WILMINGTON TRUST

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April | 2020

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

Rocky Road Ahead, but This Too Shall Pass

In this issue:

Tony Roth
Chief Investment Officer

It is with no sense of reluctance that we turn the page of the calendar to the second quarter of 2020—the ninth-worst quarterly price return for the S&P 500 dating back to 1926. Unfortunately, any sense of solace from crossing into a new calendar quarter is clouded by the expectation that the situation is likely to get worse before it gets better. This includes the global health impact, the economy, and the financial markets alike. The road ahead will be rocky, but in time this crisis too shall pass. We continue to manage client portfolios according to our core investment tenets—in particular, a focus on economics first in the search for long-term opportunities.

Focusing specifically on portfolios, we believe that markets are still not pricing in the duration of the economic dislocation that we fear lies before us. While the near-term national focus has been on cresting the health care peak of this first wave of the disease, it will soon shift to the conditions necessary to re-engage our national economy. We expect to learn over the coming months that restarting will be a messy affair, proceeding in fits and starts and not culminating in an economy operating at capacity for many calendar quarters. And this notwithstanding the truly impressive fiscal and monetary intervention that has for the moment worked to stabilize markets and provide a historic backstop for American workers and small businesses.

Viewing the COVID-19 crisis through an economic lens

Consider today's environment, where we find ourselves in uncharted territory on several fronts:

- **A uniquely devastating recession.** No two economic expansions end for exactly the same reasons, and no two recessions follow the same playbook, but the current economic contraction is particularly unique. A global economic shutdown has been

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Due to circumstances beyond our control, markets have taken us back a few years and are calling for a "do-over." It is critical that investors rebalance portfolios in light of all that's changed, so they can be better positioned to protect and prosper. Look past the clouds to our Wilmington Wire "Silver Linings Playbook."

No two economic expansions end for exactly the same reasons, and no two recessions follow the same playbook, but the current economic contraction is particularly unique.

almost simultaneously constructed by policymakers to mitigate the exogenous shock of the COVID-19 pandemic. Never before have we experienced such an abrupt, widespread halting of global economic activity. Without the typical, "organic" business cycle dynamics at play, the historical recession playbook is not as useful this time around.

- **Stimulus on steroids.** The response from global policymakers, both central bankers and government officials alike, has been the most rapid and powerful deployment of support for the economy and markets that we've ever seen. Only time will tell if it was enough (and that is not to say either the Federal Reserve or Congress is necessarily done), but no one can fault American policymakers for sitting on their hands during the onset of this crisis.
- **Oil price collapse.** At the very moment the global thirst for petroleum experienced an unmatched demand shock, the OPEC+ cartel essentially collapsed in parallel, creating an abundance of supply at the worst time possible. With storage options spilling over, some producers are literally paying downstream consumers to take crude off their hands.

Our investment process always starts with economic fundamentals, as we believe conviction on the state of the economy is key for predicting the trajectory of financial markets over a 9–12 month investment horizon. In a "normal" (i.e., non-crisis) environment, we recognize that the best models incorporate estimates around several unknown variables and optimal decision making considers a range of possible outcomes.

In the unprecedented situation in which we find ourselves today, we recognize the high degree of uncertainty around so many elements of this crisis. We have therefore taken our scenario analysis up a notch, modeling both the degree of viral mitigation efforts (Levels 1–3) and the timeframe those restrictions could remain in place (30, 90, or 180 days) to determine the potential economic outcomes. That framework is discussed in detail in this issue's "In Focus," and Figure 1 shows a range of possible economic outcomes for the second quarter of 2020 and the full year based on our analysis.

Given the unparalleled nature of the economic shutdown we are experiencing, the range of numbers shown in Figure 1 is incredibly wide. For example, the difference between a 30-day and a 90-day Level 2 response could represent a swing in 2020 U.S. GDP of approximately 4% and second-quarter GDP of nearly 30%. The negative numbers in the bottom right portion of the table would represent a deeper contraction than we have ever seen before in our nation's history.

With the range of plausible estimates so wide, it is incredibly important to triangulate on which set of boxes is most likely, even as the situation is continuously evolving. Our best guess, based on what we know about the science of the virus and the U.S. policy response thus far, is that accumulated mitigation efforts for nearly all of the country (Level 3) remain in place for between 30 and 90 days, with the

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Figure 1

Scenario analysis of possible U.S. GDP Impact

U.S. GDP impact by scenario

	Length of time	30 days	90 days	180 days
Level 1	2020 GDP	**2.9%**	**-0.4%**	**-2.2%**
	2Q 2020 SAAR*	4.8%	-15.2%	-21.0%
Level 2	2020 GDP	**1.4%**	**-2.7%**	**-7.3%**
	2Q 2020 SAAR	-5.6%	-34.8%	-44.6%
Level 3	2020 GDP	**0.7%**	**-9.4%**	**-14.0%**
	2Q 2020 SAAR	-19.6%	-63.2%	-69.8%

Data as of April 7, 2020.

All scenarios assume a $2 trillion federal stimulus package of which $1 trillion enters the economy directly in 2020.

Source: WTIA.

Level 1: One-third of the nation's population is under significant mitigation measures

Level 2: Two-thirds of the nation's population is under significant mitigation measures

Level 3: The full nation's population is under significant mitigation measures

*Seasonally adjusted annual rate.

U-shaped recovery

A relatively sharp economic decline is followed by a more gradual recovery over time, typically over a period of six to 18 months.

V-shaped recovery

The economy suffers a sharp but brief period of economic decline with a clearly defined trough, followed by a strong recovery.

W-shaped recovery

The economy declines sharply and begins a quick recovery that is interrupted early by a subsequent economic decline(s) before the economy finally embarks on a more sustainable recovery; the middle section of the W can represent one or more brief and shallow economic recoveries halted by an additional economic crisis.

potential for certain states ahead of the country's curve to reduce mitigation measures while others are still ramping them up. As of April 6, over 90% of the U.S. population is under some sort of lockdown or stay-at-home order. Of course, that does not necessarily mean citizens will fully comply. Figure 2 shows a "Social-Distancing Scoreboard" provided by Unacast (https://www.unacast.com/covid19/social-distancing-scoreboard). This group uses geospatial human mobility data to determine the change in mobility and nonessential travel in different states—in other words, the degree of social distancing taking place. According to this group's research, many areas are failing to adhere to guidelines.

Based on our bottom-up analysis of economic industries, a Level 3 mitigation effort for 30–90 days would imply a contraction of U.S. GDP in the second quarter of perhaps some 40%. For perspective, the deepest prior quarterly decline in U.S. GDP was in the fourth quarter of 1958, when the U.S. economy contracted 10% on a seasonally adjusted annualized basis.

The ABCs...or UVWs...of a recovery

From an investment perspective, the recovery is as important as the contraction itself. A "V-shaped" recovery would be the best scenario we could hope for and the best for equity returns over the next 12 months, but one we find unlikely. To get a robust economic recovery, we believe there would need to be meaningful progress on testing—including availability of both diagnostic and antibody testing—as well as therapeutics. Absent these two elements, delivered in a systematic manner, we are not optimistic that the public will feel comfortable with a full and complete resumption of pre-virus activity.

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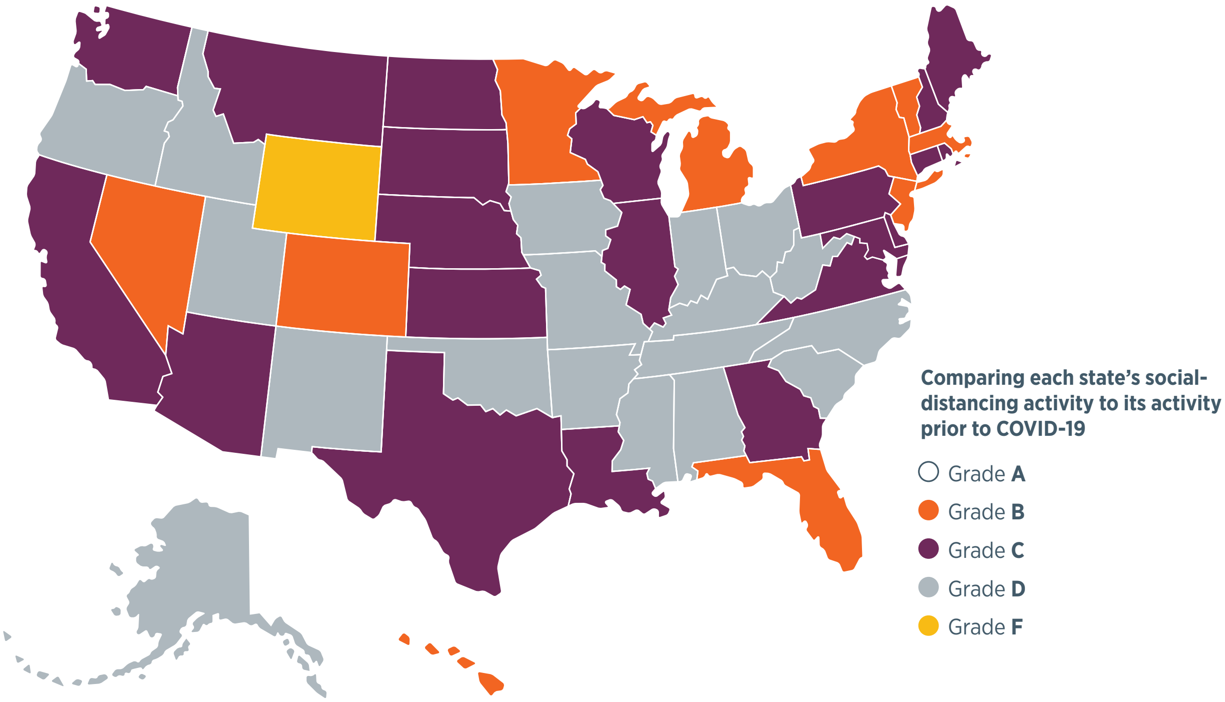
Figure 2

U.S. map of social-distancing measures



A grade of "A" represents the most effective social-distancing measures, measured by data showing the greatest decline in mobility and nonessential travel, while a grade of "F" represents the least decline. For more information on methodology, see https://www.unacast.com/covid19/social-distancing-scoreboard.

Data as of 9:00 am, April 8, 2020.

From an investment perspective, the recovery is as important as the contraction itself.

What is more likely is either a "U-shaped" or "W-shaped" recovery. The "U" would imply a slower recovery, with the economy impaired for longer by the astronomically high jobless rate and a more gradual return to normal activity. Certain cohorts of the population may feel more comfortable resuming activity in certain areas of the economy, but others such as airline travel may take much longer to recover. We also wouldn't rule out a recovery that looks more like a "W," with the economy getting "back online" but the country re-escalating social-distancing protocols in response to a resurgence of cases later in the year. This is a pattern we have seen in prior pandemics and are already seeing in Asia, where the case growth diminished substantially but, after relaxing mitigation efforts and permitting freer travel into and out of the country, hot spots have once again started cropping up. Unfortunately, without robust therapeutics or a vaccine, the latter of which seems another 9–18 months away, the virus and its attendant social and economic paralysis is simply not fading anytime soon.

Investing in an age of uncertainty

Since there is no precedent for the unprecedented, such as the one-of-a-kind recession we are now experiencing, investors should be cautious in relying too heavily on historical market behavior. That said, we have reason to believe the following two conditions will hold true:

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Figure 3

Behavior of S&P 500 around historical recessions

Recession dates	S&P 500 peak-to-trough decline (%)	S&P pullback duration (# calendar days)	Estimated # of months stocks bottomed before recession ended*
May 1937 – June 1938	-54%	386	-3
Nov 1948 – Oct 1949	-21%	363	-5
July 1953 – May 1954	-15%	252	-9
Aug 1957 – April 1958	-21%	99	-6
April 1960 – Feb 1961	-14%	449	-4
Dec 1969 – Nov 1970	-36%	543	-6
Nov 1973 – Mar 1975	-48%	630	-6
Jan 1980 – July 1980	-17%	43	-4
July 1981 – Nov 1982	-27%	622	-4
July 1990 – Mar 1991	-20%	87	-6
Mar 2001 – Nov 2001	-49%	929	+10
Dec 2007 – June 2009	-57%	517	-4
Average	**-32%**	**410**	**-5**
Median	**-24%**	**418**	**-5**

*A negative number indicates the S&P 500 bottomed that number of months before the end of the recession. A positive number indicates the S&P 500 bottomed after the end of the recession.

Indices are not available for direct investment.

Data as of April 7, 2020.

Source: Macrobond.

Since there is no precedent for the unprecedented, such as the one-of-a-kind recession we are now experiencing, investors should be cautious in relying too heavily on historical market behavior.

1) The stock market will likely bottom before the economy. In 10 of the past 11 recessions, stocks have bottomed before the recession ended by an average of five months (Figure 3). Based on our assumption that the U.S. economy will begin to recover in the third or fourth quarter of 2020, this would imply that stocks could start to price in that recovery and begin a sustainable rally relatively soon—assuming the market has not yet bottomed, which we cannot say with certainty but based on our analysis do not believe to be the case.

2) The equity market's bounce off the bottom need not reflect the strength of economic recovery. There is no better example of this than the recovery following the global financial crisis of 2008–2009. The subsequent economic recovery was anemic, yet the S&P 500 returned more than 70% including dividends in the 12 months following the March 9, 2009, market trough. However rapid the equity market bounce, it is likely that some of the largest moves up will occur when the world still looks the darkest, and investors positioned too conservatively will miss an important opportunity to recover lost portfolio value.

With all of this in mind, we retain a cautious stance on markets, positioning client portfolios with a modest underweight to equities versus our strategic benchmark and a slight overweight to investment-grade municipal bonds. The U.S. health situation is clearly going to deteriorate further in the near term as we march toward the national peak of the pandemic, and absent a positive surprise from the

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pharmaceutical industry, we see little to counter that negative news flow. Stock pullbacks of the magnitude witnessed between February and March rarely occur without the market rolling back over and retesting the lows. However, we still expect the U.S. contraction to be shorter—albeit deeper—than many prior recessions, and we expect stocks will be higher, perhaps significantly so, 12 months from now. Rather than reducing risk further in portfolios, we think it is prudent to be rebalancing portfolios and queuing up—but not yet deploying—strategies for adding back to risk assets. It is not yet the time to overweight equities, but for investors with a time horizon greater than two to three years, we believe the market currently presents attractive opportunity that may only increase if indeed we have not yet reached the depths of this crisis.

Until next month,

Tony

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IN FOCUS

Assessing the Potential Economic Impact of COVID-19

Luke Tilley
Chief Economist

At a glance:

- **To estimate the expected economic impact of the current crisis, we built a bottom-up analysis by projecting the possible impacts on various aspects of the economy**
- **From a GDP perspective, we are likely past the point of the best case scenario: a positive 2.9% growth rate if the spread of the virus stopped right now and only one-third of the country experienced mitigation efforts for 30 days**
- **The worst outcome of -14.0% comes from a nationwide stay-at-home order for 180 days and would be the poorest economic performance in our nation's history**
- **We estimate a consumer spending decline of over 10% under Level 1 and project nearly one-third of consumer spending would disappear in a Level 3 scenario**
- **Fiscal stimulus plans will boost federal spending and enter the economy to mitigate some of the lost spending and wages**

The COVID-19 epidemic and ensuing mitigation measures are unprecedented and will produce jarring impacts on the U.S. and world economies. The stay-at-home measures employed in the U.S. and elsewhere include the forced closure of vast swaths of the economy on both the goods and services sides. Never before have large economies endured such a broad-based shutdown. The only parallels are smaller in scale and different in nature, such as a hurricane impacting a small, specific geography or perhaps the attacks of September 11, 2001, in New York City.

To estimate the expected economic impact of the current crisis we built a bottom-up analysis by projecting the possible impacts on specific line items of consumer spending, job losses, cutbacks on business capital expenditures, and the government's fiscal policy response. Critically, the future spread of the virus and medical developments for diagnosis and treatment are unknown; hence, so are the degree and length of the economic shutdowns ahead. In order to deal with that, we estimated impacts over varying scenarios of degree and length.

Our results, shown in Figure 1, indicate a wide range of possibilities for economic growth in the U.S. in 2020. The best is a very positive 2.9% growth rate if the spread of the virus abated immediately and only one-third of the country experienced mitigation efforts for 30 days. We are likely already past that point with nearly 90% of the U.S. population under some kind of stay-at-home order at the start of April 2020. The worst outcome of -14.0% comes from a nationwide order for 180 days and would be the poorest economic performance in the scope of the U.S. GDP data, exceeding the worst year of the Great Depression.

Consumer spending

It's well known that the American consumer is the largest component of the U.S. economy, making up approximately two-thirds of GDP. The nature of the COVID-19 mitigation efforts is leading to a sudden shutdown of many types of consumer spending, different from any recession witnessed in the past. We apply adjustment factors for a very detailed level of consumer spending (36 subsectors) for each degree of mitigation to project the aggregate impact on consumer spending.

Figure 2 shows the impacts aggregated to a higher level than the level of analysis. In our scenario framework, we apply differentiated impacts to each consumer spending sector depending on its exposure to the mitigation efforts. Some line items are more affected by the mitigation strategies, such as restaurants, movie theaters, and hotels (as a result of canceled events and restricted travel). Also taking a hit are retail (clothing) and personal service businesses (salons), while other categories are

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Figure 1

U.S. Real GDP growth 2020

	30 days	90 days	180 days
Level 1	2.9%	-0.4%	-2.2%
Level 2	1.4%	-2.7%	-7.3%
Level 3	0.7%	-9.4%	-14.0%

Level 1: One-third of the nation's population is under significant mitigation measures

Level 2: Two-thirds of the nation's population is under significant mitigation measures

Level 3: The full nation's population is under significant mitigation measures

All scenarios assume a $2 trillion federal stimulus package of which $1 trillion enters the economy directly in 2020.

Data as of April 7, 2020.

Source: WTIA.

The impact on overall consumer spending is staggering. With a Level 1 mitigation, where one-third of the country is under some kind of stay-at-home restriction, consumer spending declines by more than 10%. Under Level 3, nearly one-third of consumer spending disappears.

actually seeing an increase in spending (internet video streaming and groceries) as a result of the stay-at-home orders.

The impact on overall consumer spending is staggering. With a Level 1 mitigation, where one-third of the country is under some kind of stay-at-home restriction, consumer spending declines by more than 10%. Under Level 3, nearly one-third of consumer spending disappears. Those figures are in annual spending terms. To incorporate these figures into our overall framework, we adjust the annual figures (12 months) from Figure 2 to reflect the timeframes of 30 days, 90 days, and 120 days.

Job losses

We also estimate job impacts for each of the levels and lengths of mitigation. We provide separate impacts for each of the 14 main employment sectors. Impacts are more severe for highly affected industries (leisure and hospitality) and less for others (professional and business services). The job losses are then factored into our GDP growth estimates by way of lost income, which in turn further reduces consumer spending.

In addition to leisure and hospitality, the industries expected to see the largest reduction in employment include retail trade and other services, and health care (nonurgent medical employees at doctor and dentist offices). In addition, some additional sectors may be vulnerable given a large share of small business employment (construction, wholesale trade). We also expect reduced employment in the energy sector (which falls under the mining and logging industry), assuming that the plunge in oil prices persists.

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Figure 2

Summary of projected consumer spending impacts by mitigation level

	2020 baseline ($billions)	% below baseline by level Level 1	Level 2	Level 3
Consumer spending	**$14,874**	**-10.4%**	**-17.0%**	**-31.2%**
Goods				
Durable goods	$1,566	-20.0	-35.0	-65.0
Nondurable goods	$3,028	-4.9	2.7	2.9
Services				
Housing and utilities	$2,729	0.0	0.0	0.0
Health care	$2,520	-10.0	-25.0	-50.0
Transportation services	$490	-20.0	-35.0	-65.0
Recreation services	$599	-25.1	-36.6	-57.7
Food services and accommodations	$1,042	-35.0	-55.0	-85.0
Financial services and insurance	$1,184	-10.0	-25.0	-50.0
Other services	$1,179	-13.0	-18.4	-26.9
Net foreign travel	-$18	-35.0	-55.0	-85.0
Nonprofit Institutions	$459	0.0	0.0	0.0

Level 1: One-third of the nation's population is under significant mitigation measures

Level 2: Two-thirds of the nation's population is under significant mitigation measures

Level 3: The full nation's population is under significant mitigation measures

All scenarios assume a $2 trillion federal stimulus package of which $1 trillion enters the economy directly in 2020.

Data as of April 7, 2020.

Sources: Bureau of Economic Analysis, WTIA.

Figure 3

Projected job losses (millions) and implied unemployment rates by scenario

		90 days
Level 1	Job losses	11.5
	Unemployment rate	10.5%
Level 2	Job losses	23.0
	Unemployment rate	17.5%
Level 3	Job losses	34.4
	Unemployment rate	24.4%

Employment impacts do not incorporate the potential impact of fiscal stimulus on hiring behavior or labor supply. Unemployment rate calculations assume no change in the labor force.

Data as of April 7, 2020.

Source: WTIA.

Figure 3 shows the projected aggregate impacts on the U.S. job market for the 90-day scenarios at all three levels. At Level 1 for 90 days, we project 11.5 million job losses, which would lead to an estimated unemployment rate of 10.5%, assuming no change in the labor force. At Level 2, the job losses are more than double, and at Level 3 for 90 days, we project a staggering loss of 34 million jobs generating a Depression-era level of unemployment of nearly one-quarter of the labor force. Importantly, these job losses could be very short-term in nature if the mitigations are lifted and government stimulus efforts are successful in preventing large-scale, permanent layoffs.

Capital expenditures

Capital expenditures (capex) are expected to decline due to the collapse in oil prices and the mitigation strategies. Private capex makes up nearly 18% of the economy. About 80% of that is spending by firms and the other 20% is the construction of homes. For the shorter mitigation periods, we do not expect capex to decline as sharply as in the 2008–2009 crisis. In that episode more than a decade ago, a financial crisis impeded capital flows, blocked access to credit, and created a more drawn out and intense economic cycle. But a prolonged 180-day mitigation for the entire country is likely to bring down capex as much as before.

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The fiscal stimulus plans that have already been signed into law will boost direct federal spending and enter the economy to mitigate some of the lost spending and wages

The impact increases with the level and length of mitigation. Capex is a smaller component of the economy, but historically has more significant swings than consumer spending over the course of a cycle. This cycle could be different as the primary trigger for the downturn is a direct, forced reduction of consumer spending.

Fiscal stimulus

The fiscal stimulus plans that have already been signed into law will boost direct federal spending and enter the economy to mitigate some of the lost spending and wages described earlier. The largest and most recent plan includes many grants and lending programs that are designed to help firms through the challenging declines in consumer spending, which translate to lost revenue. There are industry-specific programs for airlines and hospitals. A key component is the nearly $350 billion for Small Business Administration loans that will essentially convert to grants and won't need to be paid back for small businesses that retain their employees. This complements expanded access to credit markets for large firms through the Federal Reserve.

Other components of the stimulus are paid directly to individuals. These include checks of $1,200 sent directly to individuals making up to $75,000 and then declining amounts up to $99,000. In addition, those with children will receive $500 per child. Additionally, for those who lose their jobs, the eligibility and the amount of income replacement from the unemployment insurance program have been greatly expanded. We incorporate the federal fiscal stimulus spending in our expectations for growth in each of the scenarios.

The ultimate economic impact of COVID-19 and the mitigation measures depend heavily on variables that are currently unpredictable, including the spread of the disease, the level of mitigation employed, and the length of that mitigation. Our framework is a way to address those uncertainties by examining a range of scenarios. We are confident that, with the level of mitigation implemented thus far and the economic damage that has emerged, the U.S. will experience a sharply negative shock in the second quarter like never witnessed before. The depth of that shock will depend on the duration of mitigation. Crucially, the rate of economic recovery after mitigation is lifted will depend on how businesses have weathered the storm. The fiscal stimulus provides a cushion for many businesses, and in our model, it softens the blow to growth.

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ASSET CLASS OVERVIEW

Taxable Fixed Income

Randy Vogel, CFA
Director of Taxable Research and Senior Portfolio Manager

AS OF MARCH 31, 2020	Month	YTD	Trailing 12-month return
Barclays U.S. Aggregate Bond Index	-0.59%	3.15%	8.93%
Barclays U.S. Investment Grade Credit Index	-6.63%	-3.14%	5.10%
Barclays Ba High Yield Index	-9.27%	-10.15%	-3.19%
Barclays U.S. Mortgage Backed Securities Index	1.06%	2.82%	7.03%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indexes are not available for direct investment.

What we are seeing now

Investment-grade corporate bond returns were negative during March. Risk premiums widened materially reflecting the increase in credit risk resulting from the growing coronavirus crisis. In addition, energy sector returns were dismal, driven by a precipitous drop in the price of oil. The inability of Russia and Saudi Arabia to agree on supply cuts, along with the potential demand destruction caused by slower economic activity drove oil prices lower during the quarter.

Investment-grade flows turned significantly negative as investors sold risky assets and piled into the safety of Treasuries. U.S. corporate investment-grade funds reported a record $38 billion outflow for the week ended March 26. Year-to-date, investment-grade corporate bonds have returned -4.44% (through March 27). The energy sector was the worst performer, providing a total YTD return of –20.16% through March 27.

What's changing

Unprecedented monetary and fiscal policy support for credit markets. The Federal Reserve and Congress have responded to the crisis by passing a significant monetary and fiscal stimulus package. The Federal Reserve has responded aggressively, bringing short-term rates to the zero bound and reinstating quantitative easing. The Fed also initiated several programs to help ease credit market dislocations. To address liquidity issues in the commercial paper market, the Fed introduced the Money Market Mutual Fund Liquidity Facility (MMLF) and the Commercial Paper Funding Facility (CPFF). Both programs are designed to facilitate the flow of short-term credit to investment-grade companies. To provide liquidity for outstanding corporate bonds, the Fed established the Secondary Market Corporate Credit facility (SMCCF) on March 23, 2020. Through this facility, the Fed will purchase investment-grade-rated corporate bonds maturing within five years. The facility will also be able to purchase exchange traded funds whose investment objectives are to provide broad exposure to the market for U.S. investment-grade corporate bonds. The fiscal stimulus package, which exceeds $2.0 trillion, will get much needed cash into the hands of consumers and businesses while many parts of the economy remain closed.

What we expect

Although we expect volatility to continue, we think valuations for certain parts of the investment-grade corporate bond market are compelling. Actions taken by policy makers to support the market should help valuations over time. Opportunities to buy very high-quality credits in the primary market at large concessions are plentiful. Over the past two weeks, blue chip companies such as 3M, Kimberly Clark, Target, and Procter and Gamble have all issued debt at very attractive levels. For example, Kimberly Clark (A2/A) issued 10-years bonds at a spread-to-treasuries of 225 basis points (bps) and a yield-to-maturity above 3.0%. Similar bonds issued by Kimberly Clark traded at a spread of just 70bps and a yield-to-maturity under 2% in February. We will continue to take advantage of these opportunities for our clients.

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Investment Positioning

Portfolio targets effective April 1, 2020, for high-net-worth clients with Hedge Funds

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	31.5%	Underweight
U.S. Small-Cap	5.5%	Neutral
International Developed	16.0%	Neutral
Emerging Markets	5.5%	Underweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Overweight
High-Yield–Tax-Exempt	2.0%	Underweight
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Overweight
Other	1.5%	Underweight
Nontraditional Hedge	5.0%	Overweight
Cash & Equivalents	2.0%	Overweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

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For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

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Investment Positioning

Portfolio targets effective April 1, 2020, for high-net-worth clients with Private Markets*

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	24.3%	Underweight
U.S. Small-Cap	4.3%	Neutral
International Developed	11.6%	Neutral
Emerging Markets	4.1%	Underweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Overweight
High-Yield–Tax-Exempt	2.0%	Underweight
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Overweight
Other	1.3%	Underweight
Nontraditional Hedge	6.0%	Overweight
Private Markets	17.5%	Neutral
Cash & Equivalents	2.0%	Overweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited.

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For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

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Indexes are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that would reduce returns.

An overview of our asset allocation strategies:
Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Allocations:
Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

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Disclosures Continued

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

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Definitions:

Alpha is a measure of performance on a risk-adjusted basis. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Sharpe ratio refers to a risk-adjusted measure calculated using standard deviation and excess returns to determine reward per unit of risk. The higher the ratio, the greater the risk-adjusted performance.

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