Market Update for the Quarter Ending March 31, 2020

Presented by Matt Glova

Shocking month ends terrible quarter

March was another terrible month for stocks. The continued spread of the novel coronavirus led to fear and uncertainty in global markets. The S&P 500 declined by 12.35 percent for the month and 19.60 percent for the quarter. The Dow Jones Industrial Average (DJIA) dropped by 13.62 percent for the month and 22.73 percent for the quarter. The Nasdaq Composite lost 10.03 percent in March, contributing to a 13.95 percent decline for the quarter.

These poor results came despite improving fundamentals. Per Bloomberg Intelligence, as of March 20, the blended average earnings growth rate of the S&P 500 for the fourth quarter of 2019 stood at 1.4 percent, with 99.6 percent of companies reporting. This is a solid improvement from the initial estimate of a 1.2 percent decline. While normally worth celebrating, with the shutdown of the U.S. economy and others around the world, past earnings growth is now much less relevant. Investors face significant uncertainty over what future earnings will be.

Technical factors displayed the breakdown in investor confidence. All three major indices ended the month below their respective 200-day moving averages. The Nasdaq Composite was more resilient and finished February above its trendline. But the selling pressure in March brought this index below the trendline by midmonth, where it stayed until month-end.

Internationally, we saw large declines, as coronavirus case counts spiked worldwide. The MSCI EAFE Index dropped by 13.35 percent for the month and 22.83 percent for the quarter. Emerging markets dropped 15.38 percent for the month and 23.57 percent for the quarter. Technicals for international markets remained weak, with both indices finishing well below their 200-day moving averages for the second straight month.

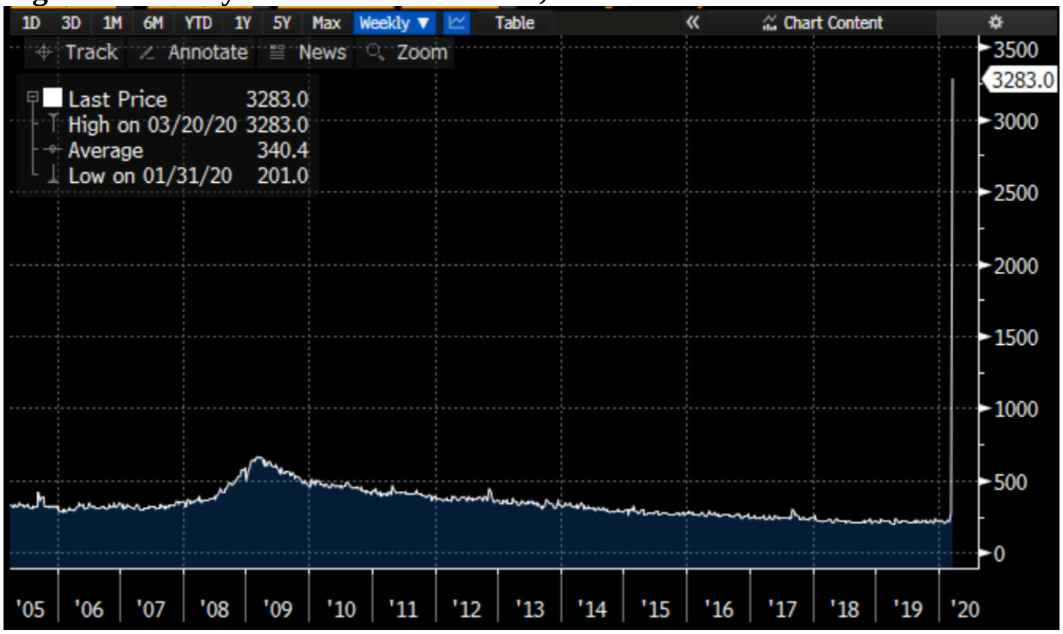
To some extent, investment-grade fixed income benefited from the global uncertainty during the quarter, but even here there was significant volatility. Investors fled to safe assets like fixed income, which drove down interest rates. Rates were reduced further when the Federal Reserve (Fed) effectively cut the federal funds rate to zero. As a result, the 10-year Treasury note dropped from 1.88 percent at the start of the year to 0.70 percent at the end of the quarter.

The sudden decline in rates disrupted financial markets. Investors fled to cash, which sent fixed income prices down, although they had largely recovered by month-end. The Bloomberg Barclays U.S. Aggregate Bond Index fell by 0.59 percent during the month, but gained 3.15 percent during the quarter. High-yield fixed income fell by 11.46 percent for the month and 12.68 percent for the quarter.

Coronavirus’s impact on American workers

Response to the coronavirus pandemic began to have widespread economic effects in March. The first data release to reflect the damage was the weekly initial jobless claims report for the week ending March 21. As you can see in Figure 1, 3.283 million Americans filed for unemployment. This was the highest weekly total of all time, well above the 665,000 we saw in March 2009.

Figure 1. Weekly Initial Jobless Claims, 2005–Present



Source: Bloomberg

Fortunately, both the Fed and the federal government stepped in to help keep the economy alive. The Fed cut rates to zero and started a new round of quantitative easing, while the federal government put a $2 trillion stimulus plan in place to support worker incomes and small businesses.

The end of the beginning?

Although conditions remain difficult, there is some positive news. In places like South Korea and China, we have seen how enhanced testing and strict social distancing practices can slow the spread of the virus. As a result, we know what has to be done and are doing it across the U.S.—and there is reason to believe it is working.

Financial markets are staging a partial recovery. While there will certainly be continued volatility, we're seeing signs that much of the panic has passed, and markets are now reflecting a balance of hope and fear.

Risks are here to stay

The economy and markets are now driven by reactions to the spread of the coronavirus and the government's policy response. As investors, we need to remain focused on the long term. We will overcome the coronavirus crisis, but it is impossible to know how and when. Given that, and the volatile times we are in, maintaining a well-diversified portfolio that matches your goals and time horizon remains the best path forward.

All information according to Bloomberg, unless stated otherwise.

Disclosure: *Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable 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.*

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