



March 26, 2020

## Investment Update

In recent weeks, the spread of the novel coronavirus (COVID-19) outside of China has caused a rapid increase in market volatility and a decline in the value of stocks and many other financial assets. Both the unknown nature of the disease and the “social distancing” strategies employed to combat its spread have disrupted daily living and the worldwide economy.

Although there will be disruptions in the near term, we remain stalwart believers in the resilience of the American economy. Time and again, this country has proven to be resourceful, creative, and adaptable, and currently the US economy is coming from a position of strength to deal with this exogenous shock. The financial sector is well-capitalized, and the consumer sector began the year in very healthy shape. Although S&P 500 profits for 2020 will be impacted materially, especially in more cyclical and commodity-oriented sectors, we do not believe that long-term earnings power will be reduced. Previous instances of the market reacting to other shocks display a repeated pattern of an initial drawdown followed by a recovery. In the meantime, the Federal Reserve has acted aggressively by cutting short-term interest rates to zero as well as bringing back many of the programs that supported the markets and economy during the Great Recession. Furthermore, as of this writing, Congress appears close to passing a \$2 trillion fiscal stimulus package designed to support US consumers, several specific industries, and the economy as a whole.

As a result of our focus on industry-leading companies with superior financial strength and resilient cash flows, we believe our portfolios are capable of withstanding periods of stress. With some industries grinding to an absolute halt, the current crisis is placing a substantial premium on lower debt levels and the ability to continue to generate revenue. In fact, we have been witnessing a worldwide “dash for cash” on the part of corporations and investors. Initial bouts of volatility have triggered margin calls and forced selling in various parts of the financial markets. It is important to remember that the shares in our portfolios are ownership interests in large, financially-strong, and competitively-advantaged businesses rather than just prices flashing on a computer screen. Ultimately, we believe these companies will survive the current crisis and be positioned to thrive in the subsequent recovery.

Our research team is actively monitoring our portfolio companies and the impact of this virus on their businesses. We have conducted stress tests on companies in our portfolio to better understand the downside risks for specific stocks. Clearly, there will be an impact on many companies’ 2020 profits, but we believe our portfolios are positioned appropriately, with lower debt levels at our portfolio companies and an emphasis on areas that tend to have a more stable demand profile. Starting from that position, we are also on the lookout for unique opportunities that may arise during this evolving situation.



# F A Y E Z S A R O F I M & C O .

While the pace of the recovery is difficult to predict, we believe that this challenging economic environment will pass. At the same time that many countries around the globe are currently adopting measures to contain the spread of the virus, the medical community is rapidly developing various anti-viral medications and vaccines that could contain the virus in the future. At some point, the population should also begin to develop immunity as more individuals recover from being infected. Additionally, foreign governments and central banks are implementing their own forms of stimulus to support the global economy as appropriate. It is for these reasons that we believe that building resilient portfolios focused on the long-term continues to be the right strategy.

On a more personal note, we sincerely hope that you and your families stay safe during this period of uncertainty, and, as always, we encourage you to contact us if you have any questions. Fayez Sarofim & Co. began implementing our business continuity plan for a pandemic event several weeks ago. As a result, most of our firm is now working in a distributed fashion. This physical separation has not impacted our ability to effectively conduct our business activities through daily calls and virtual meetings, ongoing research analysis, as well as normal client communications. Additionally, our operating systems are fully functional, and there has been minimal disruption to our clients. We are optimistic that we will move past this crisis in the near term.

Thank you for your continued trust and confidence in Fayez Sarofim & Co.

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