HB RETIREMENT®

FROM THE DESK OF THE CIO

Uncertainty Still High

March 29, 2020

Global equities managed to rebound last week and corporate bond prices rose. However, we believe an abundance of investment caution is still warranted.

A retest of near-term equity lows may be expected as the U.S. and Europe works through a growing health crisis.

U.S. federal, state and local governments continue to bolster COVID-19 containment efforts.

HB Retirement - We specialize in the investment design assistance and function of corporate retirement plans and wealth management for individuals. We provide insight and specialized support to assist you in managing your fiduciary obligations, and assist your employees with retirement planning.

Dear Clients:

Many of you may have recognized a modest portfolio reprieve last week as equities and other risky asset segments managed to rally through most of the period. The parabolic selling seemed exhaust itself for the moment, and perhaps some buyers stepped in to advantage themselves of cheaper prices. For the week, the S&P 500 Index closed up 10.3% and the MSCI All-Country World Index rose 10.0%. As we have mentioned, perhaps the release of some economic forecasts, which called for a potential Q3 economic rebound, steadied the market just a bit. However, we believe you should be aware that such positive market action often occurs during the course of material drawdown periods, and additional equity selling pressure may be on the horizon. As a result, we believe investors should remain on-guard for additional price volatility.

During recent client discussions, we have been pointing toward several variables that we believe should be closely monitored as signs of a potentially sustainable economic and market recovery. The foremost variables are clearly the information we are getting on coronavirus cases in the U.S. and across the globe. It appears case numbers are beginning to moderate or fall in the Asia-Pacific, while Europe and U.S. case activity is still growing rapidly. This U.S. and Europe data will likely keep capital markets on edge until an improved case trajectory can be discerned across western economies.

Secondly, we are indeed beginning to see some stabilization in fixed-income markets; a condition to which we have been paying close attention. While credit and other areas of fixed-income could still see material volatility, the fact that credit spreads have narrowed a bit is a welcome sign of some steadiness. As we have mentioned in this and other forums, further steadiness in credit markets may then translate into a sustained rebound in equities. This is how such events have historically transpired, although variability along the path toward improvement is expected to be high.

Lastly, we are paying strict attention to the number of statewide or nationwide business and civilian shut-ins being instituted across the U.S. and other countries. Clearly, the length and breadth of these mandates will have a material impact on the economy's ability to recover in accordance with the economic forecasts mentioned above. So far, the developments have not been good and there appears to be no clear timeline on domestic improvement. In fact, the U.S. federal government has just extended social distancing guidelines through April 30. Uncertainty over a protracted economic shut-in is expected to remain as a key issue for capital markets.

In terms of near-term market expectations, we believe a retest of previous equity lows may occur and market uncertainty could remain high until COVID-19 case data improves. The strength of the U.S. healthcare system will be further tested in the coming weeks. However, case progression across other countries and the capability of the domestic health community still give us confidence that the case curve can be bent.

A rebound in non-Treasury fixed income prices and a narrowing of credit spreads is a welcome sight. However, we would not expect bond prices to rise and spreads to tighten in a straight line.

Table 1: Fixed Income Segment Returns
Source: Bloomberg, Barclays

	February	March MTD	Week of March 23
Bloomberg Barclays U.S. Treasury Index	2.65%	2.83%	0.30%
Bloomberg Barclays U.S. MBS Index	1.03%	1.06%	0.76%
Bloomberg Barclays Inv. Grade Corp. Bd Index	1.34%	-8.50%	5.38%
Bloomberg Barclays High Yield Corp. Bd Index	-1.41%	-12.76%	7.25%

Should you have any questions on the items we have discussed in this forum or want more information on our investment view, please contact your advisor or an associate of HB Retirement. We will continue to work to provide you with as much information and guidance as we can during these highly uncertain times. We appreciate your confidence in us.

Sincerely,

Marc A. Zabicki

Chief Investment Officer

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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.

Stock investing involves risk including loss of principle.

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 MSCI All Country World Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.

The Bloomberg Barclays Treasury Bond Index is an index of U.S. dollar denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the index's maturity constraint.

The Bloomberg Barclays Investment Grade Corporate Bond Index measures the investment-grade, fixed-rate, taxable corporate bond market. The index includes U.S. dollar denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

The Bloomberg Barclays U.S. Corporate High-Yield Bond Index is an unmanaged market value weighted index compose of fixed-rate, publicly-issued, non-investment grade debt.

The Bloomberg Barclays U.S. Mortgage –Backed Securities (MBS) Index tracks agency mortgage-backed pass-through securities guaranteed by GNMA, FNMA and FHLMC.

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.

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.

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.

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