HB RETIREMENT®

FINANCIAL MARKET SNAPSHOT

Stocks Hit a Wall

March 2, 2020

Equities rallied through much of February as investors paid little attention to the coronavirus over the first three weeks of the month.

Momentum hit a brick wall in the final week, however, as rising virus cases and the shuttering of economic activity in China weighed heavily on asset prices.

Capital market activity in February was heavily influenced by the last 5 trading days of the month when risk-based asset prices moved sharply lower and coronavirus Covid-19 concerns spiked. Equities endured a degree of downside volatility last seen in 2008, commodities tumbled, and high-yield bonds fell as investors struggled with the weight of economic worry brought about by the disease. The Volatility Index (VIX) lurched beyond Dec. 2018 levels.

Economic unease resulting from the disease reverberated from the mainland China center-point to all four corners of the globe. Economic impacts are beginning to be revealed; starting in China, where Beijing has reported a significantly weak Manufacturing PMI reading for February. Some U.S. companies are beginning to warn investors that Q1 earnings reports may be negatively effected and go-forward, business visibility is poor. Confirmed cases of Covid-19 and fatalities remain on the rise, and

Table 1: Notable Returns / Yields / Spreads: Nov. '19 - Feb. '20

Source: Bloomberg

Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month
High Yield Corp Spreads = Yield-to-Worst differential vs. 10Yr Treasury (end of month)

	Nov '19	Dec '19	Jan '20	Feb '20
S&P 500 Index	3.63%	3.01%	-0.04%	-8.23%
MSCI EAFE Index	1.16%	3.27%	-2.07%	-9.01%
MSCI Emerging Markets Index	-0.13%	7.35%	-4.66%	-5.26%
BBG Barc U.S. Aggregate Bond Index	-0.05%	-0.07%	1.92%	1.80%
10-Year Treasury Yield	1.78%	1.92%	1.51%	1.15%
U.S. HY Corp Spread (10Yr)	3.81%	3.27%	4.01%	5.08%

the disease has moved west through Europe. U.S. cases have gone up daily with one death reported as of March 1.

Meanwhile, the Bloomberg Barclays U.S. Aggregate Bond Index, and U.S. Treasuries in particular, rose in February as investors rotated capital into some safe-haven assets. Gold sold off after having sharply advanced ahead of the spike in volatility.

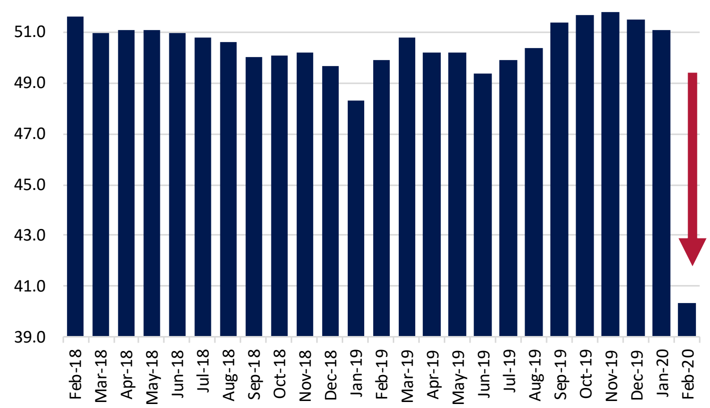
As the markets closed one of the most volatile weeks in more than a decade, investors began to anticipate a potential policy reaction from fiscal and monetary policymakers. Rate markets have priced in the potential for three interest rate cuts from the Federal Reserve, and some appear to be expecting a coordinated policy move from western central banks. There has also been speculation fiscal policymakers could step in with a program of economic support.

Our investment models have followed the sharp trend weakness in equities and now suggest raising additional cash; thus moving our overall equity position to underweight. We anticipate the market could see some short-term recovery from potential policy action or an "oversold" bounce in equity prices. However, we believe the relative lack of economic visibility, due to Covid-19 impacts, may induce investors to sell into periods of market strength. This would be contrary to the v-shaped recoveries witnessed during drawdown periods of the recent past. This time around, it is our view that the virus-induced shock of economic uncertainty, and an uncertain path to a recovery, may make this equity drawdown a bit more protracted than those we have seen in the last few years.

China manufacturing activity fell off the table in February due to Covid-19.

Readings over 50 indicate expansion in manufacturing activity. Readings under 50 indicate contraction

Figure 1: Caixin China Manufacturing PMI
Source: HIS Markit



Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

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The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

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