplain in the military.

HOPE NOW™ FOR YOUTH

Paul Varela, another Vocational Placement Counselor, left the gang and drug life when he entered HNFY. He went on to work for Jack's Car Wash, the City of Fresno, and the Keiser Corporation before returning to HNFY as a counselor. He holds an AA in Biblical Studies and is working towards his BA. He enjoys the martial arts. Paul is also married with five children.

Sergio Perez, HNFY's Lead Vocational Placement Counselor, had a troubled childhood of constant fighting and vandalism and was expelled from the entire Fresno School District. He was about to take his life when he met and had dinner with Rev. Minassian. That dinner saved his life. Sergio graduated from HNFY in the late 1990s and has been with HNFY since 2000. He owns and manages a triplex apartment complex and is married with three children. The apartment complex serves as a home for new recruits at below-market rents.

Anyone interested in learning more should visit www.hopenow.org. Also, if you would like to watch a video about HNFY's history, DVDs are available. Contact the organization at info@hopenow.org. HNFY is also on Facebook and Instagram.

From time to time FOCUS 360 will include profiles of people and organizations making a difference in our community. It is not known whether those profiled approve or disapprove of Regency Investment Advisors or its advisory services provided. This article reflects the opinions of those interviewed, and should not be taken as a request for you to donate to any particular organization.

1312 W. Herndon Avenue, Suite 101
Fresno, CA 93711

Regency Executes its Contingency Plan

Marci Deck
Chief Compliance Officer

According to Wikipedia, **"May you live in interesting times"**, while seemingly a blessing, the expression is normally used ironically; life is better in "uninteresting times" of peace and tranquility than in "interesting" ones, which are usually times of trouble. We certainly are living in interesting times now but, true to the history of our country, we will overcome this too. Although no one could foresee the impact the Coronavirus would have on the world economy, Regency has had a contingency and disaster plan in place since 2004.

Regency's contingency plan addresses issues such as what to do in the case of natural disasters, other facility access problems or even contagious threats. First and foremost, with any disaster or threat, we want to keep our staff and clients safe, while protecting the integrity of our client services and records. In early March of 2020, we prepared to execute our contingency plan for the first time. One key detail was to utilize our cybersecurity policies to safely work remotely, using virtual desktop infrastructure to connect securely to our server. In spite of the Shelter in Place orders, as an essential business, Regency has been able to continue operations, but we modified our work plan for the safety of our clients and staff, such as limiting the number of staff in the office and asking others to work remotely. Although we are not meeting with clients in the office, we continue to offer secure video conferencing as an alternative.

We look forward to the day when all companies can resume normal operations. In the meantime, we continue to monitor your investments, offer our financial planning services and can always be reached at 559-438-2640.