ECONOMIC COMMENTARY

By Harold G. Kotler, CFA

How can we think about our investments today? I won't restate the obvious and dwell on the unprecedented events that are unfolding. Nor am I going to try to predict the time and degree of this market cycle. I will, however, try to help us think through and navigate these stressful times.

There are still wonderful companies in the world today. By owning stocks, we are participating in the long-term future of their businesses. These outstanding companies will survive the current economic tsunami. What their market value will be on any given day is totally unpredictable. Regardless of how far their daily perceived values fluctuate, their intrinsic values will be maintained. Therefore, first and foremost it is important to own great businesses. Secondly, since valuations will fluctuate dramatically given the psychology of the times, one needs to have enough liquidity to avoid feeling the need to sell under duress or, worse, during a period of panicky liquidation.

The degree of liquidity needed is based solely on where each individual is in their life. If the portfolios are really for the benefit of children and grandchildren, the need for liquidity is small, if at all. If the income from the portfolio is not enough to cover one's overhead, then prudent sales of assets should be weighed. Two additional strategies that should be considered for clients who are eligible to take required minimum distributions (RMDs) from retirement plans—consider taking your RMD monthly to smooth out values, and consider taking your bond income that is not being distributed and buying stocks. These could be comfortable and easy ways to dollar cost average. We do recommend that any client required to take distributions consult their tax advisor, in light of the tax relief recently provided under the CARES Act.

The stock market has always been a source of liquidity. It truly is a "market." Because it represents liquidity for those who need cash, there will be times when a stock's valuation, i.e. its price, has little to do with the intrinsic value of the business. Each market correction is driven by its own unique factors, whether a credit crisis or a housing bubble or, as we have now, a global pandemic. The companies that are most vulnerable are those with too much debt. Of course, "too much" is a reflection on the crisis of the day, so it is up to our research analysts and portfolio managers to own the stronger companies that can withstand the times. That is our charge. We want you to know that we take this responsibility with all the seriousness and determination we can muster. This is a time when businesses and stock values will be out of sync.

Although it is too early to forecast the future, with the pandemic not yet under control, what I do know is that some aspects of the way we do business will change. At the top of that list, it seems obvious that businesses will need to get a better handle on their supply chains.

INDEX PERFORMANCE *3/31/20*

	QUARTER	YEAR TO DATE
Bloomberg Barclays 10-Year Municipal Bond Index	–0.40%	–0.40%
Bloomberg Barclays Aggregate Bond Index	3.15%	3.15%
Bloomberg Barclays High Yield Index	–12.68%	–12.68%
Dow Jones Industrial Average	–22.73%	–22.73%
S&P 500 Index	–19.60%	–19.60%
Russell 2000 Index	–30.61%	–30.61%
MSCI EAFE Index	–22.83%	–22.83%
MSCI World Small Cap ex USA Index	–28.39%	–28.39%
MSCI World Index	–21.05%	–21.05%
MSCI Emerging Markets Index	–23.60%	–23.60%

GW&K UPDATE *3/31/20*

TOTAL ASSETS UNDER MANAGEMENT	$40.4 billion
TOTAL EMPLOYEES	154
TOTAL INVESTMENT PROFESSIONALS	55

GW&K ANNOUNCES THREE NEW PARTNERS

Lewis Collins, General Counsel
Reid T. Galas, CFA, Equity Portfolio Manager
Pablo Salas, Equity Portfolio Manager

These promotions underscore our commitment to build and maintain a strong team dedicated to excellence in investment management and client service. We are happy to have professionals of their caliber help us provide a broad spectrum of top-tier investment solutions and resources for our clients. We look forward to their continued success.

The Just-in-Time (JIT) inventory method clearly helped companies become more profitable, but the current crisis has shown that a JIT policy has also created huge problems. It has led to a lack of inventory and the supply chains' inability to deliver products to meet demand. In the future, companies will need to build in redundancy so they are no longer dependent on one particular country or business. Inventory and redundancy are very expensive to fulfill. This added cost will either be absorbed by companies (resulting in lower profit margins) or passed on to the consumer.

There is no doubt that the Federal Reserve has relieved the liquidity crisis by providing crucial funds to the economy, and Congress, by passing emergency legislation, is providing some

Continued on next page

relief to the system, both to corporations and to the public. While it is far too early to evaluate the effectiveness of these policies, it is absolutely true that they are desperately needed. There will be further policies enacted but the attention will now turn to the duration of the pandemic and how long the system will be on hold. Unfortunately no one has a clear answer, but we will get to the other side of this crisis as our medical community finds solutions.

The infusion of liquidity and deficit spending will be issues that stay with us for some time. The need to keep interest rates very low will be critical so that both private and public borrowers can afford to service their debt. It is difficult to imagine that the necessary policies of today will not impact the long-term growth of our economy. The world's middle class will be instrumental in driving demand, both domestically and globally.

It is too early to visualize what other permanent changes there will be once the pandemic is under control, but there will be changes. Even with these changes, I believe that global integration will continue to be the driver of growth for all economies.

We wish you and your family health and safety. We at GW&K are available to answer your questions and address your concerns. Just remember: "this too shall pass."

Harold G. Kotler, CFA
CEO, Chief Investment Officer

FIRST QUARTER 2020

ECONOMY

- The economy started the quarter on solid footing, but the global spread of COVID-19 abruptly changed prospects for the worse. The Atlanta Fed estimates 1.3% GDP for Q1. However, these backward-looking measures do not capture the current turmoil.
- While we had turned the corner on some of 2019's trade and global growth concerns, the massive economic fallout from the coronavirus and negative consequences from retrenching consumers and businesses are inevitable. We are constructive on the economy for the long run, but near term are likely headed for a severe contraction.
- Over 480k jobs were added during the first two months of the year, yet March job losses exceeded 700k. Manufacturing and service surveys have held in but may not be fully reflective of the current circumstances.

FED AND FISCAL ACTION

- The FOMC left rates unchanged in January but then decreased them in two emergency meetings in March. This resulted in 150 bps in cuts, bringing rates to 0%–0.25%, levels matching financial crisis lows and last seen in 2015. The market expects rates to be unchanged through at least January 2021.
- The Fed dusted off its financial crisis-era playbook and upped the ante, announcing it would buy unlimited Treasury and agency MBS bonds. To support markets, it also implemented facilities to purchase certain municipal, corporate, and commercial MBS bonds. Its balance sheet topped $5 trillion for the first time.
- The government passed a $2.2 trillion fiscal stimulus package, the largest ever. The stimulus and the central bank's actions are estimated to provide over $6 trillion for the economy.

BOND MARKETS

- Fixed income experienced an extraordinarily volatile quarter as COVID-19 evolved into a global pandemic and investors aggressively shed risk assets amid a massive, system-wide deleveraging.
- Treasuries experienced their strongest quarter since the Great Financial Crisis (GFC). The combination of investors frantically seeking safe haven assets and the Fed's announcement of unlimited quantitative easing drove rates lower across the curve.
- In contrast, corporates had their worst quarter since the GFC. Spreads gapped wider on signs of financial distress resulting from coronavirus-related shutdowns.
- Despite the rally in January and February, Municipals endured historic volatility in March due to concerns over the fallout from COVID-19. This triggered unprecedented outflows from mutual funds and a repricing of assets across all sectors.

DOMESTIC EQUITY MARKETS

- U.S. equity markets plummeted in the first quarter, with the S&P 500 dropping –19.6%, ending its longest bull market with the sharpest and most indiscriminate selloff in history as global leaders took unprecedented steps in shutting down the economy to contain COVID-19. Large cap stocks proved to be more defensive than small caps during the selloff, with the Russell 2000 declining –30.6%.
- All sectors lost ground during 1Q. Information Technology held up best, followed by more traditional defensive sectors such as Health Care, Consumer Staples and Utilities. Energy severely underperformed, followed by Financials, Industrials and Materials.
- Growth stocks outperformed Value amidst the volatility. Investors also favored quality factors during the period, namely companies with low leverage, high return on equity and low beta measures.

GLOBAL EQUITY MARKETS

- Global equity markets reacted sharply to unprecedented actions taken in several countries to contain COVID-19, which saw all but essential businesses shut down. The MSCI World Index declined –21.1% while the MSCI World Small Cap ex USA Index fell –30.1%.
- Investors shifted to safe haven assets, particularly hard currency. The USD Index advanced 2.6%, though finished the quarter off its best level following swift Fed action to meet demand.
- Emerging markets declined in line with developed markets, supported by China's better relative performance. The country's economy began to recover with easing of containment restrictions. The MSCI Emerging Markets Index was down –23.6%; MSCI China declined –10.2%.
- Oil producing countries were faced with the added impact of a Saudi Arabia-Russia production dispute. The price of Brent Crude Oil collapsed nearly 60%.

MUNICIPAL BOND STRATEGIES

INVESTMENT TEAM

Nancy G. Angell, CFA	Partner, Co-Director of Fixed Income
John B. Fox, CFA	Partner, Co-Director of Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager
14 Municipal Investment Professionals	**22** Average Years Experience

GW&K MUNICIPAL BOND STRATEGIES

SHORT-TERM MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND ESG

2–8 YEAR ACTIVE MUNICIPAL BOND

MUNICIPAL BOND ESG

MUNICIPAL BOND

MUNICIPAL ENHANCED YIELD

The municipal bond market withstood historic volatility in the first quarter as COVID-19 exploded across the globe and wreaked havoc on financial markets. After falling to all-time lows amid a global flight to safety, tax-exempt yields went on a wild ride, spiking more than 200 basis points over a ten day stretch in March only to abruptly reverse course and recapture nearly three-fourths of that sharp selloff. The generic 10-year AAA yield finished March up 40 basis points for the month, but still down 13 basis points from the beginning of the year. Credit spreads, which had been on a years-long run of tightening leading up to the crisis, widened sharply amid the turmoil, led by high yield and low investment grade securities, but also extending to certain sectors and credits viewed as particularly vulnerable to a prolonged economic shutdown. As the quarter came to a close, municipal bonds had regained some much needed stability thanks to unprecedented government intervention, but with the primary market still in limbo, price discovery remained opaque, trading depth shallow and volatility elevated.

Over the first two plus months of the year, the municipal bond market experienced a sharp rally, benefiting from its traditional status as a safe haven refuge even as riskier asset classes came under increasing pressure. Eventually, however, cracks began to emerge. Flows into tax-exempt mutual funds, which had been running at a breakneck pace for over a year, suddenly turned negative, hitting the high yield sector particularly hard. The scramble for liquidity led to chaos in the overnight lending markets and a spike in short-term financing rates. This forced a number of large institutions to unwind levered positions that were caught in a funding squeeze, which, in turn, supercharged the selling pressure and spooked the market. With few buyers willing to step in front of the onslaught of supply, rates rose in breathtaking fashion.

From March 9 through March 20, the yield on 10-year municipal bonds jumped 201 basis points, at times moving as much as 50 basis points in a single session, much more severe than anything witnessed during the financial crisis. The government responded quickly with a massive dose of aid to keep things from getting worse. And so, after the Federal Reserve announced a series of liquidity programs to stabilize the money markets, a furious rally ensued, aided by a $2 trillion Congressional relief package that, among other things, granted the Fed authority to use the government's balance sheet to stabilize the municipal bond market. In just three days, the yield on the 10-year municipal curve dropped 145 basis points as investors breathed a sigh of relief.

As the quarter came to a close, a guarded sense of normalcy had returned even as questions still lingered. It remains to be seen, for instance, how long it will take new issue supply to scale back up to historical levels. Primary market transactions are the lifeblood of the municipal bond market because they provide price discovery across a wide swath of sectors, rating categories and maturities. The resumption of large-scale origination should narrow bid/ask spreads and deepen trading depth. Even as trading activity picks up, however, the credit landscape is poised to come under increasing scrutiny. Rating agencies have already assigned negative outlooks to most industry sectors and high profile downgrades are sure to make headlines. While municipal bonds should still be considered among the safest outposts in the fixed income universe, care must be taken with individual names. Some sectors face near-term liquidity concerns, others longer-term solvency challenges. Going forward, every credit must be closely evaluated within the context of the shutdown, with each scenario analysis considering a wide range of possible outcomes. The good news is that just as in past crises, a substantial amount of direct federal aid will deliver critical support to state and local governments while the Fed's new powers to purchase municipal securities should ensure proper market functioning. The road ahead will be marked by risks to control and opportunities to exploit. We have managed through similar periods of stress over the years and are determined to navigate this one just as successfully.

"While municipal bonds should still be considered among the safest outposts in the fixed income universe, care must be taken with individual names.…Going forward, every credit must be closely evaluated within the context of the shutdown, with each scenario analysis considering a wide range of possible outcomes."

TAXABLE BOND STRATEGIES

INVESTMENT TEAM

Mary F. Kane, CFA	Partner, Portfolio Manager
Stephen J. Repoff, CFA	Principal, Portfolio Manager
Nancy G. Angell, CFA	Partner, Co-Director of Fixed Income
John B. Fox, CFA	Partner, Co-Director of Fixed Income
12 Taxable Investment Professionals	**20** Average Years Experience

"We believe the sharp repricing of the corporate bond market to recession-level spreads offers a compelling opportunity for outsized returns in the coming years, even as the ultimate extent of the selloff and the timing of a rebound remain uncertain."

GW&K TAXABLE BOND STRATEGIES

- SHORT-TERM TAXABLE BOND
- INTERMEDIATE TAXABLE BOND
- CORE BOND ESG
- CORE BOND
- ENHANCED CORE BOND ESG
- ENHANCED CORE BOND
- TOTAL RETURN BOND
- CORPORATE BOND OPPORTUNITIES
- SHORT-TERM FOCUSED HIGH INCOME

Fixed income markets experienced an extraordinarily volatile quarter as COVID-19 evolved into a global pandemic and investors aggressively shed risk assets amid a massive, system-wide deleveraging. Measures enacted to slow the spread of the virus effectively shut down entire segments of the world economy, and the implications for growth, liquidity, and inflation were profound. Expectations for second quarter growth pointed to declines of as much as a third of GDP; companies began hoarding cash by drawing down lines of credit; and break-evens fell to their lowest level in two decades. Adding to the tumult was the start of a crude price war between Russia and Saudi Arabia, which exacerbated the selloff inspired by an already dire outlook for demand and helped oil post its worst quarter on record. Sentiment was similarly dismal, as investors struggled to handicap the ultimate duration and severity of the slowdown. They pulled record amounts of cash from investment grade mutual funds and caused dislocations in even the safest corners of the fixed income market, desperate to raise cash by selling anything they could. Fiscal and monetary authorities took significant steps to mitigate the fallout from the virus, but given the unprecedented nature of the threat it posed, the long-term efficacy of these efforts remains an open question.

The Treasury market experienced its strongest quarter since the Great Financial Crisis (GFC). The combination of investors frantically seeking haven assets and the Fed's announcement of unlimited quantitative easing drove rates lower across the curve. At the short end, Fed policy ushered in a return to the zero bound for overnight rates via two emergency rate cuts. Farther out on the curve, the yield on the 10-year Treasury touched an all-time intraday low of 0.31% before stabilizing only slightly higher. The yield curve closed at its steepest level in almost two years, as stimulus-driven supply fears and incipient inflation concerns constrained the rally in long bonds. Mortgage-backed securities were not immune to the initial selloff, with spreads briefly touching their post-GFC wides, but the Fed's assurances that it would support the sector caused spreads to snap back sharply. Taxable municipals fared less well, reaching their widest level in more than a decade in the face of investor outflows and rising credit concerns at the state and local level.

In contrast to the Treasury market, the corporate market had its worst quarter since the GFC. Spreads gapped wider on signs of financial distress resulting from coronavirus-related shutdowns. Companies began to lower or outright suspend earnings guidance and drastically reduce capital spending budgets. Worries of a sharp uptick in corporate defaults emerged as well, with investors questioning companies' ability to service and refinance debt in the face of weeks or even months without revenue.

Prompt action from the Fed and the promise of a record $2 trillion of fiscal stimulus provided enough of a backstop to arrest the sharp rally in rates and slow investors' frantic dash for liquidity. While it is too soon to judge whether these measures were sufficient or whether further accommodation will be necessary, it is increasingly clear that to the extent support is needed, it is likely to be provided. As such, we anticipate a further steepening of the yield curve over the medium-term, as stimulus from the Fed is likely to anchor the short end at the same time as additional issuance and inflation concerns weigh on the long end.

We believe the sharp repricing of the corporate bond market to recession-level spreads offers a compelling opportunity for outsized returns in the coming years, even as the ultimate extent of the selloff and the timing of a rebound remain uncertain. Yields sit at decade highs and spreads are poised to benefit from unprecedented stimulus and the economy's gradual return to normalcy. Selectivity and a focus on the higher quality segments of the market remain key, as the impact of the virus is likely to expose latent credit weakness in the more challenged sectors. The mortgage space continues to offer opportunity as well. The higher coupon specified pools that we typically target have yet to fully reflect the benefit of the Fed's buying, while the sector overall is likely to see further spread tightening as rate volatility continues to subside.

DOMESTIC EQUITY STRATEGIES

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager
Aaron C. Clark, CFA	Principal, Portfolio Manager
12 Equity Investment Professionals	**21** Average Years Experience

GW&K DOMESTIC EQUITY STRATEGIES

EQUITY DIVIDEND PLUS

DIVERSIFIED EQUITY

SMALL/MID CAP CORE

SMALL CAP VALUE

SMALL CAP CORE

SMALL CAP GROWTH

Despite the emergence of COVID-19 onto the world stage at yearend, there was nary a word of it in our prior report nor by most global prognosticators. And thus markets continued on their upward trajectory to start the year, buoyed by strong domestic growth and a reduction in geopolitical concerns. Markets were hitting all-time highs as recently as February 19. But as the virus broke from the confines of Asia, markets began to understand its substantial human and economic toll, declining deep into bear market territory at a record pace. While we saw a sharp rebound in late March in reaction to the massive fiscal and monetary response, markets nonetheless posted one of the worst quarters on record.

The S&P 500 Index ended its string of up quarters with a bang, down –19.6% for the first quarter. All market sectors showed declines in the double digits, with massive performance differences between the "winners" and the losers. At the favorable end of the spectrum was Information Technology, declining only –12%. More defensive sectors like Health Care, Consumer Staples and Utilities also held in relatively well, with percentage declines in the low teens. With the feud between Russia and Saudi Arabia pushing oil prices down substantially, it was no surprise Energy was at the bottom of the list, down by –50% for the quarter. Financials, Industrials and Materials also lagged, impacted by record low interest rates and a sudden drop in demand.

The Russell 2000 Index had an even more painful quarter, down –30.6%. All market sectors were similarly down double digits. While defensive sectors such as Utilities, Health Care and Consumer Staples all registered low teen declines similar to those of large caps, the extremes on the downside were more dramatic. Energy stocks declined on average by –62%, as the long-term viability of domestic shale production was called into question. Consumer Discretionary stocks declined by –44%, with particular damage to companies providing services where people tend to gather such as hotels, restaurants and leisure.

Large cap stocks clearly expanded their relative performance advantage over small caps, outperforming by 11% in the quarter. Generally, better performance of large cap names explains much of the difference, as a more volatile environment tends to punish small caps. Growth stocks similarly continued their dominance over Value in the quarter.

There is only one issue worth discussion, COVID-19. The election, trade, geopolitical uncertainties, oil, etc., have all become quite irrelevant. And as such, there is really only one question worth asking: how long and how deep will this market downturn be? The true answer is "nobody knows."

Recall that the markets and the economy were both humming along only 4–6 weeks ago. Record low unemployment. More job openings than people to fill them. Strength among most measures of economic activity. Those underlying dynamics have not changed. We will get back to prior levels, and will most likely grow from there. But to the question of stock market outlook, reassuringly, the answer begins with "when," not "if" we come out of this. Ultimately the virus will run its course, either because of herd immunity, successful treatments limiting serious or deadly effects, or a vaccine. It may take two months. It may take two years. More likely somewhere in between.

At the risk of extreme understatement, the economy has slowed dramatically. Certain industries that have been the backbone of growth in our consumer-driven economy have ground to a complete halt. In response, fiscal and monetary policy have been nothing short of staggering. Suffice it to say that even in the Global Financial Crisis we did not hear the word "trillions" thrown about so casually and so often. Regardless of political leanings, this is where governments are meant to step in, with full and unending force. The long-term implications of such spending measures are not fully known. But the short-term implications of not spending enough are almost too obvious to mention—economic collapse. So with open ended fiscal and monetary response, both here and abroad, governments will get us over the economic chasm.

Our focus remains on constructing portfolios populated by high-quality, well managed companies able to maneuver through an unpredictable world. That has never been more true than it is today. We are using this environment to upgrade the quality of our portfolios when markets don't differentiate between the good and the bad, thus increasing the likelihood of future relative outperformance. It has worked for us for many decades.

> "Our focus remains on constructing portfolios populated by high-quality, well managed companies able to maneuver through an unpredictable world. That has never been more true than it is today."

GLOBAL EQUITY STRATEGIES

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Principal, Portfolio Manager
8 Equity Investment Professionals	**23** Average Years Experience

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

"There is no historical market event similar to COVID-19 in the breadth of its economic impact globally. However, as long-term investors that have navigated previous economic downturns, we know that global markets will rebound from today's uncertainty, and potentially reach new levels."

Global developed markets started the year at all-time highs, began drifting lower on COVID-19 reports out of China in mid-January and then sold off sharply beginning the last week of February as the coronavirus spread around the world. The MSCI World ex USA and MSCI World Small Cap ex USA Indexes finished down –23.3% and –28.4%, respectively. The speed of the decline, uncertainty in both health and economic impacts, and an oil price shock resulted in the single worst quarterly return on record. The U.S. dollar initially sold off until a scramble for dollars caused a sharp rally in March that only eased somewhat when the U.S. Fed opened unlimited swap lines to G7 central banks and provided reverse repo facilities for other countries. The U.S. dollar ended the quarter up 2.8%.

The selloff was widespread with every region, country, and sector lower. By geography Asia (–23.8%) declined the least, followed by the Middle East (–26.0%), Europe (–30.5%), and North America (–37.6%). North America was particularly hard hit, as Canada has high exposure to the Energy sector and also bore the brunt of a very weak Canadian dollar (–7.7%). Belgium (–17.9%) fared the best, while Norway (–41.8%) another Energy exposed market declined the most. Sector returns followed a classic bear market pattern with Consumer Staples (–13.8%), Health Care (–15.6%), and Utilities (–16.2%) outperforming, while Energy (–56.0%), Consumer Discretionary (–35.3%) and Industrials (–30.9%) underperformed. Real Estate (–26.9%) was surprisingly weak, likely due to concerns about sustainability of rent payments during widespread lockdowns.

Early in the quarter, the market selloff tracked local viral infections. Asia started earliest, and the news was mostly ignored by global markets as the virus was still "over there." Once cases began to appear globally and news coverage increased, the markets started to drift lower and eventually reached a period of panic selling in mid-March. At this point, global central banks dusted off their 2008 crisis playbooks and moved with dramatic speed to first backstop the financial system, followed by widespread government fiscal support measures. It is impossible to use enough superlatives to describe the speed and magnitude of responses from both governments and the private sector. An unprecedented voluntary shutdown of the world economy leaves investors and policymakers without a historical analogue. The uncertainty of the health and economic impact leaves investor forecasts and company strategies in tatters. So we will focus on what we do know.

There is no historical market event similar to COVID-19 in the breadth of its economic impact globally. However, as long-term investors that have navigated previous economic downturns, we know that global markets will rebound from today's uncertainty, and potentially reach new levels. The resiliency of people and expansive fiscal and monetary support should expedite a recovery once the virus has been contained globally. Our experience during the September 11 and Global Financial Crisis contractions provides a framework for managing through the current cycle. We focus on owning quality companies with strong balance sheets. In the "buy-anything" bull market of the last five years, where balance sheets and profits were seen as irrelevant, this anchor could sometimes serve as a drag on performance; however, in the current environment this anchor provides a stable platform. We continue to make adjustments as the information and environment changes, but always maintaining our long-term approach and sticking to our process.

We will conclude with four insights our team is using to navigate the current environment. First, global economies will survive and despite all the war language in use, the productive base is intact. Second, the government 'stimulus' is not actually stimulating, it is simply a holding action, an attempt to keep the global economy from freezing up during the lockdown. Third, there will be major, permanent changes to the global economic structure. We expect a renewed focus on domestic resiliency and possibly major changes driven by post crisis "blame." Finally, while the current crisis is akin to a deflationary bust, there is a meaningful chance that government responses will finally result in a shift to an inflationary regime. Our views on these topics will evolve as the situation unfolds. They will also guide us in managing the portfolio to emerge from the crisis well positioned to capitalize on the recovery.

EMERGING MARKETS EQUITY STRATEGIES

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Pablo Salas	Partner, Portfolio Manager
Nuno Fernandes, CFA	Vice President, Portfolio Manager
Thomas A. Masi, CFA	Vice President, Portfolio Manager
Bradley J. Miller, CFA	Vice President, Portfolio Manager
William P. Sterling, Ph.D.	Global Strategist
18 Equity Investment Professionals	**26** Average Years Experience

GW&K EMERGING MARKETS EQUITY STRATEGIES

EMERGING MARKETS EQUITY

EMERGING MARKETS EQUITY ADR

EMERGING WEALTH EQUITY

EMERGING WEALTH EQUITY ADR

The coronavirus pandemic hit the world with exponential speed in March, triggering widespread lockdowns and economic and financial stress. For global investors there were few places to hide. Emerging market equities were especially hard hit with the MSCI Emerging Markets Index declining –15.4% for the month and finishing down –23.6% for the quarter. In comparison, developed market stocks, as measured by the MSCI World Index, declined –13.2% for the month and –21.0% for the quarter.

The rush out of risk assets was intensified by a production dispute between Russia and Saudi Arabia that resulted in a nearly 60% collapse in the price of Brent crude oil. Intense distress in energy-related debt markets was an immediate consequence. Many other commodity prices also fell sharply in March in response to the rapid global contraction in economic activity. The Commodity Research Bureau (CRB) Index of raw materials prices declined –24% in the month.

Government bonds rallied furiously, with the yield on the 10-year U.S. Treasury falling 0.48% in March to a level of 0.67%. A scramble for U.S. dollar liquidity created an intra-month spike in the Bloomberg Dollar Spot Index of 9%, but Fed measures to flood the global system with dollar liquidity limited the dollar's gain to 4% in March.

There was a stark difference in currency movements within emerging markets. Currencies of nations that successfully curbed the growth of COVID-19, such as China, South Korea and Taiwan, saw their currencies finish the month relatively flat against the dollar. But commodity-based currencies fell sharply, including those of Brazil (–9.2%), Colombia (–8.5%), Indonesia (–9.7%), Mexico (–13.1%), Russia (–11.1%) and South Africa (–10.2%).

The enormous blow to the world economy created by coronavirus lockdowns was met by a torrent of decisive responses by economic policymakers. Fiscal expansion measures of nearly 5% of world GDP were announced in March, along with a flurry of rate cuts and nearly unlimited monetary accommodation by the Fed and the European Central Bank. Notwithstanding such measures, J.P. Morgan's economics team now projects that world GDP will decline at a 10% annual rate in the first half of the year as widespread lockdowns curb economic activity.

In view of such a sudden stop to global economic activity, it is unsurprising that within emerging markets the most defensive sectors in the first quarter were Health Care (–8.5%) and Communication Services (–9.6%). In contrast, cyclical sectors have been hard hit, including Industrials (–28.1%), Materials (–30.7%), Financials (–31.1%) and Energy (–39.9%).

On a regional basis, the MSCI Emerging Markets Asia Index, down –11.7%, was the most defensive thanks to the successful public health measures of China, South Korea and Taiwan. These three countries account for nearly 60% of the MSCI Emerging Markets Index. Latin America was the hardest hit region, as represented by the MSCI Emerging Markets Latin America Index (–34.8%), due to its dependence on commodity exports and the related weakness in its major currencies.

The scale of the global stimulus measures helped both emerging and developed markets recover somewhat in the last week of March. However, significant uncertainty remains about the future course of the pandemic and the duration and economic costs of related lockdowns. There is optimism that Europe is beginning to see a notable decline in the growth of new cases in its epicenter of Italy, and hopes that the U.S. may see such a decline in mid-to-late April. Most economic forecasts project some kind of second half recovery in economic activity, albeit U-shaped rather than V-shaped. Asian countries that have curbed the virus appear likely to lead the global recovery process.

Emerging market countries outside of China and South Korea appear to be two weeks or so behind the U.S. in the exponential increase of new cases. That said, from a fundamental perspective, the next few months may remain challenging. We continue to stay focused on using this difficult time to position ourselves in quality franchises that have sufficient balance sheet strength to weather the storm and to resume strong growth when conditions normalize. With the MSCI Emerging Markets Index trading at a price-to-book ratio of only 1.3 times, emerging market stocks have been cheaper on that basis only 5% of the time in this century.

"There is optimism that Europe is beginning to see a notable decline in the growth of new cases in its epicenter of Italy, and hopes that the U.S. may see such a decline in mid-to-late April. Most economic forecasts project some kind of second half recovery in economic activity…."

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