Recent Asset Allocation Changes April 24, 2020

As the Covid-19 crisis continues to wreak havoc on the global economy and as the implications of this pandemic persist in rattling the markets, we are pursuing opportunities to adjust our client portfolios to reflect an ever-changing outlook.

Where appropriate, we have made adjustments to client portfolios in order to balance the current market risks while seeking to make new investments with a view to a longer-term horizon. While these themes are not applied uniformly on behalf of all clients, there are a few themes we have sought to employ as broadly as possible.

We have sought to reduce and, as appropriate, eliminate our U.S. small company exposure as this asset class is likely to be more cyclically exposed to this downturn than large companies. Smaller firms did not experience the same level of margin expansion during this past cycle as their large company counterparts, and as a result their relative underperformance has become more pronounced as the economic outlook has deteriorated. While the Federal government has offered significant levels of aid through the CARES Act, small-cap indexes have greater exposure to areas of the economy outside healthcare and technology, such as real estate and financials, where the outlook is more uncertain. We recognize the long-term opportunity of the small-cap asset class and will continue to assess the extent of the economic fallout in this area with the expectation of reallocating at a future date.

Within fixed income, the actions of the Federal Reserve to maintain liquidity and support various fixed income markets through direct security purchases has allowed those markets to stabilize in recent weeks. We have sought to reduce our mortgage exposure due to the recent increase in the volatility and downward trajectory of interest rates and added to treasury inflation-protected securities (TIPs) as volatility created a short-term opportunity in this asset class. In addition to the short-term opportunity, we favor exposure to these securities over the long term as the massive stimulus by the Federal government is likely to create higher inflation rates over time. Additionally, we are reestablishing positions in high-yield debt, an allocation that has been largely absent over the last couple of years. With the backstops provided by the Federal Reserve and the widening of the spread between investment-grade corporate credit and high yield, we believe an allocation to high yield is an attractive way to add additional income to portfolios in an environment of extremely low interest rates in the treasury market.

Finally, and again as appropriate, we have added an exposure to gold, which is a safe-haven asset that should benefit from expectations for rising future inflation rates and dollar devaluation given the scale of fiscal and monetary stimulus. Precious metals prices should also be supported by an overall reduction in global mining activities due to the pandemic.

We maintain a general quality bias in our portfolios, recognizing that more information around the timing of reopening the economy and the level of damage done to the economy is needed before we begin to build positions that will benefit from an upturn in economic activity. Given the recent market rally, we are quite cautious in our outlook and feel that the risk/reward opportunity is skewed to the downside over the short-term. Longer term, we remain confident in the economy's resiliency and that financial markets will recover over time. We expect that attractive investment opportunities will develop in the weeks and months ahead; we will continue to seek them out and incorporate them into client portfolios as appropriate based on each client's investment goals.

F.L.Putnam Investment Team