



Asset Strategy Consultants

MARKET ENVIRONMENT

First Quarter 2020

Market Environment: Global Equity

Global equities declined significantly over the quarter as the coronavirus outbreak spread. The S&P 500 plunged 19.6% in the first quarter, its worst quarterly return since the Global Financial Crisis. Shares fell across developed markets as countries went into lockdown to try to contain the outbreak. Emerging markets equities also sold off with currency depreciation being a key driver.

U.S. Equity

- S&P 500 Index returned -19.6% in Q1
 - All sectors experienced double-digit declines
 - IT (-11.9%), Health Care (-12.7%) and Consumer Staples (-12.7%) felt the least pain
 - Energy (-50.5%) fell the most with the addition of the oil price war weighing heavily
 - Financials (-31.9%) and Industrials (-27.1%) also fell sharply
 - The “FAAMG” stocks had an average return of -7.9% in Q1, led by Amazon (+5.5%) and Microsoft (+0.3%)
- Growth significantly outperformed Value
 - R1000 Growth Index (-14.1%) benefited from IT exposure
 - R1000 Value (-26.7%) struggled with relatively heavy weights in Energy and Financials
 - Defensive stocks outperformed Dynamic stocks by a wide margin in Value, but by a slim margin in Growth
- Large caps outperformed small caps
 - R1000: -20.2%
 - R2000: -30.6%
 - Small cap value (R2000 Value: -35.7%) saw the sharpest decline

Global ex-U.S. Equity

- Global ex-U.S. equity indices fell sharply in the first quarter; nearly all countries/sectors posted losses
 - EAFE: -22.8%
 - ACWI ex-U.S.: -23.4%
 - Top sector performers (EAFE) included Health Care, Utility, Consumer Staples and IT
 - Similar to the U.S., Value trailed Growth by 11% for the quarter
 - Canada (-27.5%), the U.K. (-28.8%), and Australia (-33.3%) were among the worst performers while Japan (-17%) fared better
- U.S. Dollar appreciated against most DM currencies in Q1
 - USD posted a sharp gain versus the Australian dollar, the New Zealand dollar, as well as some major EM currencies such as the Brazilian real, the Mexican peso and the Russia ruble
 - USD underperformed modestly against the Japanese yen and the Hong Kong dollar
- Emerging markets also tumbled, slightly underperformed developed markets
 - MSCI EM: -23.6%
 - Brazil (-50.2%) was the weakest market followed by Colombia (-49.7%). Both adversely impacted due to the fall in crude oil prices
 - Greece (-45.2%), South Africa (-40.3%), Russia (-36.4%) and Mexico (-35.5%) all underperformed
 - China (-10.2%) performed relatively well; China A shares (-9.7%) slightly outperformed the offshore market



Market Environment: Global Fixed Income

U.S. Treasury yields fell to record lows in March as investors sought safety and the Fed cut rates to 0%-0.25%. Overseas, developed ex-U.S. market returns were relatively flat in broad terms. Emerging market debt underperformed in the risk-off environment.

U.S. Fixed Income

- U.S. Treasury yields fell to record lows in March
 - 2-year U.S. Treasury Note fell from 1.58% to 0.23%
 - 10-year Treasury dropped from 1.92% to 0.70% over the quarter
 - 30-year Treasury yield dropped 104 bps and closed at 1.35%
- Bloomberg Barclays Aggregate rose 3.1%
 - Bloomberg Barclays US Treasury: +8.2%
 - Bloomberg Barclays Corporate: -3.6%
- TIPS sharply underperformed nominal Treasuries as expectations for inflation sank
 - 10-year breakeven spread ended the quarter at 87bps, down sharply from 177 bps (12/2019)
 - Bloomberg Barclays TIPS Index: +1.7%
- High Yield fell sharply and ended the quarter with a yield-to-worst of 9.4% though it topped 10% in mid-March, the highest level since GFC
 - Bloomberg Barclays High Yield Corp: -12.7%
 - Leveraged loans performed even worse (S&P LSTA: -13.0%) and both high yield and loans experienced heavy outflows
- Municipals underperformed U.S. Treasuries as the sector experienced record outflows and a dramatic decline in liquidity
 - Bloomberg Barclays Municipal Bond Index: -0.6%

Non-U.S. Fixed Income

- Returns were relatively flat across developed markets
 - Bloomberg Barclays Global Agg ex-U.S. (unhedged): -2.7%
 - Bloomberg Barclays Global Agg ex-U.S. (hedged): +0.5% –The German 10-year yield fell from -0.19% to -0.49% and France’s declined from 0.12% to 0%
 - The Italian 10-year yield rose from 1.41% to 1.57% and Spain’s increased from 0.47% to 0.71%
 - The UK 10-year yield fell from 0.82% to 0.32%
- Emerging market debt was hit hard; local currency bonds saw the heaviest falls
 - The U.S. dollar-denominated JPM EMBI Global Diversified Index dropped 13.4%
 - Local currency emerging market debt, as measured by the JPM GBI-EM Global Diversified, also fell 15.2% in Q1 Brazil: -21.5%
 - Mexico: -19.3%
 - Colombia: -21.5%
 - South Africa: -28.8%



Market Environment: Real Assets

Real asset returns were significantly challenged during the first quarter of 2020, March in particular, as almost the entire space (except gold and TIPS) experienced performance not seen since the Global Financial Crisis.

- TIPS sharply underperformed nominal Treasuries as expectations for inflation sank
 - 10-year breakeven spread ended the quarter at 87bps, down sharply from 177 bps (12/2019)
 - Bloomberg Barclays TIPS Index: +1.7%
- Both listed infrastructure and real estate were hampered by the outlook and immediate impact of the COVID-19 pandemic
 - DJ-Brookfield Global Infrastructure Index: -20.9%
 - FTSE NAREIT: -27.3%
 - FTSE EPRA/NAREIT Global: -28.5%
 - Real estate sectors such as Retail and Hospitality are more sensitive to the fallout from the coronavirus while Industrial, Storage, and Office are more insulated
- Demand shock caused by the Coronavirus coupled with a surge in supply from the Saudi/Russia price war led to a 67% decline in crude oil prices S&P 1200 Energy: -44.4%
 - Alerian MLP Index: -57.2%
- Commodities fell sharply while gold rose
 - Bloomberg Commodity TR Index: -23.3%
 - S&P GSCI Commodity Index (-42.3%) fell sharply due to the meltdown in Energy
 - S&P Gold Spot Price Index rose 4.8%, benefitting from the safe-haven role during the market downturn



Returns for Various Periods

	January	February	March	Last Quarter	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years	
EQUITY	1 Russell:3000 Index	(0.11)	(8.19)	(13.75)	(20.90)	(20.90)	(9.13)	4.00	5.77	10.15	7.50
	2 Russell:1000 Index	0.11	(8.17)	(13.21)	(20.22)	(20.22)	(8.03)	4.64	6.22	10.39	7.63
	3 Russell:1000 Growth	2.24	(6.81)	(9.84)	(14.10)	(14.10)	0.91	11.32	10.36	12.97	9.69
	4 Russell:1000 Value	(2.15)	(9.68)	(17.09)	(26.73)	(26.73)	(17.17)	(2.18)	1.90	7.67	5.41
	5 Russell:Midcap Index	(0.80)	(8.69)	(19.49)	(27.07)	(27.07)	(18.31)	(0.81)	1.85	8.77	7.22
	6 Russell:Midcap Growth	0.94	(6.90)	(14.91)	(20.04)	(20.04)	(9.45)	6.53	5.61	10.89	8.64
	7 Russell:Midcap Value	(1.95)	(9.90)	(22.70)	(31.71)	(31.71)	(24.13)	(5.97)	(0.76)	7.22	6.03
	8 Russell:2500 Index	(2.03)	(8.39)	(21.70)	(29.72)	(29.72)	(22.47)	(3.10)	0.49	7.73	6.49
	9 Russell:2500 Growth	0.11	(6.78)	(17.72)	(23.22)	(23.22)	(14.40)	3.35	3.64	10.10	8.26
	10 Russell:2500 Value	(3.64)	(9.64)	(24.93)	(34.64)	(34.64)	(28.60)	(8.40)	(2.14)	5.65	4.81
	11 Russell:2000 Index	(3.21)	(8.42)	(21.73)	(30.61)	(30.61)	(23.99)	(4.64)	(0.25)	6.90	5.71
	12 Russell:2000 Growth	(1.10)	(7.22)	(19.10)	(25.76)	(25.76)	(18.58)	0.10	1.70	8.89	7.17
	13 Russell:2000 Value	(5.39)	(9.72)	(24.67)	(35.66)	(35.66)	(29.64)	(9.51)	(2.42)	4.79	4.11
	14 S&P:500	(0.04)	(8.23)	(12.35)	(19.60)	(19.60)	(6.98)	5.10	6.73	10.53	7.58
	15 S&P:400 Mid Cap	(2.61)	(9.49)	(20.25)	(29.70)	(29.70)	(22.51)	(4.09)	0.56	7.88	6.97
	16 S&P:600 Small Cap	(3.97)	(9.61)	(22.40)	(32.64)	(32.64)	(25.89)	(5.34)	0.45	8.06	6.51
	17 MSCI:ACWI ex US	(2.69)	(7.90)	(14.48)	(23.36)	(23.36)	(15.57)	(1.96)	(0.64)	2.05	3.39
	18 MSCI:EAFE	(2.09)	(9.04)	(13.35)	(22.83)	(22.83)	(14.38)	(1.82)	(0.62)	2.72	3.06
	19 MSCI:EM	(4.66)	(5.27)	(15.40)	(23.60)	(23.60)	(17.69)	(1.62)	(0.36)	0.69	5.45
	20 MSCI:ACWI	(1.10)	(8.08)	(13.50)	(21.37)	(21.37)	(11.26)	1.50	2.85	5.88	5.23
FIXED INCOME	21 Blmbg:Aggregate	1.92	1.80	(0.59)	3.15	3.15	8.93	4.82	3.36	3.88	4.40
	22 Blmbg:Gov/Credit	2.38	2.09	(1.11)	3.37	3.37	9.82	5.17	3.54	4.15	4.49
	23 Blmbg:Credit	2.34	1.36	(6.63)	(3.14)	(3.14)	5.10	4.19	3.28	4.75	4.95
	24 Blmbg:Corporate High Yld	0.03	(1.41)	(11.46)	(12.68)	(12.68)	(6.94)	0.77	2.78	5.64	6.35
	25 Blmbg:Municipal Bond	1.80	1.29	(3.63)	(0.63)	(0.63)	3.85	3.96	3.19	4.15	4.29
	26 Blmbg:US TIPS	2.10	1.38	(1.76)	1.69	1.69	6.85	3.46	2.67	3.48	3.92
	27 Blmbg:Glob Agg ex USD	0.76	(0.20)	(3.22)	(2.68)	(2.68)	0.74	2.57	2.04	1.39	2.43
	28 S&P:LSTA Levg Loan	0.56	(1.32)	(12.37)	(13.05)	(13.05)	(9.16)	(0.78)	1.14	3.07	3.68
	29 ML:US Treasuries 1-3 Yrs	0.54	0.87	1.37	2.81	2.81	5.42	2.70	1.85	1.43	2.36
	30 LIBOR - 3 Month	0.15	0.13	--	--	--	--	--	--	--	--
	31 3 Month T-Bill	0.13	0.15	0.29	0.57	0.57	2.25	1.83	1.19	0.64	1.39
REAL ASSETS	32 Blmbg:Commodity TR Idx	(7.36)	(5.04)	(12.81)	(23.29)	(23.29)	(22.31)	(8.61)	(7.76)	(6.74)	(4.98)
	33 GS Commodity Index	(10.83)	(8.39)	(29.43)	(42.34)	(42.34)	(41.01)	(13.33)	(12.82)	(10.43)	(9.28)
	34 MSCI:US REIT Index	1.16	(7.93)	--	--	--	--	--	--	--	--
	35 Alerian:MLP Index	(5.61)	(14.05)	(47.23)	(57.19)	(57.19)	(60.95)	(28.91)	(20.66)	(5.04)	0.42
	36 DJB:Gibl Infrastructure	1.46	(7.58)	(15.69)	(20.94)	(20.94)	(12.09)	0.32	1.12	7.57	7.99
	37 US DOL:CPI All Urban Cons	0.39	0.27	--	--	--	--	--	--	--	--

