July 10, 2020

Dear O'Brien Client,

It has been a tough year so far. Despite the S&P 500 experiencing its best quarter of performance in over 20 years, stocks are still down for the year and there is still a lot of unease in investors' minds. Moreover, that unease now comes from sources beyond the still-to-be-resolved coronavirus outbreak. For one, the recovery in financial markets has vastly outpaced the recovery in the economy and labor markets. Social unrest, and reactions to that unrest, are rising as well.

It is natural to feel uneasy as we enter the second half of the year, because there are still many questions that remain unanswered. The following, in particular, come to our minds:

- How do we balance re-opening the economy and the rise in virus cases that likely follows?
- Will policymakers provide additional stimulus in a timely and effective manner if needed?
- What are the potential implications of the coming national elections?
- How will society respond to both the rise in social unrest and, more importantly, the underlying drivers of those divides?

As passionately as we feel about some of these issues, our jobs as stewards of your assets is to strive to remove the emotion from the investment decision-making process. As such, we would like to provide you with an update of the signposts we believe are key to watch on the path to recovery.

The table below summarizes six signposts we are watching, along with how we see progress towards each post.

Six Signposts on the Path to Recovery	Current Situation
Stabilization of coronavirus infection rate	New cases rebounding; vaccine progress
Clarity on depth & duration of economic disruption	Containment easing; economy likely past trough
Sufficiently large global stimulus	More stimulus needed, and probably coming
End of funding/liquidity stresses in markets	Fed actions mean hopefully past this signpost
Cheap asset markets	Markets now largely looking past coronavirus
No other Black Swan events	Two months since last event (negative oil)

Source: Goldman Sachs, O'Brien Wealth Partners, as of 6/30/2020.

Progress on the healthcare front remains mixed. Easing containment measures have brought a rebound in cases – particularly in states that arguably never fully contained the virus to begin with. But at the same time, vaccine and treatment measures for those that contract the virus continue to progress. The key going forward is whether we can find a tolerable trade-off that allows people to continue going back to work without resulting in an uncontrolled second wave outbreak until a vaccine is available.

From an economic standpoint, containment measures are easing and the economy is rebounding sharply in response. To the extent containment measures continue to ease, it is likely that the trough in economy activity has already occurred. That said, it will take years for the economy – and labor markets in particular – to fully recover.

Policy response remains impressive compared to what took place during the Global Financial Crisis, both from a magnitude and a timing standpoint. But more stimulus is needed, particularly for those that are still unable to return to work. As long as policymakers remain willing to supply stimulus as needed, we are likely past this signpost.

Similarly, policy actions by the Federal Reserve (Fed) since March have helped remove the illiquidity issues clogging the pipes that make up the plumbing of our financial system. We find it encouraging that despite recent stock market volatility illiquidity issues so far have not returned to bond markets. Moreover, the Fed has indicated they will do what it takes to keep the pipes unclogged. As such, we are hopefully past this signpost as well.

The sharp rebound in financial markets now means that markets are no longer cheap. But markets can still rise further from here. Massive stimulus, healthcare progress and the bottoming out of the economy were the primary drivers of the rebound. As long as those dynamics remain in place, even if they are incremental, markets could rise further. Indeed, the recent rally suggests this is what investors are anticipating. The biggest risk is therefore probably not a second wave, or even the upcoming elections, but rather policymakers failing to deliver additional stimulus if the market deems it necessary.

The last signpost has to do with not experiencing additional Black Swan – or unforeseeable extreme negative – events. When the environment is changing rapidly, the potential for other things to unexpectedly go wrong rises, such as negative oil prices a few months ago. Since that time, however, no other Black Swan events have occurred.

Given the state of these signposts, we see both attractive longer-term investment opportunities and still-elevated near-term risks. Our response for your portfolio is therefore two-fold. We continue to research investments we feel are well-positioned to capitalize on those opportunities and, in the case of high yield, have begun adding them to your portfolio. We have also been researching options beyond high-quality bonds to further diversify equity risk within the alternatives portion of your portfolio that may help preserve capital in the event of another pullback.

At the same time, we have enhanced our Environmental, Social and Governance (ESG) portfolio for clients interested in addressing inequality and other positive environmental and corporate governance practices by buying stakes in companies that offer the potential for positive returns, as well as an impact on society aligned with their views. ESG investing may also help preserve capital in the event of another pullback, as it has shown an ability to provide better downside protection during market sell-offs than traditional investment strategies.

As shown in the chart below, this dynamic has repeated itself again during this year's sell-off, with ESG benchmarks (green bars) outperforming their traditional counterparts (blue bars) in both global and domestic stock markets.

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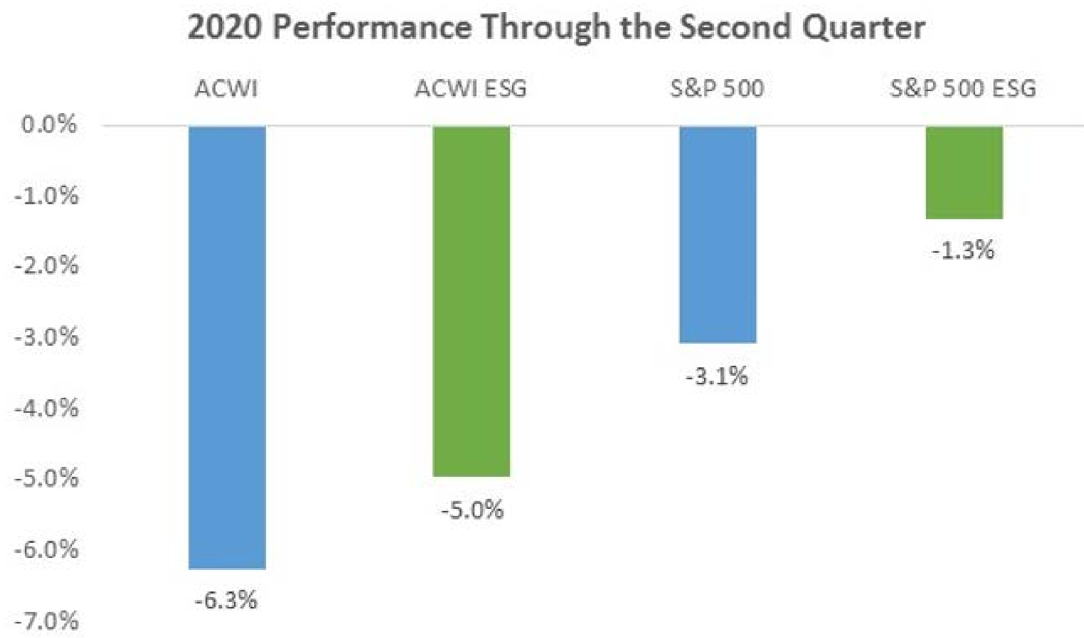

Past Performance No guarantee of future results. ACWI ESG and S&P 500 ESG are their respective ESG Leaders Indices. Source: Morningstar, Standard and Poor's, MSCI, O'Brien Wealth Partners, as of 6/30/20.

We hope you are all taking care and staying healthy. If you have questions, or would like to talk, please call us at 617-547-6717.

Your O'Brien Team

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