clearstead
MARKET MINUTE

2020 VOLUME : APRIL REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Joseph D. Boushelle, CFA, CAIA, Senior Managing Director, Research.]

OVERVIEW

Global equity markets bounced back strongly in April from the selloff in March as U.S. equities had their strongest monthly performance since 1987[1]. Investors were able to shake off dismal economic numbers as first quarter GDP growth came in at -4.8%, over 30 million people filed unemployment claims in the U.S. over the last 6 weeks, U.S. consumer spending slumped 7.3%, the most ever, and oil traded in negative territory for the first time ever[1]. Despite these negative headlines, markets looked to the future and saw glimmers of hope in continued global government stimulus measures, potential coronavirus treatments, a "flattening of the curve," and loosening of quarantine restrictions globally. While we do expect to see rosier days, the road ahead is likely to be a bumpy one.

DOMESTIC EQUITY

As of April 30, 2020

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	11.2%	11.2%	-14.1%	-6.2%
S&P 500	12.8%	12.8%	-9.3%	0.9%
Russell 2000	13.7%	13.7%	-21.1%	-16.4%
Russell 1000 Growth	14.8%	14.8%	-1.4%	10.8%
Russell 1000 Value	11.2%	11.2%	-18.5%	-11.0%

U.S. equity markets rebounded in April as concerns about the coronavirus and its potentially negative economic impact subsided during the month. The S&P 500 rallied up 12.8%; its third best month since World War II[1]. Despite trailing large caps (S&P 500) earlier in the month, small caps (Russell 2000) are outperforming large caps for the month by about 0.9%.

Especially given the strong performance in the equity markets, we still find it prudent to be defensive in our position given the volatility of sentiment regarding the coronavirus and the lack of clarity around the virus's impact on corporate earnings and economic growth.

INTERNATIONAL EQUITY

As of April 30, 2020

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	7.6%	7.6%	-17.5%	-11.5%
MSCI EAFE	6.5%	6.5%	-17.8%	-11.3%
MSCI Emerging Markets	9.2%	9.2%	-16.6%	-12.0%
MSCI EAFE Small Cap	10.4%	10.4%	-20.0%	-12.3%

Non-U.S. equity markets also rebounded in April around the potential of reopening markets, but significantly lagged the gains made in the U.S. markets. The developed markets (MSCI EAFE) were up 6.5% and the emerging markets (MSCI EM) were up 9.2%. Small cap stocks (MSCI EAFE Small Cap) led the rally in both EM and developed markets, gaining as much as 4 percentage-points more than their large cap peers. The U.S. dollar grinded higher against many Emerging Market currencies as well as several key developed market currencies (i.e. Euro, Canadian dollar).

Chinese equity markets rose in line with other EM markets in April, but YTD have outperformed the US market on a relative basis and is only down about -5.0%[1]. The Chinese economy continues to normalize after it lifted quarantines in most places in late March/early April. By mid-April, most Chinese businesses have reopened, and its manufacturers had the ability to resume nearly full production. However, demand for many Chinese exports—excepting medical supplies and products—is weak as many of their US and European customers have cancelled or delayed delivery on many products due to ongoing shutdowns in their home markets. Nonetheless, the earnings outlook for most domestically-oriented Chinese firms looks to be flat to mildly positive for 2020 in contrast to most other markets, and the Chinese government—similar to efforts in the US and Europe—has implanted a series of fiscal and monetary measures to support the economy and stabilize its equity markets.

FIXED INCOME

As of March 31, 2020

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	1.8%	1.8%	5.0%	10.8%
BarCap Global Aggregate	2.0%	2.0%	1.6%	6.6%
BarCap US High Yield	4.5%	4.5%	-8.8%	-4.1%
JPM Emerging Market Bond	2.2%	2.2%	-9.8%	-3.3%
BarCap Muni	-1.3%	-1.3%	-1.9%	2.2%

Following the March upheaval, as the month progressed, April activity calmed down and investors began to look for bargains. During March 10-year US Treasury bond yields traded in range from a low of 0.31% to a high of 1.27%[1]. April's trading range has been much tighter from 0.54% to 0.78% and is closing the month at 0.64%[1]. This same behavior could be found in other fixed income sectors such as investment grade and high yield corporate securities that saw spreads not only tighten but also trade in a less volatile environment.

Key to outperformance was to be invested where the Federal Reserve said they were buying. The Fed stepped in with a broad array of actions to limit the economic damage from the pandemic, including lending to support households, employers, financial markets, and state and local governments. For example, under the new Secondary Market Corporate Credit Facility (SMCCF), the Fed may purchase existing corporate bonds as well as exchange-traded funds investing in investment-grade corporate bonds. The markets responded favorably to this action as the Bloomberg Barclays Investment Grade Corporate Index retuned 5.24% for the month versus 0.64% for the US Treasury Index[1]. Until there is clearer economic visibility, the Fed's financial market support should help stabilize markets and reduce volatility.

CLOSING

Bear market rallies are not uncommon during a recession. While we do not have a crystal ball view into the future, the S&P 500 is trading at levels seen in early October 2019 and valuations look stretched as earnings estimates continue to come down.

The probability of the most severe scenarios continues to come down as we learn more about the coronavirus and dozens of pharmaceutical and biotech firms work on potential treatments and vaccines, but we still expect the impact of the virus to continue to be felt as people maintain their "social distance" and companies work through excessive balance sheet leverage. Given this backdrop, we could see the market retest March lows in the coming weeks or months before the nature of post-COVID 19 recovery becomes clearer and visibility into the corporate earnings outlook is sufficient to support further advances in financial markets. This could create great buying opportunities for patient investors.

Sources:
Index performance data in tables provided by Morningstar, as of 4/30/2020.
1 Bloomberg