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# MARKET MINUTE

2020 VOLUME : MARCH REVIEW

*This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Joe Nitting, CFA, CAIA, Analyst, Research.*


## OVERVIEW

Investors endured significant losses during the month as the late-February selloff accelerated into March. Global equities entered bear market territory at a historic pace amid ongoing concerns about the coronavirus and a sharp decline in oil prices. While global equities sold off swiftly, fixed income markets also moved lower as investors sold bonds in favor of cash, weighing on bond returns. These market moves prompted waves of fiscal and monetary stimulus from global governments and central banks, the impacts of which are still unknown. We understand recent market moves are unnerving for our clients and much remains unclear in this particularly complex environment. We again spend some time at the end of our normal "Market Minute" piece to share with you our thoughts and expectations from the current vantage point.

## DOMESTIC EQUITY

*As of March 31, 2020*

| U.S. EQUITY MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| DJIA | -13.6% | -22.7% | -22.7% | -13.4% |
| S&P 500 | -12.4% | -19.6% | -19.6% | -7.0% |
| Russell 2000 | -21.7% | -30.6% | -30.6% | -24.0% |
| Russell 1000 Growth | -9.8% | -14.1% | -14.1% | 0.9% |
| Russell 1000 Value | -17.1% | -26.7% | -26.7% | -17.2% |

U.S. equity markets moved sharply lower during March amid historically high levels of volatility. The S&P 500 entered bear market territory in just 16 trading days, the fastest pace on record, while the VIX also reached levels of over 80, the highest ever recorded.[1] Despite the broad move lower in domestic markets, performance differences across specific market segments were especially apparent. Most notably, large caps (S&P 500) outperformed small caps (Russell 2000) by 9.4%, their widest monthly outperformance margin since March 2000.[2] Growth stocks (Russell 1000 Growth) also continued their meaningful outperformance over their value (Russell 1000 Value) counterparts as a steep decline in oil prices hurt the Energy sector, weighing on the value space.

While the ongoing virus scare has brought equity valuations down further, we still find it prudent to be defensive in our positioning. We feel it is still too early to have clarity on the full impacts of the virus, as well as low oil prices, fiscal stimulus, and monetary stimulus on future corporate earnings and economic growth. Additionally, the rest of 2020 has further uncertainties ahead related to potentially continuing trade negotiations and the U.S. Presidential Election.

## INTERNATIONAL EQUITY

*As of March 31, 2020*

| INTERNATIONAL EQUITY MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quater-To-Date | Year-To-Date | 1 Year |
| MSCI ACWI ex USA | -14.5% | -23.4% | -23.4% | -15.6% |
| MSCI EAFE | -13.3% | -22.8% | -22.8% | -14.4% |
| MSCI Emerging Markets | -15.4% | -23.6% | -23.6% | -17.7% |
| MSCI EAFE Small Cap | -17.2% | -27.5% | -27.5% | -18.1% |

Non-U.S. equity markets also sold-off in March due to concerns about the coronavirus pandemic, with the MSCI EAFE down -13.4% and the MSCI EM down -15.4%. These poor returns partially reflect the impact of the U.S. dollar rising throughout the month against several developed market currencies and most emerging market currencies. Many businesses in Western Europe were shut down due to shelter-in-place provisions, while Italy and Spain grappled with acute virus breakouts in Milan, Madrid, and several other large cities. Japan, meanwhile, which closed all schools and many businesses in February, was forced to postpone the 2020 Olympics until next year.

All these economic headwinds have been met by additional stimulus from the European and Japanese central banks, as well as robust fiscal spending from numerous state capitals. For instance, Germany—Europe's largest economy—approved a plan that could result in a budget deficit of up to €356 billion or roughly 10% of annual GDP to stabilize its economy.

## FIXED INCOME

*As of March 31, 2020*

| FIXED INCOME MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| BarCap US Aggregate | -0.6% | 3.1% | 3.1% | 8.9% |
| BarCap Global Aggregate | -2.2% | -0.3% | -0.3% | 4.2% |
| BarCap US High Yield | -11.5% | -12.7% | -12.7% | -6.9% |
| JPM Emerging Market Bond | -12.6% | -11.8% | -11.8% | -5.3% |
| BarCap Muni | -3.6% | -0.6% | -0.6% | 3.8% |

"Market dislocation" is a phrase that dominated fixed income markets during March. In a "dash for cash," investors sold what they could regardless of price. This action resulted in AAA-rated municipal bonds trading at yields significantly higher than those of U.S. Treasury bonds. Short-term money market funds also experienced outflows as investors preferred cash instead of funds that only invest in U.S. government-backed securities. The fear trade had markets panicked until the Federal Reserved arrived and announced a series of support programs, which seem to have calmed markets for now.

Early in the month, the only place to hide in the fixed income market was in U.S. Treasury securities, which proved to be the best performers in March. Although the month's closing days saw significant price improvement in the investment grade, high yield, and emerging market debt spaces, all three sectors woefully underperformed for the month. It might be too early to say the recovery has begun, but the appearance of stabilization is a welcomed sign.

## CLOSING

The toll on human lives and on our global community remains the most significant impact of the coronavirus outbreak. We continue to watch these events unfold with great sadness and hope for a swift containment and return to normalcy. While we are unequipped to accurately forecast the trajectory of this pandemic, it is our responsibility to process recent developments and understand their investment implications. Here, we share our thoughts with you.

First and foremost, it remains too early to tell the magnitude of the impact the coronavirus will have on the global economy. We will receive more information in April and May through several economic data and quarterly earnings releases, but the range of potential outcomes of this episode is wide depending on the duration and severity of the epidemic.

Amid such uncertainty, central banks and governments have responded with a combination of monetary and fiscal stimulus measures. The impacts of these measures are to be determined since they often need more than just a month to take effect, but central banks' and governments' willingness and efforts to support the global economy are encouraging.

Over the course of 2019, we discussed the importance of maintaining a prudent rebalancing protocol and remaining defensive in portfolios.  While we did not foresee the rise of the coronavirus and its impact on global capital markets, we were aware of risks that were building up in the system.  Most notably, equity markets' rising valuations and credit markets' tight spreads caught our attention.  Our message to clients is to build portfolios based on goals, with robust allocations and healthy investment policies that are designed to be agnostic to market cycles and short-term gyrations.  History has taught us that moments like the past month, while intense, fade into the background when we focus on the long term.  Consider rebalancing your portfolios and stay invested.

**Sources:**
**1 Bloomberg**
**2 Morningstar**

**Disclosures**

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