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Dear Partners in Ministry,

Enclosed is the 2020 1st quarter statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

	1st Qtr 2020	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	-17.33%	-17.33%	-6.83%	3.31%	3.89%	5.55%
benchmark*	-18.89%	-18.89%	-8.66%	2.68%	3.38%	5.88%
Moderate Fund	-11.38%	-11.38%	-2.48%	3.71%	3.45%	4.89%
Mod. Ex-Carbon	-11.75%	-11.75%	-4.01%	n/a	n/a	n/a
benchmark*	-12.92%	-12.92%	-3.62%	3.53%	3.55%	5.47%
Conservative Fund	-5.25%	-5.25%	1.27%	3.67%	2.85%	4.55%
benchmark*	-6.44%	-6.44%	1.59%	4.20%	3.58%	4.91%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized.

Market Commentary from Envestnet | PMC

Brandon Thomas, Chief Investment Officer of Envestnet|PMC, concluded their "Economic and Market Overview: First Quarter 2020" report with the following observations and commentary:

> "Without question, the outbreak of the COVID-19 virus has quickly wreaked havoc on a US economy that had been in the midst of its longest expansion on record. Economists are of the consensus that the economy has fallen into a recession, with the only questions being how deep the downturn will be and whether it will be reflected in the first quarter or second quarter results. Some analysts believe that there could potentially end up being three phases in which the virus impacts the US economy: The first is the current environment of shutdowns and related layoffs. Weekly unemployment claims have surged to all-time highs. A material portion of the recently passed $2 trillion stimulus bill is designed to help mitigate these issues by incentivizing businesses to retain employees through the shutdown period. Analysts believe the second phase will take place when the negative impacts of the wealth effects are realized. The essentially forced shutdown of a large portion of the economy has meant significant losses of wealth for households, as the stock market has shed an estimated $10 trillion. Consumers will naturally pull in the reins on spending. A potential third phase would be a contraction in business investment. Collapsing oil prices resulting from the production war waged by Saudi Arabia and Russia has resulted in a pullback in investment in the energy industry, and if the shutdown persists for any length of time a contraction in other industries will likely follow. What most economists and market analysts seem to be in agreement on is that the extent to which the virus will adversely impact the economy will be determined by how quickly the trajectory of the virus is slowed, and the magnitude of the policy response."[1]

“Consumers will naturally pull in the reins on spending.”

The world can dramatically change in less than three months, actually, less than one month.

In my January 2020 letter I highlighted some facts and figures about the growth of consumer spending internationally, namely in China, and this phrase from Mr. Thomas in his Fourth Quarter 2019 overview, “the outlook for consumers remains bright.” Now we’re experiencing the severely negative effects of a consumer-driven economy when consumer activity is restricted by government-mandated shutdowns, shelter-in-place orders, and an unprecedented increase in unemployment. These measures are dramatic but necessary. Without these dramatic efforts to flatten the curve of the spread of the SARS-CoV-2 virus and its correspondent COVID-19 disease, the impact on millions of lives would be even more dramatic than the economic toll.

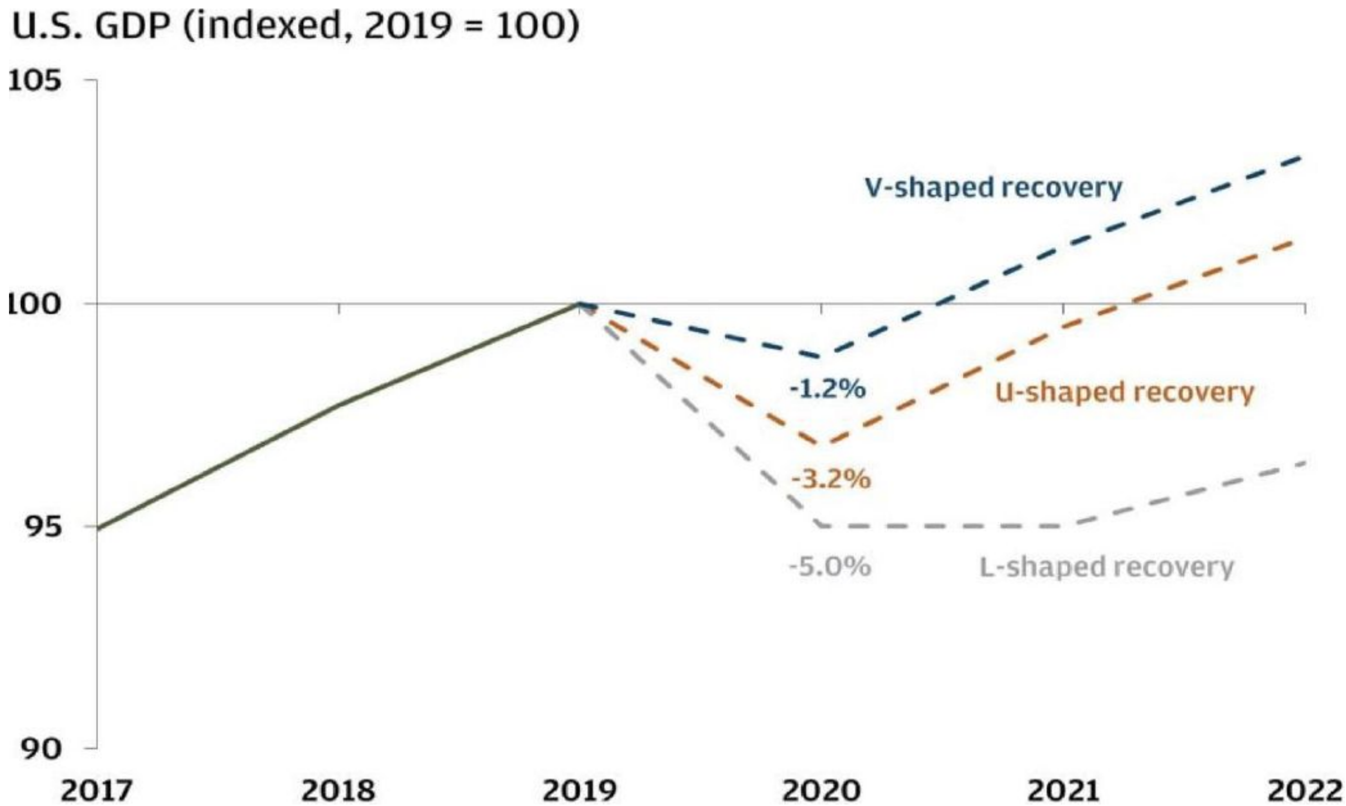
“Weathering the Storms of Market Volatility”

As I write these words, the S&P 500 has recovered about half of the swift and precipitous 34% decline from the all-time high of 3386 on February 19 to the recent low of 2237 on March 23. Does this recovery mean the recession will be short-lived? No one knows. The recovery in stock prices is likely related to more visibility on the bending of the curve, the massive and unprecedented federal stimulus, and the power of these four words: “Don’t fight the fed.” The Federal Reserve has slashed rates to near zero and has made it abundantly clear they will expand their balance sheet to however many trillions it may take to provide liquidity to the marketplace of US treasuries and even high yield corporate bonds. One cannot say “this is unprecedented” enough to get this point across: the Federal Reserve has essentially “unlimited” capacity to provide liquidity and the openly-stated intention to provide such liquidity.

In March I created some resources to place recent market volatility in a constructive context. We also hosted a video conference on April 1, 2020, with our resident expert and investment advisor, Jim Lumberg. Rather than reproduce much of that content here, please visit the Foundation’s website umfnic.org/weathering and share those resources with whomever you feel will benefit. There are two charts not shared on the website that I think are important to consider as we gaze into the cloudy crystal ball of what comes next.

Market Recovery	Characteristics	Dependencies
V Shaped • Most bullish outlook • 30% probability	• Rapid return of output once social distancing restrictions are removed. • Full year decline in GDP of -1.2%	• An effective medical response to managing the Covid outbreak. • Labor markets heal quickly; unemployment returns to pre-Covid levels. • Recovery of consumer demand.
U Shaped • Base case • 55% probability	• Output returns more gradually and the second-half 2020 recovery does not return GDP to pre-Covid levels. • Full year decline in GDP of -3.2% • Rebound quicker than 2008-2009	• No wide-spread resumption of Covid following social distancing; Seasonality. • Resumption of some travel, social interaction (work, restaurants, etc)
L Shaped • Pessimistic outlook • 15% probability	• Sustained economic weakness and consumer behavior. • Full year decline in GDP of -5.2% • Sustained high unemployment • Insufficient policy support.	• Covid is not manageable for a sustained period. • Businesses are unable to maintain normal operations. • Social distancing remains the norm.

Source: JP Morgan



Source: Bureau of Economic Analysis | JP Morgan

I have written in the past about commentators trying to pin the tail on the donkey of the next recession. Now that recession is upon us, commentators are trying to draw the shape of the recovery. C'est la vie. We are in the midst of an event-driven recession, the event being the spread of the novel coronavirus. The recovery in stock prices will be volatile. The marketplace has a way of “looking around corners” to see when the economic recovery will be underway and to anticipate it. It could be that a lot of the economic downside to come is already baked into stock prices. Or it could be that the marketplace has not “looked around corners” with enough clarity of the economic downside to come. We do not know.

So what do we know? We know that diversification works to mitigate downside risk to investment portfolios. We know that dollar-cost-averaging works when contributing to and distributing from investments. And we know that eventually the situation with the virus will end.

“Choose life ...”

Deuteronomy 30:19: “I call heaven and earth to witness against you today that I have set before you life and death, blessings and curses. Choose life so that you and your descendants may live.”

There is a debate going on now about utilitarian ethics among various pundits and experts, and among the millions of us who are not experts on social media. Practitioners of utilitarianism seek to optimize the consequences of action (and inaction), to do the most good while doing the least harm. Media channels and social media platforms are boiling over with debates about the “benefit” of saving lives versus the “cost” of crippling the economy and the ensuing fallout from massive unemployment, which in itself can lead to all sorts of negative physical and mental health outcomes.

As Christians, we should not encourage the divisions provoked by these armchair utilitarians in this war against our common unseen enemy, the virus.

One thing is clear: the morally good “benefit” of saving countless lives now is more certain than the morally bad “cost” of shuttering the economy. I did not assign values in a “cost-benefit” calculation, but rather I made a claim about “moral certainty.” It is a moral certainty, i.e. beyond a reasonable doubt, that saving one life has more value than ten people losing their jobs, than 100 people losing their jobs, 1000, 10,000, 100,000, and so on. The numbers are deeply disturbing. With the exponential increase in the numbers, whether deaths from COVID-19 or claims for unemployment benefits, how can we even begin to make sense of the numbers when each one number is an individual human life?

At what number of jobs per life saved does the equation reach “reasonableness” to consider? Even if we could assign values like this (1 saved life = # of jobs), there is no way we could all agree on what this equation would be. Utilitarianism may be the practical philosophy of bureaucrats and policymakers with power, but utilitarianism can never be a motivational worldview for each and every one of the 330 million individuals in our country and the billions of individuals worldwide.

In this season of Easter resurrection, let us be mindful of the abundant life God has given us. For as long as we are alive, we are blessed by God, our Creator and Redeemer. I leave you with three verses from that great hymn by Charles Wesley, #553 in our hymnal, “And Are We Yet Alive.”

1. *And are we yet alive,*
   and see each other's face?
   Glory and thanks to Jesus give
   for his almighty grace!

3. *What troubles have we seen,*
   what mighty conflicts past,
   fightings without, and fears within,
   since we assembled last!

6. *Let us take up the cross*
   till we the crown obtain,
   and gladly reckon all things loss
   so we may Jesus gain.

Be safe and be blessed,

Chris Walters

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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf