

Due to the wide range of risk tolerances of our clients, some topics or asset classes may have more, less, or no importance to your portfolio. For a detailed analysis, give us a call, or request a detailed performance review.

Big Picture

On the Fridge

Government Bonds

Surprising no one, the safety of treasuries was the best place to be during this historic sell-off. The government bond index returned 8.1%, while longer-dated treasuries returned far more.

Utilities

As rates fell and recession fears rose, the utilities sector outperformed all others rising 9.3% in the quarter. That brings year-to-date gains to 25.4% and comes with a 3.05% dividend yield.

In the Dog House

Emerging Markets

Emerging markets fell -23.6% in the first quarter, just edging out its US and Developed Market equity brethren. Emerging Markets performed slightly worse, as the coronavirus pandemic raised concerns with the ability of these developing countries to control the spread of the virus.

Energy

The energy sector fell a whopping -50.5% in the first quarter as oil prices cratered due to a massive drop-off in demand as the world shelters in place. Prices bottomed at an insane -\$37.63 on April 20th, as storage facilities were overwhelmed, tankers had no where to offload, and futures buyers could not take delivery.

During the first quarter of 2020 the S&P 500 took just 16 days to fall into a bear market, the fastest decline in history. Jobless claims are quite literally off the chart, spiking to 6.6m in the week of March 28. For reference, that is just about 10x higher than the next highest reports on record (695k in October 1982 and 665k in March 2009).

Fiscal and Monetary stimulus measures have been equally superfluous in response, with G4 nations plus China providing stimulus amounting to 9% of global GDP, while Morgan Stanley estimates that the Fed, the ECB, and the bank of England are likely to make cumulative asset purchases of \$6.5T. Despite these measures, Morgan Stanley still believes the March-end rally was a "dead cat bounce," citing overly optimistic Q3 recovery expectations. The COVID-19 global pandemic has the entire world tuning in, so I won't spend much time reviewing what we all already know, but I will summarize in saying the US, and in fact the world, grossly underestimated the impact of COVID-19. Huge swaths of the US and global economy remain completely shut down and there is as yet no timeline for a return to normalcy. At this point, we simply do not have enough data to place any confidence in a recovery forecast, and any forecasts that do exist should be viewed with a healthy dose of skepticism. For those following the pandemic from home, John Hopkins has an excellent virus tracker available: <https://coronavirus.jhu.edu/map.html>

Looking Ahead

At some point in the coming weeks or months, we will begin to see infection curves flatten and decline, we will have ample tests available to everyone, and hospital/ICU/Ventilator demand will have peaked. At that point, we may be able to forecast when this pandemic will fade, and the global economy will begin to heal. Until then, the one thing we know for sure are that the economic impacts will be severe.

At this point, first quarter earnings are expected to fall -13.45%, and second quarter earnings are forecasted to fall -25.72%. The FactSet consensus estimate for US GDP is currently a -2.5% retraction in Q1 and a devastating -25% in Q2. The US unemployment rate is projected to hit 11.8% in the second quarter, and industrial production is projected to have fallen -7.5% in Q1 and -33.4% in Q2. The IMF is currently projecting that global GDP will fall -3% in 2020 and predicting the worst recession since the Great Depression as they predict the pandemic could account for cumulative output losses of over 9 Trillion dollars. For perspective, the Global Financial Crisis of 2009 resulted in just a -0.1% retraction in Global GDP.

Links and Articles

Our Pandemic Summer

The Atlantic outlines the difficulties we still face on our path back to normalcy.

The Right Way to Social Distance

Citylab describes how to be a model citizen during the pandemic.

What Negative Oil Prices Tell Us

The NYT describes oil's incredible fall to negative territory.

The Emerging Emerging-Markets Crisis

Guggenheim CIO, Scott Miner, paints a dark case for the future of EM.

Performance

The first quarter experienced a -33.5% peak-to-trough drop from February 20th to March 23rd. A historic ending to the historic bull market we've been enjoying for the last decade. The month ended with a slight recovery and finished down -19.6%. The recovery has largely continued in April, yet volatility and expected volatility remain elevated. As the Fed slashed interest

	Benchmark Index	Q1 2020	YTD	LTM	3yr	5yr	10yr
Cash	BBgBarc US Treasury Bill 1-3 Mon TR USD	0.5%	0.5%	2.1%	0.9%	1.1%	0.6%
Fixed Income	BBgBarc Global Aggregate TR USD	-0.3%	-0.3%	4.2%	3.6%	2.6%	2.5%
Fixed Income Blend	BBgBarc Global Aggregate TR USD	-0.3%	-0.3%	4.2%	3.6%	2.6%	2.5%
Government	BBgBarc US Government TR USD	8.1%	8.1%	13.1%	5.8%	3.6%	3.7%
Inflation Protected	BBgBarc US Treasury US TIPS TR USD	1.7%	1.7%	6.8%	3.5%	2.7%	3.5%
Municipal	BBgBarc Municipal TR USD	-0.6%	-0.6%	3.8%	4.0%	3.2%	4.1%
Floating Rate	BBgBarc US Trsy Floating Rate TR USD	0.4%	0.4%	2.0%	1.8%	1.2%	0.0%
Corporate	BBgBarc US Corp Bond TR USD	-3.6%	-3.6%	5.0%	4.2%	3.4%	4.9%
High Yield	BBgBarc US Corporate High Yield TR USD	-12.7%	-12.7%	-6.9%	0.8%	2.8%	5.6%
International Bond	BBgBarc Gbl Agg Ex USD TR USD	-2.7%	-2.7%	0.7%	2.6%	2.0%	1.4%
Equity	MSCI ACWI GR USD	-21.3%	-21.3%	-10.7%	2.0%	3.4%	6.4%
Equity Blend	MSCI ACWI GR USD	-21.3%	-21.3%	-10.7%	2.0%	3.4%	6.4%
US Equity	MSCI USA GR USD	-19.6%	-19.6%	-7.1%	5.0%	6.6%	10.5%
Developed Markets	MSCI World ex USA GR USD	-23.1%	-23.1%	-14.4%	-1.6%	-0.3%	2.9%
Emerging/Frontier	MSCI EM GR USD	-23.6%	-23.6%	-17.3%	-1.3%	0.0%	1.0%
Alternatives	Wilshire Liquid Alternative TR USD	-8.5%	-8.5%	-5.4%	-1.1%	-0.8%	0.9%
Alternatives Blend	Wilshire Liquid Alternative TR USD	-8.5%	-8.5%	-5.4%	-1.1%	-0.8%	0.9%

	Q1 2020	6mo	1yr	3yr	5yr	10yr
Information Technology	-11.9%	0.7%	10.4%	17.6%	17.0%	15.8%
Financials	-31.9%	-24.8%	-17.1%	-2.3%	3.4%	6.9%
Health Care	-12.7%	-0.1%	-1.0%	8.2%	6.0%	12.8%
Consumer Discretionary	-19.3%	-15.7%	-10.8%	5.7%	7.4%	13.6%
Consumer Staples	-12.7%	-9.7%	-0.6%	2.9%	5.2%	10.0%
Industrials	-27.0%	-23.0%	-19.4%	-1.8%	3.0%	8.6%
Energy	-50.5%	-47.7%	-52.3%	-21.6%	-14.2%	-3.7%
Utilities	-13.5%	-12.8%	-1.4%	6.2%	8.3%	10.6%
Materials	-26.1%	-21.4%	-16.5%	-2.8%	0.6%	5.6%
Communication Services	-17.0%	-9.5%	-3.3%	-0.3%	3.7%	8.1%
Real Estate	-19.2%	-19.6%	-11.3%	2.9%	3.4%	10.0%

Source: Morningstar; The 1,3,5, and 10 year performance is annualized.

rates and COVID-19 terrified financial markets, government bonds rallied 8% even as corporate bonds lost -3.6% and high-yield (a category with high exposure to the energy sector) fell -12.7%. Developed and Emerging markets fell slightly more than US stocks, falling -23.1% and -23.6%, respectively. While the US is now the leader in COVID-19 cases and deaths, earlier in the quarter it appeared that certain developed and emerging countries were being hit harder (Italy, Iran, China). The relative underperformance of these foreign markets is likely partly a flight to quality and a, now clearly misguided, notion that the US was better prepared to handle a pandemic outbreak of this nature.

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Asset Class	Benchmark	Description
Cash	BBgBarc US Treasury Bill 1-3 Mon TR USD	Measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.
Fixed Income	BBgBarc Global Aggregate TR Hdg USD	The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers.
Government Bonds	BBgBarc US Government TR USD	The Bloomberg Barclays US Government Bond Index comprises the US Treasury and US Agency indices. The index includes US Dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government).
Inflation Protected	BBgBarc US Treasury US TIPS TR USD	The Bloomberg Barclays US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market.
Municipal	BBgBarc Municipal TR USD	The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.
Floating Rate	BBgBarc US Trsy Floating Rate TR USD	The Bloomberg Barclays US Treasury Floating Rate Index measures the performance of floating rate bonds issued by the US Treasury.
Corporate Bonds	BBgBarc US Corp IG TR USD	The Bloomberg Barclays US Corporate Bond index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
High Yield Bonds	BBgBarc US Corporate High Yield TR USD	The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.
International Bonds	BBgBarc Gbl Agg Ex USD TR Hdg USD	The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers. This version excludes USD-denominated debt.
Equity	MSCI ACWI GR USD	The MSCI ACWI captures large and mid cap representation across 23 Developed Markets and 23 Emerging Markets countries. With 2,477 constituents, the index covers approximately 85% of the global investable equity opportunity set.
US Equity	MSCI USA GR USD	Captures broad US equity coverage. The index includes 3,108 constituents across large, mid, small, and micro capitalizations, representing about 99% of the US equity universe.
Developed Market Equity	MSCI World ex USA GR USD	Captures large and mid cap representation across 22 of 23 Developed Market countries, excluding the United States. With 1,023 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
Emerging Market Equity	MSCI EM GR USD	The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 829 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
Alternatives	Wilshire Liquid Alternatives TR USD	Measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe, including the Wilshire Liquid Alternative Equity Hedge, Global Macro, Relative Value, Multi-Strategy, and Event Driven indices. This index is meant to provide a representative baseline for how the liquid alternative investment category performed as a whole. Constituents comprised of '40 Act mutual funds.
US Large Cap Equity	S&P 500	Widely regarded as the best gauge of large-cap US Equities. The S&P 500 is a market-weighted index that includes 500 leading companies and captures approximately 80% coverage of available market capitalization.