



INDEPENDENT
THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

EVERCORE

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Special Edition

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Patient Capital in a
Turbulent Market

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A Message from the CEO



This is my first CEO column in *Independent Thinking* and my third month as the leader of this firm. In this period we've confronted a global pandemic, shifted our entire staff to remote work, advised clients through a 34% plunge in the S&P index and, perhaps, a glimpse of recovery. I can say a lot of things about my first three months in this role, but "as expected" is certainly not among them.

Of course, it's been a very difficult time. Many of our clients and employees are understandably worried about their health and that of their families and friends. Everyone is concerned about the cost of COVID-19 to our society and the economy. And I know that we all miss our routines, at work and in our communities, and miss the easy camaraderie that comes with physical proximity.

There have been bright spots, though. The good nature of – and positive engagement with – our clients, who like us take the long view, has encouraged us all. And the way in which our entire national team shifted almost overnight to a virtual practice without missing a beat remains for me a source of enormous pride and gratitude. Our advisors and staff are communicating consistently with their clients and teams through a range of communication channels, from phones to video conferences to webinars, and finding innovative ways to deliver wealth management advice and solutions.

So, what happens now? That's the focus of this special electronic issue of *Independent Thinking*. We consider the markets from a range of perspectives, leading with our Chief Investment Officer's

outlook, and including articles on equities, municipal bonds, and market volatility. Disciplined asset allocation has never been more important, and we are determined to keep our focus on meeting our clients' goals, while maintaining existing lifestyles (or as close to that as any of us can get in current circumstances) and peace of mind. Now is always the hardest time to invest, as our colleagues like to say, but we are seeing significant opportunities, as well as continued risk.

We also look at long-term strategic wealth planning considerations; while planning may not be top of mind for many families at present, it is our job to tell clients who have been considering wealth transfer strategies that now looks like a very opportune time for implementation in light of depressed asset values, low interest rates and potential future tax legislation changes.

I would like to draw your attention in particular to the article on resilience on page 13 by Jeff Maurer, now Chairman of Evercore Wealth Management and Evercore Trust Company, and my predecessor in the CEO role since the founding of our firm. It is in part thanks to his careful succession planning over the past several years that I have felt well

prepared to lead our team in serving our clients through all market conditions.

No one knows how long this pandemic will last. All we can do in the interim is to strive to remain close to our clients and close to each other, as we continue to work to meet our clients' long-term financial goals. This is a relationship business, and I know I speak for all of us at Evercore Wealth Management and Evercore Trust Company when I thank you for your continued trust and confidence in our firm. I encourage you to contact us to discuss the topics in this issue of *Independent Thinking* or with anything else that is on your mind. You can reach me at zander@evercore.com.

I hope you and your family stay safe and well.

A handwritten signature in dark ink that reads "Chris". The signature is fluid and cursive.

Chris Zander
President & Chief Executive Officer

Weathering the Storm: Portfolio Investing in a Pandemic

By John Apruzzese

As the United States shuts down in an unprecedented fight against a pandemic and more than three million people file for unemployment in a single week, Wall Street is making its bets on the economic outcome.



Allocating Capital: Four Essential Guidelines

By Martha Pomerantz

A market timer and his money are often soon parted, especially in the face of recession and a bear market. Here are some of the capital allocation guidelines that we practice in all market environments:

- **Stay focused on long-term client goals.** Our asset allocation for each portfolio is aligned with client goals, spending habits, and attitudes to risk. It is essential to never lose sight of these considerations, however dramatic events in the markets might be.
- **Practice disciplined rebalancing.** Rebalancing portfolios to maintain individual target asset allocations makes sense in all market conditions. As equity values fall below the target in declining markets, rebalance. As they recover, make sure that the allocation to defensive assets remains on track.
- **Utilize incremental purchasing.** Buying at the very bottom, when the outlook is bleakest, is nearly impossible. Instead, we stage investments in a disciplined way. For example, if a 55% allocation to stocks declines to only 45% of the total portfolio allocation after a 30%-plus equity market drawdown, we'll bring it back to 55% but rarely all at once. Adding exposure in smaller increments as the market declines and as it begins to recover provides investors with multiple good entry points.

- **Value is relative.** Market drawdowns are largely indiscriminate, taking down high-quality investments along with the rest. Good investors will always discriminate, looking for the best opportunities in existing and new markets.

We view this current sell-off as an opportunity to further enhance client portfolios, positioning them for strong, long-term expected returns. Investing in bear markets is challenging, both tactically and psychologically. But maintaining investment discipline goes a long way in protecting portfolios in tough times and preparing for better days.

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The initial response was a 34% sell-off in the S&P 500 over a one-month period, and then a sharp rally on news of government rescue. But investors also need to see how quickly the federal government will be able to act; it won't be easy to spend more than \$2 trillion. The actual course of the virus and how quickly we return to something approaching normal behavior will be the most important factors impacting the markets.

No one really knows, of course. All we have to go on are examples in Asia, where the virus hit first and where economies

are now beginning to reopen, and various epidemiological models. But the consensus of economists seems to be a plunge in second quarter GDP of between 10% and 25%, further but more modest declines of about 5% in the third quarter, and the beginning of a recovery in the fourth quarter. For 2020 as a whole, that's a drop of between 5% and 10% in U.S. GDP, with a loss of upward of 10 million or more jobs. Earnings estimates are notoriously slow to adjust to such a sudden change in circumstances, but we have to assume earnings for the S&P 500 will be down by at least 20% or more.

*The United States
will be at near
maximum shutdown.*

The Federal Reserve is applying lessons learned from the financial crisis of 2008-2009 in acting as the lender of last resort to support the financial markets. In fact, the Fed is now going far beyond the actions it took during the last crisis in supporting a much broader list of securities, including corporate and municipal bonds. In addition, U.S. banks

are in far better shape than they were going into that crisis. They have passed stress tests on their balance sheet that were comparable to the currently anticipated scope of this experience.

Additionally, Congress is attempting to inject \$2 trillion into the economy. That represents about 10% of the country's GDP. Just how quickly and effectively government can get these funds to households and businesses small and large remains to be seen. The timing is truly critical, as it will determine the number of jobs that could be saved and how many households should be able to bridge the gap to recovery.

*Most long-term investors
are by nature optimists*

In the interim, we as a society confront a terrible paradox. The more we shut down to flatten the curve, the more harm we inflict on our economy. The United States, like most of Europe and other developed economies, will be at near maximum shutdown to prevent an exponential spread of the COVID-19 virus while absorbing these expected hits to our GDP. We believe these current extreme measures aren't economically sustainable. Difficult decisions will likely have to be made that balance health risks against permanent economic damage.

Most long-term investors are by nature optimists – and we count ourselves among them. Our democracy remains well balanced across the three branches of federal government, and the state and local governments. Information is rapidly disseminated and the potential for innovation almost certainly remains unlimited in our free market system. The entire world is now

focused on the problem, which leads us to believe the outcome will be better than current consensus, developed under extreme uncertainty.

While it is not possible to predict the bottom of the market, it seems likely that this period will take the shape of a V; a rapid fall followed by a rapid recovery. So trying to time the exact bottom is not that relevant, as we likely won't be there for long and will not be forced to sell.

The next few weeks will probably be extremely difficult for many people on many levels. We will all be concerned

about our personal safety, the effects of unnatural isolation, and the fear of the unknown and the risks to the economy.

As the custodians of family and institutional wealth, our aim is to adjust client portfolios to ensure that they are sustainable through this downturn, with ample cash reserves, and are positioned to take advantage of opportunities as we start to see light at the end of the tunnel.

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Bets Off: The Trade Behind Recent Market Volatility

By John Apruzzese

How is it possible for the stock market to swing 10% up or down in a single day, or for the entire Treasury bond yield curve to plunge by over 50% in under a month? Is it all about COVID-19, or is there more at play in the markets?

The recent level of market turbulence suggests that the most active investors are deploying a tremendous amount of leverage. Futures contracts that magnify positions by as much as twentyfold can disrupt traditional trading and leave investors reeling.

One very popular investment strategy may be especially to blame. When Federal Reserve Chairman Jerome Powell said last October that the Fed would not increase interest rates until inflation persisted above 2%, traders calculated that they could make large leveraged bets on a fall in short rates (from three months to two years). In other words, own the S&P 500 and enter into a futures contract with enough leverage to profit from, say, a 1% drop in interest rates to offset a 10% loss in the stock market.

The traders were further encouraged by evidence of the so-called Fed put; the Fed's willingness to cut interest rates if the stock market declined. Their risk parity play seemed like a sure thing; there was almost no chance that short rates would rise. By March 9, when the entire yield curve out to

10 years was no more than 0.5% and the stock market had dropped 20%, the trade had a 10% profit.

But at that point, there was no more room for rates to fall unless the Fed took interest rates into negative territory (still considered highly unlikely), so the interest rate hedge on the stock market became ineffective.

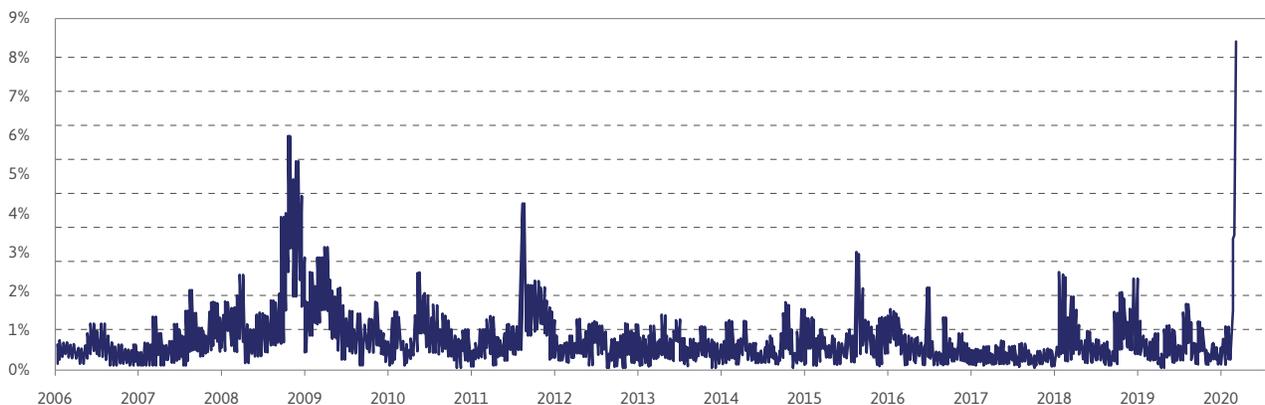
Up to \$1 trillion may have been invested by hedge funds and large institutions in versions of this trade. Most of these trades have been unwound because these investors were only interested in owning the stock market when they thought they had a very good hedge. Once that was gone, they became sellers at any price.

Most of the risk parity trades have now been closed out and other highly leveraged positions have been liquidated. While the markets will still reflect intense investor reaction to the pandemic and its many associated economic headlines, we do expect a reduction in the current extreme volatility.

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Record-breaking volatility

Average Price Move



Source: FactSet – March 24, 2020.

A (Temporary) Breach in the Defensive Line: Municipal Bonds

By Steven Chung and Howard Cure

We do not believe that municipal bond credit risks justify the continued high yields relative to Treasuries.

First, a brief recap. After 60 consecutive weeks of inflow into municipal bond funds averaging \$2 billion a week, sentiment shifted at the end of February as the fallout from COVID-19 reached all asset classes. As investor sentiment changed, redemptions out of the municipal bond mutual funds rose to \$12 billion from \$250 million in three short weeks. Municipal bonds, like Treasuries, are defensive assets, meant to provide safety and stability to portfolios in periods of volatility in the equity market. But this forced selling, along with a related unwinding of leverage by municipal bond funds and speculative investors, temporarily restricted municipal bond liquidity and drove municipal bond prices lower, disrupting the usual relationships between the asset classes.*

We expect that the ratio will revert to its historical norm

The relationship is being restored. The benchmark Bloomberg Barclays Managed Money Short/Intermediate Total Return index has, as of March 26, recovered most of its losses, after falling by as much as 9.6% in 10 days from its peak on March 9, 2020. However, municipal bond yields remain extreme, at more than double the 100% buy indicator level, and even higher than levels reached during the financial crisis of 2008.

Generally, when the ratio between 10-year AAA rated municipal and Treasury yields rises above 100%, municipal bonds are considered attractive since they are tax exempt at the federal and usually

state level, whereas Treasury bonds are taxable at the federal level and only tax exempt at the state level. As the chart on page 7 shows, the 100% ratio level has been a good buy indicator.

We expect that the ratio will revert its sub-100% historical norm over the near term as doomsday credit concerns prove to be unrealistic and demand returns to the market, since municipal bonds provide investors relative value to other fixed income products due to their tax-exemption and generally higher credit quality. In the interim, investors familiar with municipal bond credits, such as banks, insurance companies and wealth management firms, are beginning to aggressively buy municipal bonds, given their relative safety and attractiveness at current levels.

But what about the municipal credit implications of the coronavirus? The

* Bond yields and prices are inversely related. As bond yields fall, prices increase and vice versa.

100%

The ratio between AAA-rated municipal and Treasury yields above which municipal bonds are considered attractive

rapid spread of the coronavirus has led to extensive business closures, sudden high unemployment numbers, and unprecedented restrictions on social interactions. It will result in a significant decline in economic activity – likely a recession. But state and municipal governments, and their public enterprise systems, have dealt with economic recessions in the past and have, for the most part during prior recessionary periods, continued to provide needed services while repaying debt in full and on time.

For the municipal bond market, this is different from the financial crisis in 2008–2009 when the economy went into a recession; the auction rate market was eliminated; investment banks needed a federal bailout; and most monoline bond insurers were essentially rendered inoperable. Since the Great Recession, states and municipalities have made significant improvements to their operating budgets and liability profiles, refinanced their outstanding debt at lower rates, and improved funding of their operating reserves. So today, states and municipalities as a whole are financially stronger than at the inception of the Great Recession and will be facing the economic-related headwinds resulting from COVID-19 from this position of strength.

Municipal bond sectors cover the spectrum of state and local operations and are funded through a variety of taxes and fees, so the credit impact on different municipal bond sectors will depend on the

severity and duration of the outbreak in a particular location. The source of funding for operations and, ultimately, the payment of debt service, is key to determining the vulnerability of each sector. Sectors that are generally less vulnerable to an immediate impact from a COVID-19 related economic slowdown include:

- Essential purpose enterprises, including public water, sewer and electric utilities.
- General obligation debt for states and cities, counties and school districts that derive the majority of their revenues from some combination of property taxes and state aid.
- Dedicated tax bonds deriving security from sales taxes.
- State housing agencies with mortgage payments that also benefit from federal guarantees.

Ratio of 10-Year AAA Municipal Bond Yields to Treasuries

The 100% ratio level has been a good buy indicator



Source: Bloomberg.

0.09%

The average five-year U.S. municipal default rates since 1970s (Moody's)

Sectors that will endure more extended interruptions in revenues will include the transportation-related, such as toll roads, airports and ports; higher education; and healthcare. These sectors derive revenues in enterprises whose operations have been severely curtailed or have their operations put under financial strain. However, our holdings in these sectors serve a highly valuable public service; generally have additional reserves such as cash and debt service reserve funds; and have ability to draw on lines of credits with banks to raise additional liquidity to weather an extended interruption.

Looking a little deeper into two of the aforementioned sectors – airports and toll roads – that we believe will most immediately be affected, we are comforted by the strength of the median borrower's balance sheet. Debt issuers with greater liquidity – cash reserves and availability under long-term committed bank facilities – will be best positioned to independently weather the immediate economic fallout from the outbreak. According to Moody's Investors Service, the median airport and toll road borrowers have enough cash reserves to operate nearly two years and over two-and-a-half years respectively without collecting any revenues.¹

It's important to stress that municipal bond issuers as a whole endure

challenging economic conditions. Unlike other fixed income credit markets, defaults are extremely rare in the municipal market. Moody's Investors Service reports that the average five-year U.S. municipal default rate from 2009 through 2018 has been just 0.16% and only 0.09% since 1970.

Furthermore, the economic distress – existing and still in the making – caused by the COVID-19 pandemic is inspiring bipartisan recognition at the federal level that the states are on the frontline in responding to the health crisis, and will experience revenue declines and spending increases. We are still working through the details of the \$2 trillion Coronavirus Aid Relief and Economic Stabilization Act, or CARES Act. Early indications are that the plan will slow, but not eliminate, a fiscal imbalance in state budgets. We will be writing more about the CARES Act; at present it looks like a good first step in relieving the severe fiscal burdens faced by state and local governments but is likely to fall short of what is needed to both combat the virus and balance operating budgets. Its passage may make it easier to pass another relief stimulus or a spending package, if needed. The federal government is demonstrating a willingness to directly help the states' and enterprise systems' fiscal situation.

Our holdings were purchased subject to our stringent credit standards because they had adequate security and resources to make payments during disruptive periods. In this very fluid situation, we continue to vigilantly monitor our existing holdings and are taking advantage of the current opportunities to increase yield (i.e. income) in portfolios as appropriate.

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¹ Moody's Investors Service shows median airport borrower with 659 days cash on hand (DCOH) and toll road borrowers with 914 DCOH. Days cash on hand: Unrestricted cash and investments plus discretionary reserves divided by operating and maintenance expenditures and multiplied by 365 (does not include debt service reserve funds).

Patient Capital in a Turbulent Market

By Tim Evnin and Michael Kirkbride

The recent dramatic swings in the equity market are unprecedented in terms of speed and volatility. With economies and supply chains going all but dark in the wave that began in the Hubei province of China in January and is now hitting the United States, the impact to GDP and earnings will undoubtedly be quite severe, and is all but certain to be recessionary.

Among the hardest hit are energy/commodity companies, which are contending with a precipitous drop in the price of oil as Saudi Arabia and Russia lock horns just as global demand for oil falls off a cliff with the slowdown of the economy. Financial services companies and others with balance sheet concerns have also taken a beating. The Evercore Wealth Management core equity portfolio has almost no exposure to oil and commodities and very limited exposure to balance sheet financials.

Consumer stocks are also under considerable pressure, after years of outsized gains. As waves of quarantines bring spending to a halt, very high-quality retailers such as Home Depot

have been punished severely, perhaps excessively. While under considerable pressure now, we expect the consumer to return to pre-crisis behavior. We will continue to assess this assumption, as it informs many of our holdings.

Information technology is a key component of the U.S. equity market. The biggest five companies by market capitalization – Microsoft, Alphabet, Amazon, Apple and Facebook – represent nearly 20% of the S&P 500 index and have been significant outperformers over the past few years. They have so far fared relatively well in this pandemic, thanks to differentiated business models and balance sheets that enable them to dominate their respective markets. Four of these five companies (excluding

Facebook) remain core components of many of our portfolios.

We are not trying to pinpoint the bottom of this market. Even as indicators flash maximum fear and bearishness, we would seek some view to a plateau of the crisis and/or a settling of the extreme volatility before becoming more aggressive buyers of equities. But we are targeting high-quality investments that will be solid additions to the portfolio for years to come as they fall to prices that we believe reflect good entry points and reasonable valuations.

In markets such as these, there are advantages to having a long-term mandate. As painful as the day-to-day volatility is – and it is truly painful – patient capital is at a considerable advantage as it can take advantage of others' need for liquidity at any price.

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Time to Plan? Five Powerful Wealth Transfer Strategies

By Helena Jonassen

Difficult though it may be at present to focus on long-term wealth planning, there are good reasons to do so. Lower asset values and record low interest rates may present potentially significant tax savings.

Families with sufficient assets and liquidity to weather this crisis have a unique opportunity to accelerate their wealth transfer plans. Let's look at five strategies, keeping in mind that every family's circumstances are unique, and any decisions should be made in consultation with trusted advisors and in the context of a comprehensive wealth plan.



Gifts of stock with now higher potential for appreciation allow families to efficiently transfer assets, as growth in the asset's value occurs outside the estate. Individuals can use their annual exclusion amount of \$15,000 (\$30,000 for a married couple) or make more significant gifts, tapping some or all of the current \$11.58 million lifetime exemption (\$23.16 million for a married couple). If asset levels warrant such a large gift, this is a great time to consider making it, as the relatively large exemption amounts are scheduled to sunset after 2025 and revert to about half the current level.

\$23.16 MILLION

Current lifetime gift exemption for a married couple

Those married clients hesitant or unwilling to make irrevocable gifts (again, especially understandable at present), should consider a Spousal Lifetime Access Trust, or SLAT. This structure removes assets and their future growth from the estate but allows for a spouse to be the beneficiary.

Intra-family Loans can be made, based on IRS rules at below market interest rates. The IRS rates change monthly; for April, that means just 0.91% for loans of three years or less, 0.99% for mid-term loans, and 1.44% for loans of 10 years or more. It's important to note that the loan documents should be properly drafted, as they may otherwise be viewed by tax authorities as a gift. The interest on the loan will be taxable to the lender as ordinary income. This may be helpful in assisting a family member who was in the process of purchasing a home and requires additional funds for a down payment. This is also an opportune time

To Roth or Not: Roth IRA Conversions vs. Traditional IRAs

By Jen Tse

Reduced IRA values in the wake of the market drawdown make Roth IRA conversions potentially attractive. In exchange for paying current income tax on the assets, all future growth and distributions will be tax-free. Additionally, the original owner of the Roth IRA does not have to take a required minimum distribution, or RMD.¹

But does a conversion make sense for you? Here are a few considerations; please contact your Wealth & Fiduciary Advisor to discuss your individual circumstances.

- **Is the intent to donate the IRA to charity?** Traditional IRAs are still the best assets to use for this purpose, as the charity can be made the beneficiary of all or part of the assets.
- **Are you likely to be in a higher income tax bracket in the future?** Assuming you have sufficient non-retirement assets to pay the income tax due, a Roth conversion makes the most sense, as future growth and distributions are tax-free.
- **Will you have time to benefit from the conversion?** There is an opportunity cost in converting to a Roth IRA, and the break-even point can take years or even decades to reach, depending on the rate of return on the assets.²
- **What are your estate tax considerations?** Traditional and Roth IRA assets are both subject to estate taxes. However, distributions from a Roth IRA are income tax-free for beneficiaries but taxable to the traditional IRA beneficiary.³

A few important points to remember:

- You can no longer undo a Roth conversion if the value of the IRA drops after conversion.
- Partial conversion of a traditional IRA to Roth IRA can limit your income tax obligations.
- After a Roth conversion, you must wait five years to begin tax-free withdrawals.

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^{1,2} The Secure Act, which came into effect in 2020, eliminates the stretch IRA and requires any non-spouse beneficiary of an IRA to distribute the assets within 10 years, with some limited exceptions.

³ The traditional IRA beneficiaries receive a credit to offset some of the ordinary tax owed on distribution for estate taxes paid on these assets, but the distributions are not fully tax-free to the beneficiary.

to consider refinancing existing loans to family members.

Grantor Retained Annuity Trusts, or GRATs, can be extremely attractive wealth transfer mechanisms in this environment. Funding, for example, a two-year GRAT with assets highly likely to appreciate in that period, should generate an annuity over that period equal to the entire value of the funding amount plus the IRC Section 7520 rate, which as of April 2020 is 1.2%. Assuming the grantor survives the term of the trust, any appreciation beyond the annuity amount passes to heirs with no gift tax or reduction in the lifetime exemption. This strategy is particularly attractive after a significant market decline; if the market rebounds strongly, it will easily exceed the 1.2% hurdle rate.

GRATs can be especially effective for individuals who hold a long-term appreciated asset – such as a public stock holding – transferring to GRATs at interim low points allows for wealth transfer to occur with both gift tax and income tax efficiency. The annuity payments can be made in-kind.

Once the term of the trust is over, or as annuity payments are made in-kind, the equities can be rolled over into a new GRAT.

Existing GRATs that have declined significantly may allow for a swap in the equity position for fixed income or perhaps even a promissory note, and restarting the GRAT from a lower funding value.

Sales to Intentionally Defective Grantor Trusts, or IDGTs, enable individuals to freeze the value of the assets transferred to the trust while the grantor continues to pay the taxes on the income generated.

The payment of income tax is not considered a further gift, and the trust benefits additionally by being able to grow without paying any taxes itself. This strategy works well when stocks are low, by selling stocks or private assets at relatively low values to an IDGT in exchange for a promissory note at the now low interest rate. This would have to be an arm's-length transaction, so the interest rate needs to be sufficient (see Intra-family Loans) and the valuation needs to be substantiated. Because this is an IDGT, the seller of the asset, who is also the grantor responsible for the income tax of the trust, will not have to declare the interest payment as income. This strategy is also more effective for transfers to grandchildren and other skip persons (as opposed to the GRAT, which should only be for the immediate next generation).

There must be sufficient assets in the trust (usually 10% to 20% of the value of the loan) prior to the sale. This amount is usually funded by a gift from the grantor to the trust.

This may be a lot to think about in a difficult environment

Charitable Lead Annuity Trusts, or CLATs, are split-interest trusts that benefit a charity during their terms and at the termination of the trust, any remaining assets pass to the remainder beneficiary, the heirs. As with a GRAT, the amount of the remainder will depend on whether or not the trust's investments outperformed the IRC Section 7520 rate.

In the current historically low interest rate environment and after a market dislocation, CLATs can be an effective means of wealth transfer to the

immediate next generation. The interim beneficiary of the charitable lead interest can be a donor-advised fund, a private foundation or a public charity. If structured as a grantor trust, the grantor may have an immediate tax deduction as well. Decisions between grantor and non-grantor CLATs are based on personal circumstances and should be made with professional consultation.

This may be a lot to think about in a difficult environment. And it is important to ensure that individuals and couples look after themselves first, before making substantial commitments to family members and charities. But for those who are considering wealth transfer strategies in the context of an overall plan, now may be a very opportune time to act.

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Staying Focused When the Going Gets Tough

By Jeff Maurer



This pandemic is testing the resilience of our society, our organizations, and our portfolios. There's a long road ahead, but it seems to me that we are coping and will prevail.

I see great resilience all around me, from our first responders, to our scientists, to the people who are stocking – and restocking – supermarket shelves. As for the rest of us, we are doing our part in doing what we are told, carrying on while remaining socially isolated, to help flatten the curve and to allow economic activity to restart.

Our firm is certainly resilient, up and running remotely at full steam as soon as we vacated our office buildings across the country. I could not be more proud of our teams and the ways in which we are staying close to each other and to our clients.

Of course, it's easier to be resilient if you are prepared. Our partners and I, all of whom have experienced past significant market upheavals, built this firm to meet clients' long-term goals. That means constructing and managing portfolios to anticipate and

limit the impact of big drawdowns and to produce reasonable, risk-adjusted returns through all market conditions.

Our drawdown analysis is based on 50 years of data and has, in my opinion, always been one of our most important tools and a focus of discussions with potential and existing clients. Not many firms show the potential impact on portfolios of a big drawdown. We always have, which has helped our clients prepare for the real thing.

When we entered 2020, we projected that our model balanced portfolio had a drawdown potential of 24% – meaning that it could fall 24% from its peak value to its trough value and remain positioned to participate in the subsequent economic recovery.

Our balanced portfolios include growth investments and defensive investments. In times of market disruption, we generally anticipate that growth securities can lose

as much as half their value (to date, the S&P 500 has been down 34% and is now down 18.5%) while defensive securities, mainly investment grade bonds, as the name of the asset class suggests, will generally hold their value. Our clients who felt they could not tolerate a drawdown of 24% have more defensive assets in their portfolio, and those who felt they could tolerate more risk have more growth assets in their portfolios.

We were surprised by the recent lack of liquidity in high-grade bonds, but take comfort that liquidity is returning to those high-grade markets in anticipation of fiscal and monetary stimulus. In past market drawdowns, the time for the growth assets to return to previous peak values has varied from three months to 70 months with an average of 27 months, as illustrated below.

This has certainly been no ordinary market drawdown, as John Apruzzese and others discuss in these pages. Nevertheless, we believe our balanced portfolios will

continue to prove resilient and that our clients, with the help of our advisors, will maintain sufficient liquidity and be in a position to benefit from the recovery.

One of the paradoxes of this period of social isolation is the renewed appreciation of the people in our lives. As I write this, my wife and I remain holed up at home in Florida, missing family, friends and colleagues but grateful to be in constant touch. I enjoyed seeing so many familiar names engaging in our recent investment outlook webinar; seeing the questions scroll through made me feel as close to our clients as if I were in the same room.

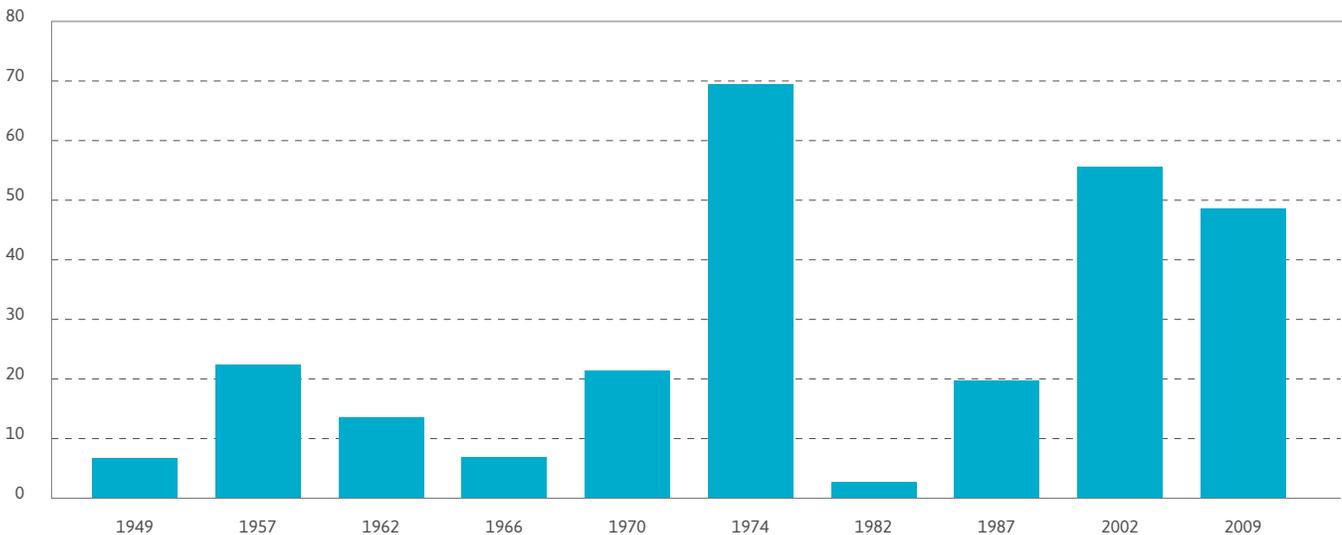
I know I speak for all my colleagues when I say that I am very grateful for our wonderful clients.

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Hang in There

Average Bear Market Time to Recovery

Months to Recovery



Note: Recovery measured by time from trough to reaching the prior peak. Number of days includes weekends and holidays. Bear markets are defined as declines of 20% or more. Source: Ed Yardeni Bull & Bear Market Tables, March 22, 2020.

Cyber Smart Questions & Answers in Practicing Self-Defense

Increased cybercrime is an unfortunate side effect in the global fight against COVID-19. As families and companies seek information and adapt to new forms of communication, criminals are seeing new opportunities. Wealth managers are in the frontlines of this battle, working to protect client information and assets. Here we interview Kate Mulvany, a Partner and Wealth & Fiduciary Advisor at Evercore Wealth Management, and Elsa Ferreira, Chief Information Security Officer at Evercore.



Q: Cybersecurity is a major focus across Evercore and the firm has allocated substantial resources to this fight. At this point in the pandemic, how are you seeing cybercriminals trying to exploit companies and individuals?

Elsa: It's certainly a challenging time, and we are marshaling significant resources to defend our firm and our clients. We know that criminals are increasingly preying on decentralized workforces, and on people's fears associated with COVID-19. Phishing emails claiming to provide useful information about the virus are on the rise. These malicious emails often impersonate regional health organizations and/or pretend to provide up-to-date virus statistics, news or testing updates.

Kate: We are seeing evidence of these increased attempts at Evercore Wealth Management and Evercore Trust Company too. We are well aware that wealth managers are obvious targets, and we are fortunate to be part of a firm with powerful resources.

Q: What is the real purpose of these attacks?

Elsa: The goal of these phishing campaigns is to copy passwords and install malware to steal money and personal and professional information.

Q: Can you provide a recent wealth management example?

Kate: Sure. Earlier this month I received a client email notifying me that they were sending me a Google document. As I was not expecting any document from that client and the notice seemed odd, I immediately forwarded the email to our IT team, which was able to confirm that the client had in fact been hacked, and provided the client with specific instructions to minimize any financial impact. Next steps were to meet with the client (by phone) to establish new procedures around money movement requests and general communications.

Our policies and procedures are regularly tested and reviewed and have stood our clients in good stead. We are able to safely facilitate money movement for our clients on a daily basis, while only accepting instructions to move funds to a verified account on file. Instructions are verified verbally. Additionally, any payments to third parties (attorney escrow accounts for home/business transactions, auto dealers, third-party tuition services, and so on) are verified with both the client and with the third party.

Q: What is your advice to clients to protect their companies and themselves from cybercrime during this pandemic?

Elsa: It is essential to remain vigilant in your use of email, and to be cautious of any emails aiming to provide you with information on COVID-19. If you are seeking updates on the spread of the pandemic or related news, it is best to navigate directly to a trusted website. Also, be aware of phishing emails. Ask yourself if you were expecting the message and know the sender, and if the content and link make sense. Do not share passwords through email. Only visit reputable websites. And keep in mind that cyberscammers don't limit themselves to your PC, they aim for your mobile device too.

Kate: If you have any concerns, please don't hesitate to contact your advisors.

Kate Mulvany is a Partner and Wealth & Fiduciary Advisor at Evercore Wealth Management. She can be contacted at mulvany@evercore.com.

Evercore Wealth Management is hosting a client webinar on April 1 at 3pm ET with **Kate Mulvany**, **Elsa Ferreira** and **Bart McDonough**, the CEO and Founder of Agio, a hybrid managed IT and cybersecurity services provider to financial services companies.

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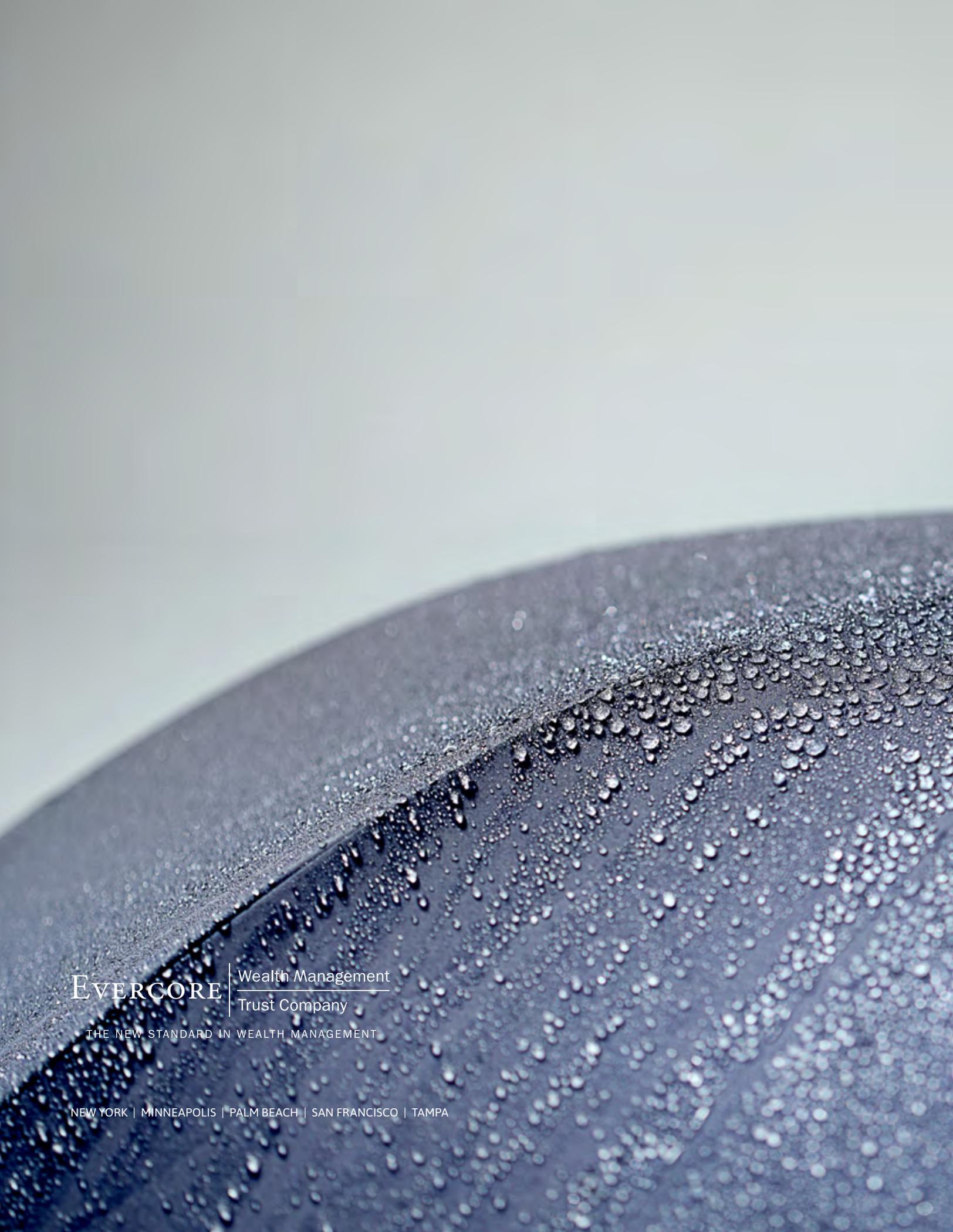
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