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FINANCIAL MARKET SNAPSHOT

Historic Drawdown Speed

April 6, 2020

The coronavirus pandemic caused a market sell-off that was unprecedented in its swiftness.

The velocity of the drawdown reached a crescendo in March, and late in the month, markets began to show some signs of stabilization at lower levels.

The month of March saw a transition from a virus outbreak to a full global economic shock as governments across the globe enacted strict containment policies which shuttered many sectors of the economy. The precipitous rise in the number of coronavirus cases globally and the uncertain extent of the economic damage translated into some panic and forced selling of financial assets. All risk-asset prices came under pressure during the period as correlations moved toward one. Selling pressure was indiscriminate, which left Treasury bonds and cash as the lone assets of relative security. Even gold prices buckled as investors reached for all assets in an effort to raise cash.

Indeed the speed of the risk-asset drawdown was faster than in 2008 as equity markets reached correction territory (-10%) and bear market territory (-20%) in record time. Historically, equity corrections and bear markets have taken months to develop. During this drawdown, major equity indices reached bear-market levels in a matter of days.

Table 1: Notable Returns / Yields / Spreads: Dec. '19 - Mar. '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)

	Dec '19	Jan '20	Feb '20	Mar '20
S&P 500 Index	3.01%	-0.04%	-8.23%	-12.35%
MSCI EAFE Index	3.27%	-2.07%	-9.01%	-13.28%
MSCI Emerging Markets Index	7.35%	-4.66%	-5.26%	-15.41%
BBG Barc U.S. Aggregate Bond Index	-0.07%	1.92%	1.80%	-0.59%
10-Year Treasury Yield	1.92%	1.51%	1.15%	0.67%
U.S. HY Corp Spread (10Yr)	3.27%	4.01%	5.08%	8.79%

Meanwhile, the economic lockdown in many countries has caused most economists to slash Q1 and Q2 GDP growth expectations. Some forecasts are calling for U.S. Q2 GDP to drop by as much as 30%. However, many are indicating an economic rebound may occur in the third quarter, depending on the length of government containment efforts. While the expectation of some economic rebound in Q3 is good news, the potential lasting economic fallout as a result of the virus shutdown has left investors wary.

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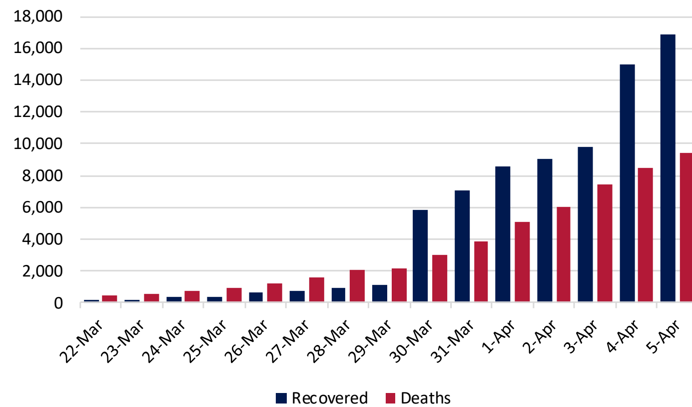
Notably, the rate of coronavirus case growth and confirmed deaths has slowed in many countries, but the numbers of those effected continue to accumulate. In keeping with the virus' east-to-west movement, it appears

authorities in the Asia-Pacific are getting some handle on the disease, case growth has slowed materially in Europe, while the U.S. looks to be the current case hot-spot. Approximately 42 U.S. states and the District of Columbia are under some form of “stay-at-home” restriction.

Figure 1: U.S. COVID-19 Cases - Confirmed Recovered / Confirmed Deaths

Source: Bloomberg



In the face of virus uncertainty, both the U.S. government and the Federal Reserve have rolled out unprecedented policy efforts to stabilize the economy. A $2 trillion fiscal relief package and multiple monetary policy programs to support financial markets, we believe, should provide some backstop against unchecked economic deterioration. More policy tools may be needed and additional stimulus action is now being contemplated in D.C.

While we are optimistic multiple countries may slowly get back to work over the next weeks/month, it is the lasting economic damage to workers and businesses that remains as the chief investment concern. Within the multi-asset portfolios we manage, we have moved portions of our equity allocation to cash as we wait for markets to steady. We believe the initial drawdown wave we have witnessed through February and March may be followed by additional bouts of volatility as economic conditions are further assessed. However, should conditions improve in Q3, as some forecasters expect, we believe the second quarter may serves as an optimal time to begin to put our excess cash back to work.

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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All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

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.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

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.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

Economic and other investment forecasts set forth may not develop as predicted and there can be no guarantee that strategies mentioned will be successful.

All indices are unmanaged and may not be invested into directly.

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