STALEY CAPITAL ADVISERS, INC.
FIRST QUARTER 2020 REVIEW AND COMMENTARY

Market Review: After starting the year with a bullish tone backed by solid economic fundamentals, the Standard and Poor's 500 stock index experienced the fastest 30% decline ever (22 days) and posted the worst first quarter in history. For the quarter, the S&P 500 fell 19.6%, the Russell 2000 Small Cap Index declined 30.6% and the MSCI All World ex-US Index dropped 23.3%. The Barclay's Aggregate Bond Index gained 3.1% and gold rose 3.6%.

The abrupt market shifts in 2020 have been stunning. Buoyed by low inflation and a 3.5% unemployment rate, the S&P 500 gained 5% through 2/19 before the alarming spread of the novel coronavirus shattered investor complacency. The decline was further aggravated in early March by a collapse in oil prices as Saudi Arabia flooded the oil market when an OPEC agreement fell apart. The selloff cascaded into panicked, indiscriminate selling that knocked down the S&P 500 34% and the Russell 2000 41% in a month. The capital markets were under so much pressure even the U.S. Treasury market became too illiquid to trade in most issues. True to their recent form, the Federal Reserve responded with massive intervention. Along with slashing the Fed Funds target to near 0%, the Fed quickly dusted off its Global Financial Crisis playbook and deployed multiple programs that dwarf those 2008 efforts in both size and scope. Additionally, Congress launched the Cares Act to stabilize the economy and replace lost paychecks with additional fiscal stimulus likely on the way. The S&P 500 rallied 25% from 3/23 through 4/9 yet remained 17% below the peak reached in mid-February.

Economic Shutdown: The global economy is in recession as countries comprising roughly 92% of global economic output are under complete or partial lockdown. In the U.S., Wall Street estimates for 2nd Quarter GDP cluster around -35% and the unemployment rate could surpass 20%. This dreadful data has likely been discounted by the market and the estimated $19 trillion in global stimulus combined with the apparently successful efforts to "flatten the virus curve" have generated some optimism amongst investors. How quickly and successfully we extract ourselves from this lockdown, and the longer-term economic impact, remains completely unknown. All eyes are on the medical community for the testing, treatments and eventually vaccines that will hopefully return activity to its previous level.

Portfolio Strategy: Identifying high-quality companies attractively valued for the long haul has not been difficult. The challenge continues to be the unknown duration and ultimate consequences of this pandemic. Uncertain times like this further highlight the importance of having your time horizon and liquidity requirements drive your overall portfolio composition. In discussing portfolio strategy, "the market" is a poor proxy for the risks and opportunities in equities as the shutdown has had a very disproportionate impact on industries. The asset-lite, cash rich Technology sector continued its market leadership, declining only 12% in the first quarter. Healthcare fell only 13%. The Energy sector plummeted 51%, partially tracing the 66% collapse in the price of West Texas crude oil. Financials fell 32% and Industrials dropped 27%. Consistent with these sector returns, the Russell Large Cap Value Index declined 24% in the first quarter while the Russell 1000 Large Cap Growth Index fell half as much. As mega-cap technology stocks continue to drive the market, the Growth index has reached its highest level versus the Value index since 2000 which notably led to a decade long period of outperformance for the value style. Our strategy is to come out of this environment with exposure to each of these sectors and styles with the common thread being companies with strong market positions and solid balance sheets able to withstand this business interruption. We intend to balance your portfolio with high quality stocks that have held in relatively well along with more cyclical companies that have markedly underperformed and offer the potential for sharp recovery in better times.

We will continue to be nimble and tactical within this volatility while also having an eye toward the longer-term regime changes on the horizon. Enormous budget deficits, increased inflation risks from the Fed's monetary base growing at an annual rate of 20%, restrictions on company share buybacks eliminating a significant source of equity demand and the Fed buying corporate and municipal bonds are all potential new variables that will need to be analyzed and inserted into your long-term portfolio strategy.

It is especially during extreme times like this when we appreciate your trust and your willingness to allow us to navigate the markets on your behalf. Please stay safe and we look forward to seeing you in person soon.

YOUR STALEY CAPITAL INVESTMENT TEAM