Spring Board Meeting

May 14, 2020

President's Report to the Board

"*It was the best of times, it was the worst of times …… it was the spring of hope, it was the winter of despair*." Charles Dickens, ***A Tale of Two Cities***

Although Charles Dickens was writing 161 years ago (March 1859), in those few phrases he aptly summed up what has happened in the global financial markets over the last few months. We ended 2019 at absolutely one of the highest points of the Benefits Board's history. Everything was moving in a perfect pattern and we were seeing unprecedented growth in the plan. The first couple of months of 2020 continued that trend, with the Dow reaching an all-time high of 29,551.42 on February 12, 2020, a result of the longest bull market in history.

Even as the Dow was reaching into the stratosphere, there were already rumblings about a disease – a virus – that was rapidly spreading within the industrial regions of China. On March 11, 2020, just a month after markets reached their highest point ever recorded, the World Health Organization confirmed and declared that the coronavirus (COVID-19) had reached pandemic levels. It was at that time that the "normal" that we had experienced for years began to go away, maybe never to return again.

Telecommuting took the place of going into the office. Video conferences replaced in-person meetings. Travel came to a halt, with airlines, ocean-going passenger ships, trains, and buses stopped because of the possible spread of the virus. Businesses and offices were shuttered. Unemployment soared to multiples never seen or even imagined. "Shelter-in-place" and "stay-at-home" orders spread across the nation and around the globe. Life as we knew it came to a halt. And the global economy did not just experience a slow-down, it suffered a complete stoppage.

Market volatility increased to an all-time high. By mid-March 2020, a global sell-off in stocks was underway. The data was so startling that concerns arose about an immediate depression:

- During the third week of March, stocks closed their worst week since the Great Financial Recession of 2008, closing down more than 15%.
- During 9 out of 10 trading days in mid-March (and 8 days in a row), the S&P 500 closed more than 4%, either up or down, from the day before. Previously, the index had only moved six days in a row more than 4% and that occurred in 1929.
- It took 790 trading days for the Dow to go from 20,000 to over 29,000. It took only 43 trading days to lose that much and go below 20,000 in mid-March, ultimately dropping to 18,591 on March 23, 2020.

- Prior to this pandemic, the Dow had not been below 20,000 since February 2017.
- On January 19, 2017, the day before President Trump took office, the Dow closed at 19,804.
- The 10-year Treasury note, while recovering some since, traded as low as .40% in early March. The 30-year Treasury note traded below 1% in the same time period, both reaching all-time lows. Recovery still has not returned to the yield on Treasury's. As of Friday, May 8, the 10-year Treasury was at .67% and the 30-year Treasury was at 1.37%. Simply stated, that means that if you bought a Treasury note from the government for 10 years, they would pay you .67% per year for the next 10 years, or 1.37% per year for the next 30 years.

A Look Back to 2019

Although it is important for you to see some of the recovery that was experienced in April 2020, a look back at 2019 is also important. The phenomenal growth in MRP Plan assets in 2019 is without comparison. From year-end 2018 to year-end 2019, total assets under management increased by a remarkable $37.3 million.

Although the specific numbers are addressed in the audited financial statements, knowing some of the details of the growth in 2019 is critical to understanding the impact of the pandemic on our assets:

- Assets appreciated in value by almost $30 million ($29.86 million) in 2019.
- Participant contributions increased by $300,000 in 2019 to $18.65 million – an extremely positive sign.
- Benefits paid out to participant also increased in 2019, but only by about $280,000, again a remarkable number due to our aging population base.
- Our large capitalization fund had an annualized return of 33.32% in 2019.
- Our small capitalization fund had an annualized return of 28.54% in 2019, and
- Our international fund had an annualized return of 20.67% in 2019.
- Including the special "bonus" interest allocation that we made on Dec. 20, 2019, the Trustees' Fund return for 2019 was 5.65%.
- An equal weighting across all our four funds in 2019 would have given you a combined return of 22.05, while our "bogey" return is 8.00%.

Without question, 2019 was a stellar year for the Ministers' Retirement Plan. As mentioned earlier, the beginning of 2020 started off in a similar fashion. However, once circumstances changed, they changed with a vengeance and with great velocity.

April 2020 – and Forward

April 2020 can best be described as the month we experienced hyper-unemployment and a drastically shrinking economy. While the global stock markets experienced a rather drastic rebound in April, everything else in the economy was contracting. Again, the statistics are startling:

- **Unemployment Skyrocketed**
    - As of May 7, over 33 million claims for unemployment have been filed in the past seven weeks (averaging 4.7 million per week).
    - Prior to this current crisis, the most unemployment claims in one week had been 695,000. During one week in late March, over 6.6 million claims were filed – a ten-fold increase. During that same week, over 880,000 claims were filed just in the State of California.
    - These job losses basically wiped out the number of jobs created in the last 15 years.
    - A recent report from the Becker Friedman Institute at the University of Chicago predicts that 42% of the persons currently unemployed will completely lose their jobs, because of bankruptcies and hesitancy of people to resume "normal" activities. That means that roughly 14 million jobs are projected to be lost completely.
    - Although the official unemployment rate announced on Friday, May 8, was 14.7%, most economists predict the unemployment rate is already over 20%.
    - The unemployment rate is expected to remain high for the coming months and by the end-of-the-year is still expected to be over 10%, assuming that all states start opening back up in the next few days.

- **Oil Prices are Totally Collapsing**
    - Due to the battle early in the year between Saudi Arabia and Russia over price containments, there is a glut of oil in the international markets.
    - In addition to the glut of oil, demand for oil is at a 25-year low.
    - During late April, something occurred in the oil markets that just a few weeks ago seemed impossible and even absurd – oil prices actually went below zero dollars a barrel. Producers were paying refiners to take the oil because the producers had no place to store the oil.
    - While there has been some recovery in oil prices, West Texas Intermediate Crude is still trading in the $20-$22 a barrel range – about $30 a barrel less than it costs to produce oil in the United States.

- **Shrinking of the Economy**
    - Based upon numbers released in late April, the U.S. economy declined 4.8% in the January to March time frame. This number is even more remarkable because it only includes a few weeks of the "stay at home" and business closure orders.
    - This was the deepest decline in more than 12 years. But it is not over.
    - The April through June quarter that we are currently in is likely to show a decline of more than 30% (some predict as much as 40%) -- levels not seen since the Great Depression.

Although it seems impossible, these numbers would be even worse had the U.S. government not allocated over $3 trillion dollars in four separate "stimulus" bills. That legislation provided support and direct relief to major businesses impacted by the pandemic, as well as more than $659 billion to small businesses (including churches) to keep employees on the payroll. In addition to the business relief, individual taxpayers received direct checks from the government for $1,200 each and an additional $500 for each dependent child under the age of 17.

The annual budget for the U.S. Government was expected to be $4.4 trillion during this fiscal year. With the "stimulus" bills that are currently on the "runway," it is expected that at least that much or more will be added to the expenditures of the government this year alone. Because of such, just a few days ago, the U.S. Treasury Department announced they would offer as much as $4 trillion in new debt obligations before the end of the calendar year. With a national debt of $24 trillion already, it is expected that the additional debt will just add to that massive long-term obligation.

Internal Operations Continued

During the midst of this current crisis, our staff made the decision that it was important for us to maintain operations as usual to try to alleviate, as much as possible, the fear and anxiety that our participants were experiencing. So, while other businesses and church entities closed, we maintained normal operations. In retrospect, our sense of normalcy seemed to provide much solace to those that we serve. In their greatest time of need, we were here to help them.

Once the pandemic was declared, we did implement our "business continuity" plan. This process included

- Limitation of the number of visitors in the office
- Strict social distancing with visitors and delivery personnel
- Mandatory "stay at home" rules for anyone exhibiting any signs of sickness
- Limitation of all non-essential travel, and
- Daily valuation of all accounts, allowing participants to move in and out of the market accounts on a daily basis.

These policies will continue and remain in place until further notice.

In addition, this pandemic has given us the opportunity to revisit other parts of our "business continuity" plan that have not been implemented yet. Our ability to work remotely, forward telephone calls, and a host of other issues have been addressed as we made sure that, if necessary, we could continue all operations from a remote site or from our homes. So, out of this crisis we have gained a better understanding of our abilities, as well as our shortcomings. Although we would have experienced a momentary delay of maybe six to eight hours, we are confident that we could have operated, at least on a limited basis, totally remotely if such had been necessary.

Conclusion

As always, the goal of the Benefits Board is to be a “value added” component for the local church, the state or regional office, and the denomination. During this crisis, we have served as a financial and legislative resource to the denomination and our churches, both nationally and globally. It is our sincere hope and desire that we have added value during these most difficult times.

Respectfully submitted to the Board of Directors of the Church of God Benefits Board, Inc., on this the 14th day of May 2020.

Arthur D. Rhodes

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President and Chief Executive Officer
Church of God Benefits Board, Inc.