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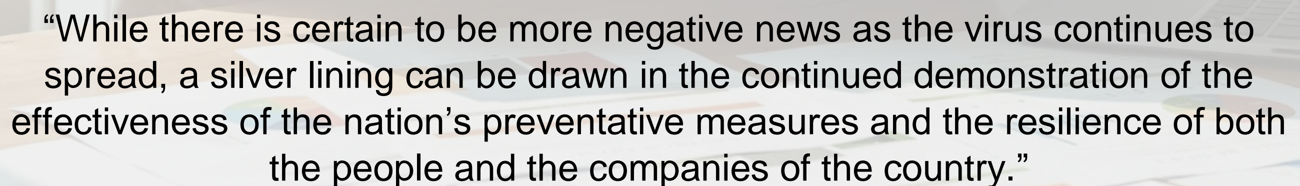
PRIVATE WEALTH MANAGEMENT

Market and Economic Update

APRIL 2020



"While there is certain to be more negative news as the virus continues to spread, a silver lining can be drawn in the continued demonstration of the effectiveness of the nation's preventative measures and the resilience of both the people and the companies of the country."

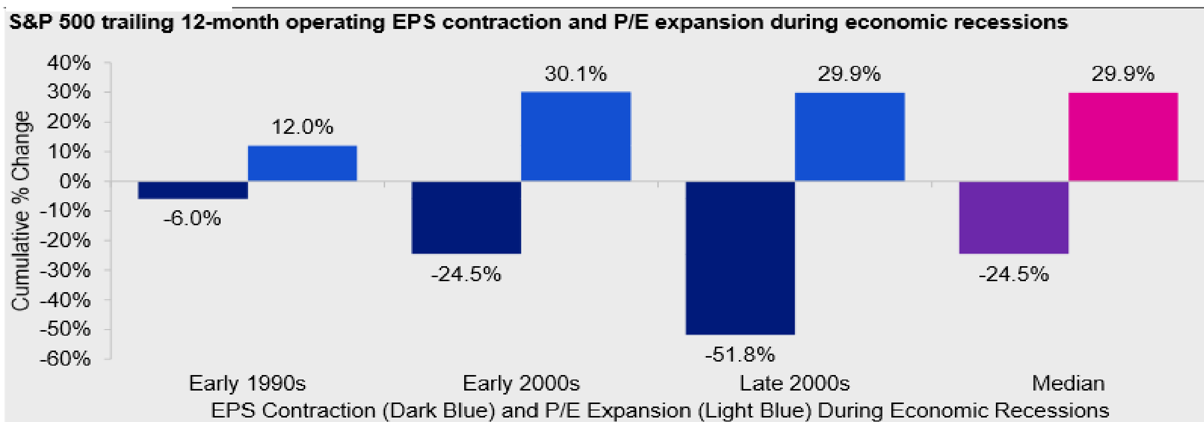
Markets

The MSCI All Country World Total Return Index gained 10.76% (vs. a 13.44% decline in March) in the month of April, showing investor's confidence in the strength of the world's industry despite the temporary, but lingering, effects of the global shut-down. In comparison, in the United States, the S&P 500 stabilized from March's historic levels of volatility, which included the index experiencing In April, the S&P 500 and the Russell 2000 both enjoyed this increased stability and notched notable gains ending the month up 12.82% (vs. a 12.51% decline in March) and 13.74% (vs. a the largest average daily moves in history at 4.8%., according to Bespoke Investment Group 21.73% decline in March) respectively on a total return basis. While none of these indices completely erased the steep declines they experienced in March, we believe it is clear that the drastic measures taken by both global fiscal and monetary authorities to shore up markets were received favorably.

During March, West Texas Intermediate (WTI) contracts experienced their largest drop in history, falling 54% (Source: yCharts) as demand virtually disappeared. This was due to the global shutdown of major businesses and manufacturers combined with the conflict between Russia and Saudi Arabia (two major oil producing countries that refused to curb output). As April concluded, more optimism emerged for the future of the industry as supply-cap agreements were reached and a re-balancing of supply and demand enabled the commodity to find some stable price footing.

Assuming the market declines persist, and the current global correction continues, we believe earnings are likely to decline sharply in the coming months. As earnings decline, the price of companies on a fundamental P/E basis are logically expected to increase, placing most companies in the S&P 500 in the potentially "overvalued" bucket as seen in the Graph A1, below. Fixed income markets also experienced a strong rebound with the Bloomberg Barclays Global Aggregate Index posting a 1.96% gain at the end of April while also getting close to eliminating the -2.24% drop experienced in March. Domestically, the US Credit market extended the rebound with the Bloomberg Barclays US Aggregate ending the month up 1.78%, eliminating its 0.59% decline in March. While the rebound was enjoyed by both the investment grade and high yield portion of the credit markets, it is clear this was not an evenly distributed recovery. The S&P 500/MarketAxess Investment Grade Corporate Bond Index posted a 4.67% gain, getting close to erasing its 6.02% decline in March while the US High Yield Master II Total Return Index notched only a modest 3.80% gain (vs. an 11.73% decline in March).

Graph A1

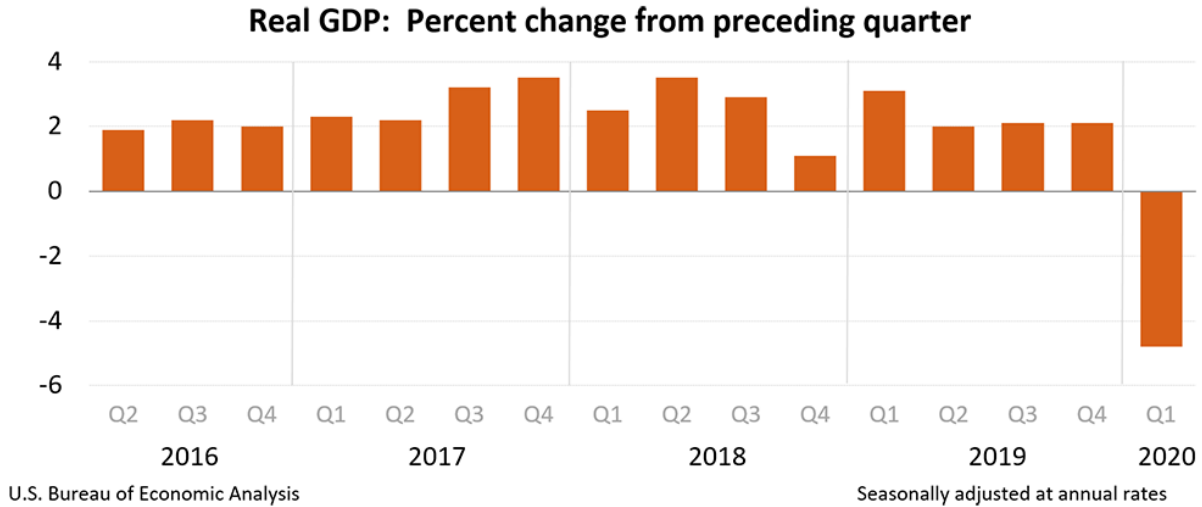


Source: Bloomberg L.P., Standard & Poor's, Invesco, 04/17/20. Notes: Economic recessions are defined by the NBER. An investment cannot be made in an index. **Past performance does not guarantee future results.**

US Economy

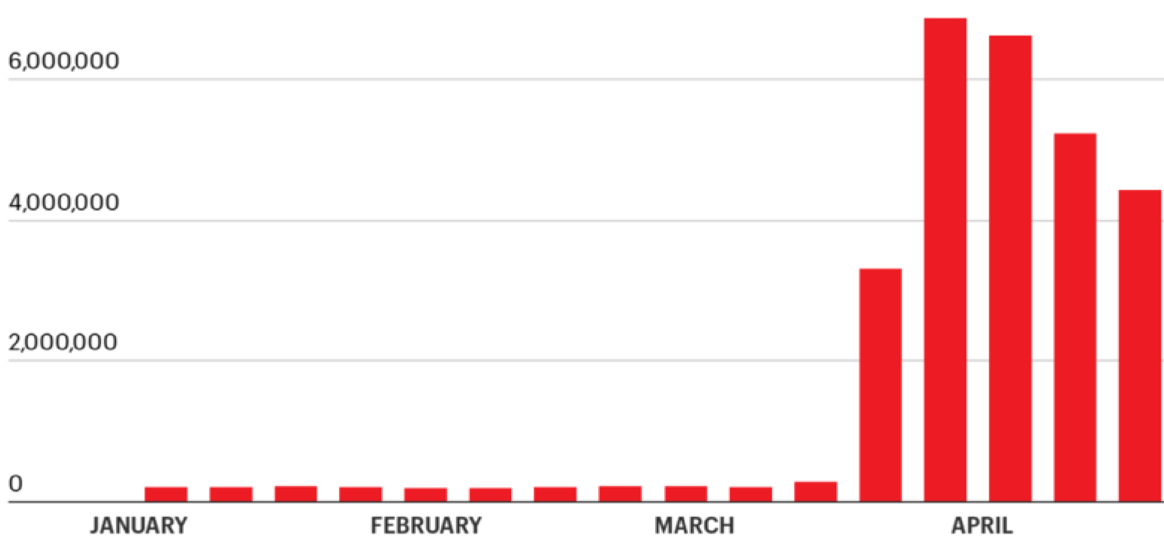
In late April, the US Bureau of Economic Analysis (BEA) released their preliminary estimate of first quarter 2020 GDP growth following the global shutdown caused by COVID-19. The report showed a 4.80% decline for the quarter, worse than the 3.50% contraction predicted by Dow Jones economists. This represents the first negative GDP reading since the 1.10% decline in Q1 2014 and marks the steepest decline since the 8.40% fall at the height of the financial crisis in Q4 2008. According to the BEA, "the decrease in **real GDP** in the first quarter reflected negative contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, and private inventory investment that were partly offset by positive contributions from residential fixed investment, federal government spending, and state and local government spending."

Graph A2



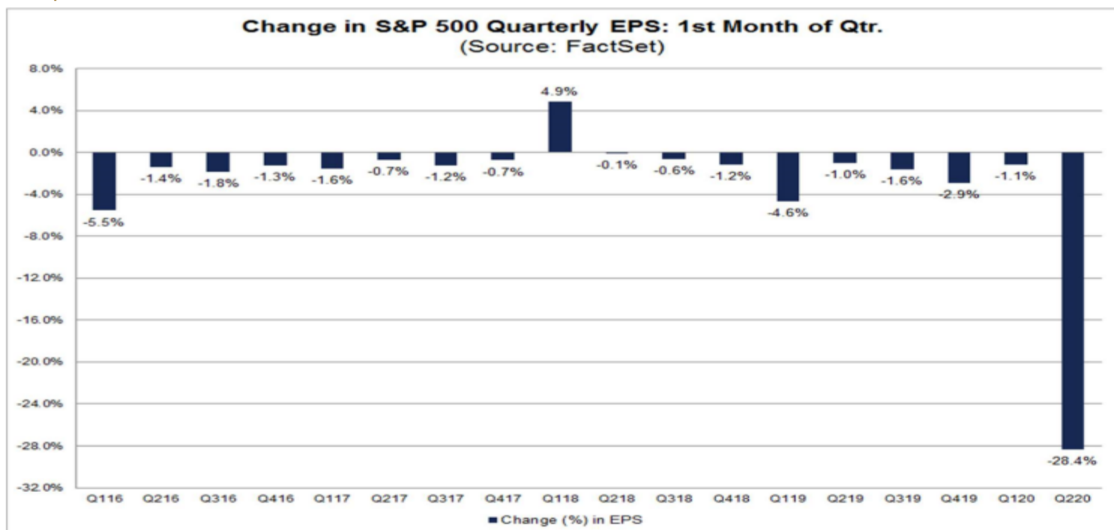
On an employment level, for the week ending April 25th, the US Department of Labor reported seasonally adjusted initial unemployment claims of 3.8 million, bringing the six-week total to over 30 million. This stunning and unprecedented increase in unemployment claims represents an unemployment rate of approximately 20%, which would be the highest level of unemployment in the US since 1934 during the Great Depression. It is important to note that most analysts' estimates do not cap the unemployment rate at a maximum of 20%. As an estimated 7 million more claims are expected to be filed in May, this rate is likely to increase before the potential to gradually rebound as employers work to re-staff and restart their operations.

Graph A3



Understandably, the latest consumer sentiment report from the University Of Michigan Surveys Of Consumers placed the Consumer Sentiment Index lower at 71.8, a steep fall from the March level of 89.1. While the vast majority of those consumers surveyed anticipate "improved finances in addition to overall economic gains in the year ahead" arising from the diminishing nature of the coronavirus, half of all consumers surveyed claimed they were postponing purchases of such items as household durables due to uncertainty about future job and income prospects. Speaking further on the demand-side of the economy, the IHS Markit Purchasing Managers Index (PMI) fell to 41.5 in April, down from 49.1 in March. This drop was caused by the unprecedented contraction experienced universally across the US Manufacturing sector arising from the preemptive measures taken by all levels of government to curb the spread of Covid-19. These measures, amounting to both recommendations and mandates for non-essential workers to remain at home, have contributed to significant falls in both the demand and consumption portions of the index, as well as the fastest fall in employment in the sector since March 2009. Turning to corporate earnings, 55% of S&P 500 companies have reported first quarter 2020 earnings as of May 1st, according to FactSet. Of these companies, 65% reported a positive earnings surprise, with 63% having reported a positive revenue surprise (likely due to decreased expectations given the market environment). However, the impacts of the pandemic have begun to take hold on even the safest companies in the US. The blended earnings decline for Q1 2020 is estimated to be at -13.70%, the lowest in the series history if FactSet's blended earnings projection materializes. Looking forward to the next quarter, the universal near-term pessimistic sentiment of analysts place the Q2 2020 bottom-up EPS estimates at a decline of 28.40%. This figure is magnitudes higher than the 5-year, 10-year, and 15-year average and marks the biggest decline in quarterly EPS estimate in series history, breaking the pious record of -20.60% seen in Q1 2009.

Graph A4



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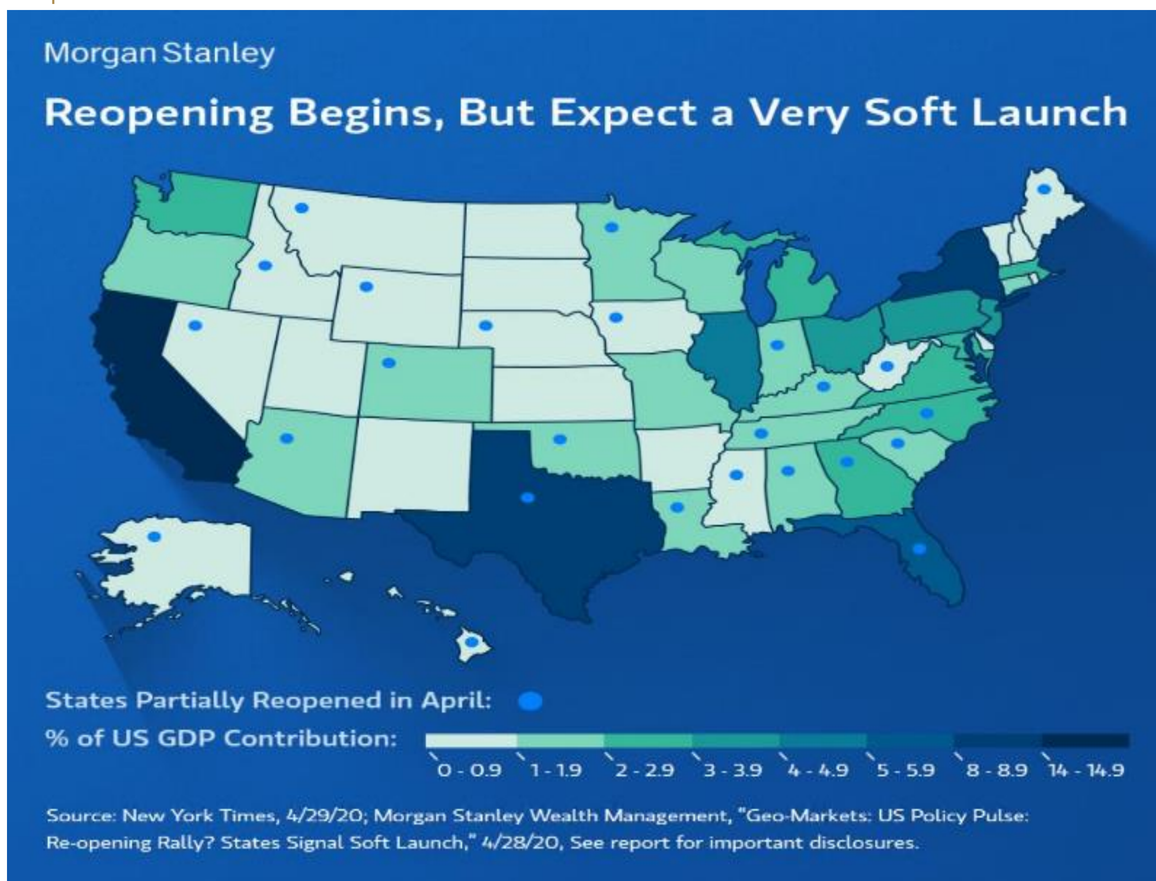
For smaller businesses, sentiment seems to be increasing as a recent report from Morgan Stanley indicated the number of open businesses ticked up slightly, showing only 26% of businesses being closed. This report also highlighted some weaknesses in the Federal Governments relief plan implementation, reporting that of the 80% of polled small businesses' (SMBs) which reported they were in the application process for qualified loans stemming from the CARES Act, only 15% had received funding. This is especially concerning for the 40% of polled SMBs which indicated that they would not be able to survive three months on current cash levels. This paints a picture of an extremely narrow timeframe in which the government would need to extend sufficient support and credit lines.

Graph A5



On the monetary policy front, the Federal Reserve reaffirmed their commitment to easing the impaired flow of credit to US households and businesses by maintaining the Federal Funds Rate in the range of 0.00-0.25%; a range we believe the Fed will very likely maintain in the near-term future. As interest rates remained stable, the administration's renewed criticism of China and the re-introduction of possible tariffs caused treasury yields to tick slightly higher in the end of April. However, interest rates in the US were largely range-bound, with the 10-year Treasury note generally staying within a yield of 0.60-0.75% in April.

In summation, the US Economy has yet to experience the full effects of the pandemic and many investors and analysts have priced this into their expectations for the near-term future. While there is certain to be more negative news as the virus continues to spread, a silver lining can be drawn in the continued demonstration of the effectiveness of the nation's preventative measures and the resilience of both the people and the companies of the country. With hospital utilization far lower than most estimates (as indicated by such examples as the shuttering of the USNS Comfort in NYC and McCormick Place in Chicago, both intended for hospital overflow) and some areas of the nation slowly beginning to re-open, we are beginning to see glimpses of the proverbial light at the end of the tunnel.

International Update

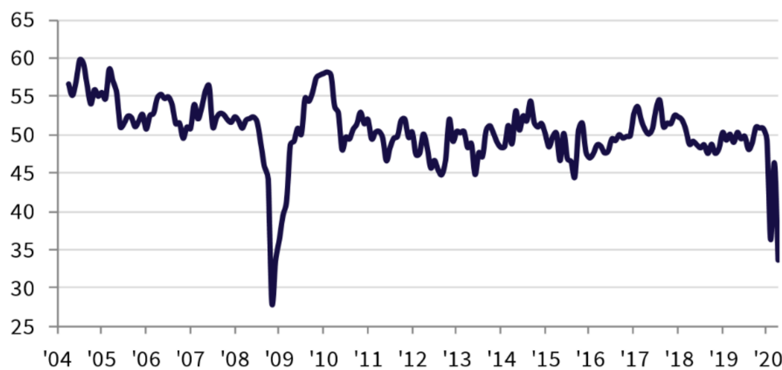
Internationally, the effects from the spread of COVID-19 were as severe and unprecedented as they were domestically. For the first quarter of 2020, the Euro Area recorded a fall in GDP of 3.80% while the EU posted a GDP contraction of 3.50%. Both recorded drops represent the sharpest declines in the data series' history, as reported by EuroStat. This serves as a major hit to an economy already plagued with low growth throughout 2019, posting only a 0.10% GDP gain in the final quarter of 2019.

Similarly, on the purchaser side, the IHS Markit EU Purchasing Managers Index experienced a drastic fall from 29.7 in March to the all-time low of 13.5 in April. Comparing this drop to the lowest level recorded during the financial crisis of 36.2 (in February 2009), we see a bleak picture demonstrating the effect the virus has on output. Though official EuroStat unemployment numbers have yet to be released, the EU PMI Employment Index shows a tough month ahead for the EU workforce—this index experienced a historic drop, falling from around 51 in March to a new low of 33 in April.

Graph A6

Foreign Monetary Policy

In the monetary policy arena, the ECB maintained their position in a difficult place faced with the daunting task of combatting the effects of the virus. Considering the EU's weak historical GDP growth rate, their historic drop experienced in the first quarter, and their weak expected annual inflation for the month of April being estimated at 0.5%, the economic turmoil of the global crisis is far from over for the bloc. Turning to Asia, the effects of the virus are also continuing to take their toll as seen in other areas of the globe. Specifically for China, while the month of March was characterized by stability as firms began to reopen, they were met with a shadow of the demand they once experienced prior to the outbreak. While the official Chinese PMI—to be taken with a rather large grain of salt in our opinion —enjoyed an incredible rate of growth in the month of March, it was once again met with a slight correction as it fell from 50.1 to 49.4 in April. To reflect this, the pace of job shedding in China's manufacturing industry increased in April as firms scrambled to reduce costs and temporary capacity to match the drop in international demand.



Graph A7

Japan

Japan has yet to experience a reversal of the same magnitude as China, and leading indicators for the economy show the country does not expect this to change soon. With the economic downturn accelerating for Japan in April, the IHS Markit Composite PMI plunged further to 27.8. This reflects manager's pessimistic outlook for the health of the Japanese economy, despite the Japanese government approving a massive stimulus program. This pessimism is stoked by many managers' fears of the government extending the already month-long state of emergency further into the future as they continue to battle new cases of the novel virus.

Summary of Multi-Asset Strategy Performance and Attribution

	Portfolio Weight	April 2020
Equity	100%	**Positive (+)**
Large Cap	90%	**Positive (+)**
Small Cap	10%	**Positive (+)**
Fixed Income	100%	**Positive (+)**
Investment Grade	80%	**Positive (+)**
Mortgage	20%	**Positive (+)**
Alternative	100%	**Positive (+)**
DALT	100%	**Positive (+)**
Cash (1)	15%	**Neutral**

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