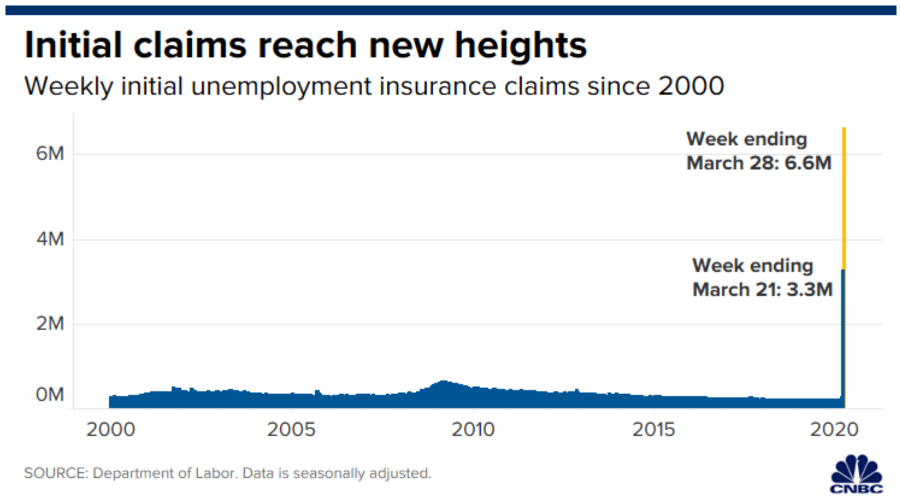
April 6, 2020

The Big Picture and Key Takeaway – March 2020

- The impact of the COVID 19 virus made March a month that won't soon be forgotten. Millions of Americans have lost their jobs. Global stock markets plummeted into bear market territory faster than any point in history. The ordinarily sedate bond markets exhibited signs of significant dysfunction as liquidity and credit fears took hold. With the economy expected to contract sharply, policymakers delivered fiscal and monetary relief in numbers once thought to be unthinkable.



- On the economic data front, the world has changed in a blink of an eye, making all recent data in the months up until this point effectively valueless. With schools, stores, and businesses closed, millions have joined the ranks of the unemployed and filed claims to receive benefits. As the extraordinary chart to the right illustrates, initial weekly unemployment claims, which had been trending between 200-250k claims per week, skyrocketed to over 6 million claims for the week ending March 28th. There is simply no precedent for an economy where so many must stay home, and the U.S. will undoubtedly experience a nasty recession in the first half of 2020.

- Policymakers, recognizing the gravity of the potential economic consequences resulting from the virus, have aggressively responded with financial relief for workers and businesses. The $2 *trillion* Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress in late March and attempts to provide a cash flow "bridge" to help individuals, businesses, healthcare institutions, and state/local governments weather the swift decline in their income. The relief package represents a staggering 10% of U.S. GDP, but given the forecasts for a historically sharp GDP decline in the 1st and 2nd quarter, some believe it may only be the first relief package of more to come.

- On the monetary policy front, the Federal Reserve has quickly and aggressively dusted off its crisis-era playbook from the financial crises. First, the Fed cut short-term rates to 0%, which may be the least impactful of its recently enacted measures. It then committed to as much bond-buying (quantitative easing) as is necessary to stabilize the massively important U.S. Treasury and mortgage market. They also have subsequently initiated programs to help provide sorely needed liquidity into the corporate, municipal, asset-backed, and short-term money markets. While the Fed may not be able to induce demand for goods and services, they are keenly focused on maintaining financial system order and functionality through this unusual period.

The Key Takeaway

The manic nature of the stock market in March delivered some of the worst and best single days in the history of the market, all within a sharp overall market decline. The vast market swings are generally indicative of how difficult it is to handicap the spread of the virus, the impact of rolling "economic stops" across the globe, and what it means for the health of the global economy. In one sense, this time is indeed different as the catalyst for this crisis can only be controlled by shutting down economic activity. From an investment perspective, it will be as important as ever to maintain discipline, diversification, and a long-term viewpoint as a means of navigating massive short-term uncertainty.

March Market Performance

Market Returns		Returns (%)	
Index	Description	March	YTD 2020
S&P 500 TR USD	US - Large Company	-12.50	-19.60
Russell 2000 TR USD	US - Small Company	-21.73	-30.61
MSCI ACWI Ex USA NR USD	All International, excluding US	-14.48	-23.36
MSCI EAFE NR USD	International, excluding Emerging Markets	-13.35	-22.83
MSCI Emerging Markets NR USD	Emerging Market Stocks	-15.40	-23.60
Bloomberg Barclays US Agg Bond TR USD	High Quality US Bonds	-0.59	3.15
ICE BofAML US High Yield TR	Lower Quality US Bonds	-11.76	-13.12
XAU Gold Spot $/OZ	Gold	1.77	4.52
*Through March 31, 2020 Source: Morningstar, MSCI, Bloomberg			

Global Stocks

While all global stock markets were down sharply in March, large U.S. companies turned in the best relative performance, as small company and international stocks lagged. Growth stocks continued to outperform value-oriented names and sectors. Among individual sectors, which all declined in March, Information Technology, along with the defensive Utility and Consumer Staples sectors, held up the best. The worst performing sector was Energy, as oil prices cratered, while the Financial sector also struggled as interest rates declined sharply. Outside of the U.S., developed international and emerging market stocks posted deep losses in March. Most currencies also lost value against the dollar, providing an additional headwind for international stock returns as compared to the U.S. Unsurprisingly, Italy and Spain's markets were hard-hit, being the epicenters of the virus in Europe. At the same time, China outperformed most countries globally as they are further along in combatting the harmful health and economic impacts of COVID 19.

Bonds

Bond yields plummeted in March to historical lows across Treasury bond maturities. The 10-year Treasury bond yield dropped by nearly 0.5% in March and is down approximately 1.2% for 2020. Short-term bond yields have also declined sharply, and the Fed has swiftly dropped the short-term Fed Funds Rates to 0%. While the movement within the bond market led to positive gains for the month for the highest quality Treasury, Agency, and mortgage-backed securities, other sectors did not fare as well. Worries about credit downgrades, defaults, and market liquidity led to broadly negative returns for corporate bonds, asset-backed securities, commercial mortgage securities, and even municipal bonds. Credit spreads, a measure of the risk of default in the bond market, widened to their highest levels since the financial crisis as investors demanded higher compensation for taking credit risk. High Yield and emerging market bonds have seen their credit spreads widen the most, and prices decline the most sharply. In addition to cutting rates, the Federal Reserve has stepped into the bond markets and is now purchasing investment-grade corporate securities, which it has never previously done. The Fed's aggressive actions helped to stabilize the credit markets, at least temporarily, by the end of the month.

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Index and Category Definitions

The S&P 500 Index *is a capitalization-weighted index of 500 U.S. stocks.* ***Russell 2000 TR USD*** *is a market cap weighted index* The Russell 2000 measuring the performance of approximately 2,000 smallest-cap American companies ***The MSCI All Country World ex-USA Index*** *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI All Country World ex-USA Index consists of 22 developed and 24 emerging market country indices.* ***The MSCI EAFE Index (Europe, Australasia, Far East)*** *is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.* ***The MSCI Emerging Markets (E.M.) Index*** *is a free float-adjusted market capitalization index that is designed to measure equity market performance of 24 emerging markets countries.* ***Bloomberg Barclays U.S. Aggregate Bond Index*** *is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.* ***ICE BofAML U.S. High Yield Index*** *is an unmanaged index of below-investment grade U.S. corporate bonds.* ***XZU Gold Spot $/Oz*** *reflects the exchange rate of* ***Gold*** *against the U.S. dollar* ***index***