ASSET STRATEGY CONSULTANTS

MARKET REVIEW

First Quarter 2020

We are pleased to present *Market Review,* featuring a discussion of the Capital Markets during the First Quarter 2020 and a summary of historical performance for the major asset style passive indices for the period ending March 31, 2020. We hope you find the information useful and helpful in your investment considerations.

We welcome your comments.

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Asset Strategy Consultants

Founded in 1991, Asset Strategy Consultants provides investment consulting services to institutional clients representing $10.8 billion under advisement. Headquartered in Baltimore, Asset Strategy Consultants has offices throughout the East Coast.

EQUITY MARKETS

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

The S&P 500 Index plunged 19.6% in the first quarter, its worst quarterly return since the Global Financial Crisis. After falling more than 30% from peak to trough in just a few weeks, the Index rallied 20% going into quarter-end. Every sector experienced double-digit declines, with Information Technology (-11.9%), Consumer Staples (-12.7%), and Health Care (-12.7%) feeling the least pain. Financials (-31.9%) and Energy (-50.5%) fell the most. Financials were hurt by sharp declines in interest rates, and Energy's performance reflected plummeting oil prices. Oil prices tumbled 66%, with WTI Crude ending the quarter at $20.48, down from roughly $60 at the start of the year. From a style viewpoint, growth significantly outperformed value (Russell 1000 Growth: -14.1%; Russell 1000 Value: -26.7%). Growth indices benefited from Technology exposure while Value struggled with relatively heavy weights in Energy and Financials. Large cap (Russell 1000: -20.2%) outperformed small cap (Russell 2000:-30.6%). Small value (Russell 2000 Value: -35.7%) saw the sharpest decline.

Global Ex-U.S. Equity

Global ex-U.S. equity indices fell sharply in the first quarter; the MSCI ACWI ex-USA Index dropped 23.4%. Across developed markets, Canada (-28%), the U.K. (-30%), and Australia (-34%) were among the worst performers while Japan (-17%) fared better, in relative terms. Modest appreciation of the U.S. dollar versus a basket of developed market currencies acted as a headwind for U.S. investors. As in the U.S., growth (MSCI ACWI ex-USA Growth: -18%) outperformed value (MSCI ACWI ex-USA Value: -29%). Also mirroring performance in the U.S., Health Care (-9%) was a top-performing sector while Energy (-38%) was the worst.

Emerging markets equities (MSCI EM: -23.6%) also sold off with currency depreciation being a key driver. Collectively, Latin American countries fell 46% in U.S. dollar terms and 32% in local currency terms. Russia dropped 36% in U.S. dollars (-22% local) and South Africa fell 41% (-24% local). India sank 32% (-27% local) while China performed relatively well, down only 10% in the quarter in U.S. dollar terms. ■

FIXED INCOME

Fixed income markets posted strong returns in 2019 fueled both by falling interest rates and strong investor demand, especially for higher-yielding sectors. Overseas, rates followed a similar path with most higher in the fourth quarter but lower for the year. The amount of negatively yielding debt declined and the U.S. dollar gave up some gains in the fourth quarter. Emerging market debt posted strong returns, benefitting from both rate cuts and a risk-on environment.

U.S. Treasury yields fell to record lows in March as investors sought safety and the Fed cut rates to 0%-0.25%. The 10-year U.S. Treasury yield reached a low in March of 0.31% before closing the quarter at 0.70%, down sharply from the year-end level of 1.92%. Most sectors underperformed U.S. Treasuries, hurt both by challenging liquidity conditions as well as a flight to safety. While the Bloomberg Barclays US Aggregate Bond Index rose 3.1% for the quarter, results were driven largely by performance of the Treasury sector (+8.2%). Corporates (-3.6%) and most securitized sectors underperformed U.S. Treasuries. The quality bias was evident in the return for the AAA-rated component (+5.8%) versus BBBs (-7.4%). TIPS (Bloomberg Barclays TIPS: +1.7%) sharply underperformed nominal Treasuries as expectations for inflation sank. The 10-year breakeven spread ended the quarter at 87 bps, down sharply from 177 bps at year-end. High yield corporate bonds (Bloomberg Barclays High Yield: -12.7%) 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 the GFC. Excluding the beleaguered Energy sector, high yield fell 9.1%. Leveraged loans performed even worse (S&P LSTA: -13.0%) and both high yield and loans experienced heavy outflows.

Developed ex-U.S. market returns were relatively flat in broad terms. The Bloomberg Barclays Global Aggregate ex-US Index fell 2.7% unhedged but rose 0.5% on a hedged basis as the U.S. dollar strengthened modestly against a basket of currencies. Emerging market debt underperformed in the risk-off environment. The U.S. dollar-denominated JPM EMBI Global Diversified Index dropped 13.4%, with returns varying across its 60+ constituents. Emerging market currencies were also under pressure. Local currency emerging market debt, as measured by the JPM GBI-EM Global Diversified Index, fell 15.2% in the quarter, with several local market returns in Latin America dropping about 20% (Brazil, Mexico, and Colombia) and South Africa down 29%.

Tax-Exempt

The municipal bond market experienced extreme volatility in March that is somewhat masked in first quarter returns. The broad Bloomberg Barclays Municipal Bond Index fell 0.6% in the quarter, but notably the index dropped 3.6% in March. Record outflows and a dramatic decline in liquidity drove yields in the muni market sharply higher in mid-March. Yields reversed course going into quarter-end on the back of Fed announcements that lent support to the market. Cross-market valuations between U.S Treasuries and AAA-rated munis reached unprecedented levels in March; 5-year AAA municipal yields rose nearly 200 bps during the month to nearly six times the yield of a comparable 5-year U.S. Treasury note. Not surprisingly, higher quality outperformed (AAA: +0.5%; BBB: -4.7%) for the quarter. While fundamentals of some sectors will be challenged in the wake of the economic downturn and downgrades may ensue, recent government stimulus programs should help to mitigate any near-term pressure on finances. ■

REAL ASSETS

Fixed income markets posted strong returns in 2019 fueled both by falling interest rates and strong investor demand, especially for higher-yielding sectors. Overseas, rates followed a similar path with most higher in the fourth quarter but lower for the year. The amount of negatively yielding debt declined and the U.S. dollar gave up some gains in the fourth quarter. Emerging market debt posted strong returns, benefitting from both rate cuts and a risk-on environment.

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. The MLP space (Alerian MLP Index: -57%) and energy-related stocks (S&P 1200 Energy Index: -44%) were among the worst hit as Russia and Saudi Arabia engaged in an oil price war smack in the middle of a global pandemic that was already poised to cripple near-term energy demand. Both listed infrastructure (DJ-Brookfield Global Infrastructure Index: -21%) and real estate (FTSE Nareit Equity Index: -27%) were also hampered by the outlook and immediate impact of the COVID-19 pandemic. Given the sell-off in the fixed income markets, credit in particular, it's likely that many investors fled these sectors to take advantage of higher nominal yields elsewhere. Meanwhile, the impact on real estate is likely to be varied as several sectors are acutely sensitive to the fallout from the coronavirus (e.g., Retail, Hospitality) while other property sectors such as Industrial, Storage, and Office should be more insulated. One silver lining, pun intended, was gold, which served its usual safe-haven role during the depths of March and throughout the first quarter; the Bloomberg Gold sub-Index rose 4.5% in the first quarter while equities of most companies tasked with mining the shiny metal were not so fortunate (GDX-Van Eck Gold Miners ETF: -14.5%). ■

Source: Asset Strategy Consultants and Callan Associates

Stay safe and healthy

If there is anything we can do to assist you and your organization during this time, please do not hesitate to reach out. All of you remain in our thoughts, and we hope that you and your families remain safe and healthy.

PRELIMINARY RETURNS FOR VARIOUS PERIODS: 1Q20

		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:Glbl 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	--	--	--	--	--	--	--	--