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ECONOMIC REVIEW

SUMMER 2020

We've had occasion in the past to refer to the proverbial "wall of worry" that market rallies are said to climb. But with COVID-19 still rampant, GDP plummeting and unemployment projected to reach Great Depression-era levels, we've never faced a wall like this. But first the climb. After a panicky March, the market had rallied sharply in April behind unprecedented fiscal stimulus from Washington and aggressive monetary stimulus from the Federal Reserve. That trend continued in May. The S&P 500® Index rose 4.76% for the month, creating a two-month bounce-back of 18.19% which left the year-to-date loss at just -4.97%, a result which would have seemed Pollyannaish just ten weeks ago. As is typical in sharp, cyclical rallies, a focus on risk is seldom a driving factor and so far our fundamentals-driven approach has not kept up with the market's rapid turnaround.

Now about that worry. Based on the conversations we are having, we don't need to spend a lot of time trying to categorize the general anxiety that surrounds the on-going pandemic. While we've all seen pictures of carefree partiers over Memorial Day Weekend, these folks seem to be part of a Venn diagram that has no overlap with the demographic or prudence level of our associates and clients. The folks we talk with are fully aware of the viral threat and want nothing to do with it, nor do they share what seems to be growing confidence that the threat is either waning or overblown.

In terms of economics, the numbers are daunting. The initial measure for GDP in the first quarter was -4.8%, almost all of this negativity concentrated in just the final few weeks of the quarter. The current second quarter is predicted to take the brunt of the shuttering of business activity, with early projections from the Atlanta Fed showing a mind-numbing -42% downturn while Goldman Sachs is more "optimistic" with a recent -39% estimate. By late May, the U.S. real unemployment rate passed 23.9% with a still-expanding 40.7 million claims for benefits. The government's small business PPP loan program was a boost for those who received it, but the fund was initially oversubscribed. The program's requirements and timing didn't match every small business's needs and many are now already shuttered with little or no hope of reopening. Industry insiders have projected that one out of four

restaurants will never serve another meal.

Still, cautious (and sometimes not-so-cautious) re-openings across the country may have helped keep the market rally going in April. While it would be nice to report that these are a sign of viral suppression, it is more a growing awareness that with proper precautions some activity can be engaged in with limited transmission risk. An understanding of the benefits of masking, distancing and the use of outdoor spaces are all contributing to this shifting behavior. At the same time, the politicization of and accompanied resistance to such common-sense measures as wearing of masks suggests just how complicated and difficult this process will be.

One aspect of the equation that market optimists may be underestimating: the opening of the economy can't be effectuated until most of us are comfortable returning to restaurants, farmers' markets and public spaces. Based on our unscientific sampling, this level of comfort isn't emerging or likely to blossom as long as there are steady or rising COVID cases and no effective cure or vaccination. We are also attuned to the epidemiologists' warning that coronaviruses are prone to lull in the summer and come back with a vengeance in the fall and winter. If this is true, the race between the virus and vaccine favors the bad guy. Should a second wave require another round of lockdowns this spring's market rally might, in retrospect, prove to be premature.

As is clear from the above, while we are grateful to participate in this spring's stock market rally, we remain cautious about its depth and resilience. This is not only a factor of the narrowness of the market with a handful of mega-cap companies leading the rally, but the underlying circumstances which we've already summarized. On top of that we are keeping a wary eye on our tensions with China over the status of Hong Kong, the general domestic unrest which we saw at the end of the month sparked by the tragic police custody death of George Floyd in Minneapolis and our increasingly uncivil political divisions which will likely only increase as we approach November elections.

In short, we favor tightening our already disciplined risk management efforts and keeping a hard focus on corporate

balance sheets and their ability to weather what is already unprecedented economic and business stresses. While optimism is a vital quality of the American spirit, one we share for the long term, we believe the more sensible attitude is caution. While some are hoping that the economy, like the March-May stock market, will end up being a V-shaped recovery, we believe the “V” to focus on is the one that’s in the middle of COVID.

On a final note, the wake of a volatile market is a good time to review asset allocation. One of the benefits of active management, which we use across the Madison Funds, is that you have investment professionals continually reviewing your holdings and monitoring the investment and competitive environment of your holdings. Yet a year like the preceding one can shift the balance in your holdings and it is wise to review the results and your investment goals, a process that many of you are already undertaking with your financial advisor.

NEWS YOU CAN USE

Semiannual Report Mailed

At the end of June, your household was mailed a copy of the funds’ semiannual report. The report contains fund performance returns, portfolio holdings and financial statements for the six-month period ended April 30, 2020. Additional copies of the report are available by calling Shareholder Services at 1-800-877-6089, or you can view the report on our web site at www.madisonfunds.com.

Electronic Delivery of Compliance Reports

For many of you, we offer the ability to consent to suppress paper copies of the funds’ required compliance reports, for instance the semiannual report which was just mailed. “Consenting” to electronic delivery will provide you with fund information faster and also reduces the amount of paper used to produce the documents, which benefits the environment.

To enroll, log-in to Account Access at www.madisonfunds.com and click on “Electronic Delivery Options”. An email notification will be sent to the email address you provide when a new report is made available. The email will contain a link to view, print and save the documents electronically. If at any time you wish to change your consent options, you simply log-in to your account and withdraw your consent. Thereafter, the next available document will be mailed to you free of charge.

Low Balance Accounts

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