Market Commentary

March 31, 2020

The first quarter of 2020 was initially off to a good start with a continuation of the economic expansion experienced over the last decade. Many of the factors impeding its progress last year, including Presidential impeachment, China trade tensions, and Brexit seemed to be behind us when………A highly contagious and deadly Coronavirus outbreak originating in China late last year, began to spread across the globe, eventually reaching U.S. shores in early March. Something many people thought was impossible, was upon us, in epic proportions - a global pandemic! The human, economic and market ramifications were unprecedented. And, if this was not destructive enough, adding "fuel to the fire," Saudi Arabia (OPEC) and Russia got into a squabble over oil production levels leading to a sharp decline in prices devastating an already weary energy industry. The result was the worst March for stocks since the Great Depression.

Reaction by the Fed was swift and without hesitation, as short-term rates were effectively cut to zero in two unscheduled moves in early March, the first such moves since 2008. Unfortunately, despite their efforts there's really not much that monetary policy can do to remedy a global supply-shock and demand-shock event like the Coronavirus pandemic. However, certain fiscal policies could help and that's just what policymakers did in early March, enacting legislation that provided $8.3 billion in emergency funding for public health and coronavirus vaccine research. Days later, the Families First Coronavirus Response Act was enacted to provide economic support to those in need. Then, on March 27, lawmakers enacted a $2 trillion stimulus package to address the near-term economic impact the virus is having on families and businesses. Included in this legislation are direct payments to taxpayers, further expansion of unemployment benefits, and economic support for small businesses. While the fiscal legislation enacted thus far may help relieve some of the economic burden from the Coronavirus pandemic, many analysts believe that further support may be needed.

For the month of March most markets (outside of bonds) were crushed as the coronavirus forced an economic hard stop. Much like we witnessed during the Credit Crisis of 2008/2009, no equity market was left unscathed. Investors, businesses and workers were jolted by the reality that this is not going away any time soon. The S&P 500 Index declined -12.5% in March, and -20% for the quarter, its worst opening quarter of a year ever! Small cap stocks, as represented by the Russell 2000 Index, were -22.6% for March and -32.9% for the quarter. Small conciliation but, large-cap stocks did better than small for the quarter, and growth, after under-performing early, did out-perform value stocks for the quarter. Internationally, both developed and emerging market stocks were down just short of -25% for Q1. The lone bright spot for the quarter were bonds, with the Barclays Aggregate up 3.3%.

For the quarter, the top performing sectors were Technology (-12%), Health Care (-13.1%), and Consumer Staples (-13.4%). The large cap Technology segment behaved more like a defensive sector during the market sell-off. The worst performing sectors were Energy (-51%), Financials (-32%), and Industrials (-27%). Energy, incredibly, is even more oversold, as the Saudi's (OPEC) and Russia, can't agree on production cuts intended to raise the price of oil. Instead the price of a barrel of oil drops from the $61 level at year-end 2019, to under $20 by the end of the first quarter. A positive note: markets have priced in an extraordinary amount of pain in extreme short order, with little good news. The first sign of something positive (potential vaccine, "flattening the curve", opening the economy) will likely send the markets higher and begin a new period of slow healing.

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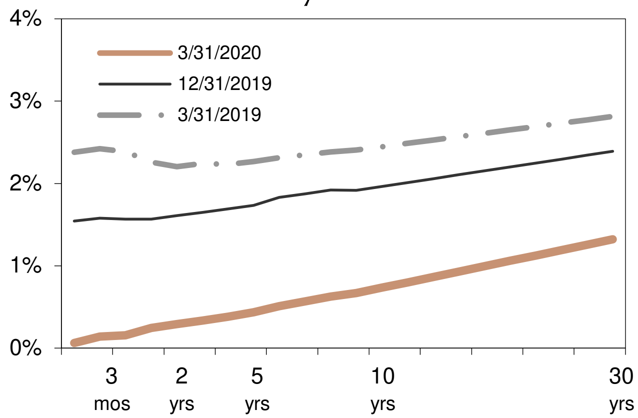
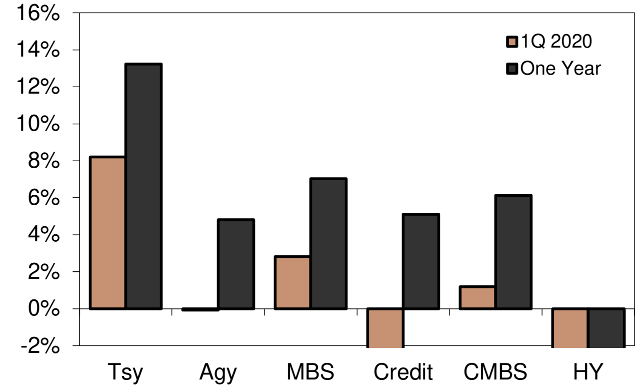
US Treasury Yield Curves



Sector Index Returns



Fixed-income investments have never played a more vital role in diversified portfolios than in the most recent quarter. From providing current income to dampening equity volatility and pursuing capital preservation, this has been a good time to own bonds. During the quarter, we continued to tactically adjust portfolio durations in our fixed income portfolios to take advantage of anticipated interest rate changes. Our out-performance in Core portfolios was due in large part to our overweight in liquid, high quality securities. We also had an average maturity longer than that of the index. Tactically, we have used the recent cheapening of corporate bonds to selectively add names to portfolios. With rates (short maturities) effectively at zero and in the midst of a recession, we believe that interest rates will remain low (and most likely positive), and in a trading range. The 10-year UST closed 2019 at 1.91%, then fell throughout the first quarter as the pandemic escalated ending at 0.67%.

It's at times like these that we're reminded of the difficulty of predicting the performance of markets, the importance of diversification, as well as asset allocation, and the need to maintain discipline in investing, if investors want to realize the long-term returns the capital markets offer. Stay focused, maintain discipline and remain patient.

Stay safe and be well!