

A decorative overlay consisting of a grid of blue and white triangles and lines, with a larger white triangle pointing upwards, partially obscuring the main title.

# **PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS**

APRIL 2020  
Capital Markets Update



# Market commentary

## U.S. ECONOMICS

- In Q1, real GDP contracted at an annualized quarterly rate of -4.8% (exp. -3.7%). Personal consumption expenditures, which account for nearly 70% of the economy, detracted -5.3% from total growth. On a year-over-year basis, GDP expanded 0.3%. Growth in the second quarter is still expected to be far worse than Q1 growth.
- In April, total nonfarm payrolls fell by 20.5 million (exp. 22m) and unemployment rose to 14.7%, the highest level since the Great Depression. The underemployment rate, which includes part-time workers who would prefer full-time jobs and workers in full-time jobs not using all their skills, spiked from 8.7% to 22.8%.
- The ISM Manufacturing PMI contracted further in April, dropping to 41.5 from 49.1 in March. The ISM Services PMI fell from 52.5 to 41.8 dropping into the contractionary territory below 50.0, and to its lowest level since April 2009.

## U.S. EQUITIES

- The S&P 500 climbed 12.8% in April, marking the highest monthly return for the index since 1974. Despite posting its first monthly advance of the year, the S&P 500 was still down -9.3% year-to-date.
- With roughly 88% of S&P 500 companies reporting Q1 earnings, aggregate sales and earnings growth have come in at 1.0% and -7.5%, respectively. Sales growth has exceeded expectations by 1.1% and earnings growth has beaten estimates by 0.6%.
- The forward 12-month P/E ratio of the S&P 500 was 20.5 at month-end, above the 16.3x multiple which was recorded at the end of the first quarter (March 31). The last time the forward 12-month P/E was above 20.0 was in April 2002.

## U.S. FIXED INCOME

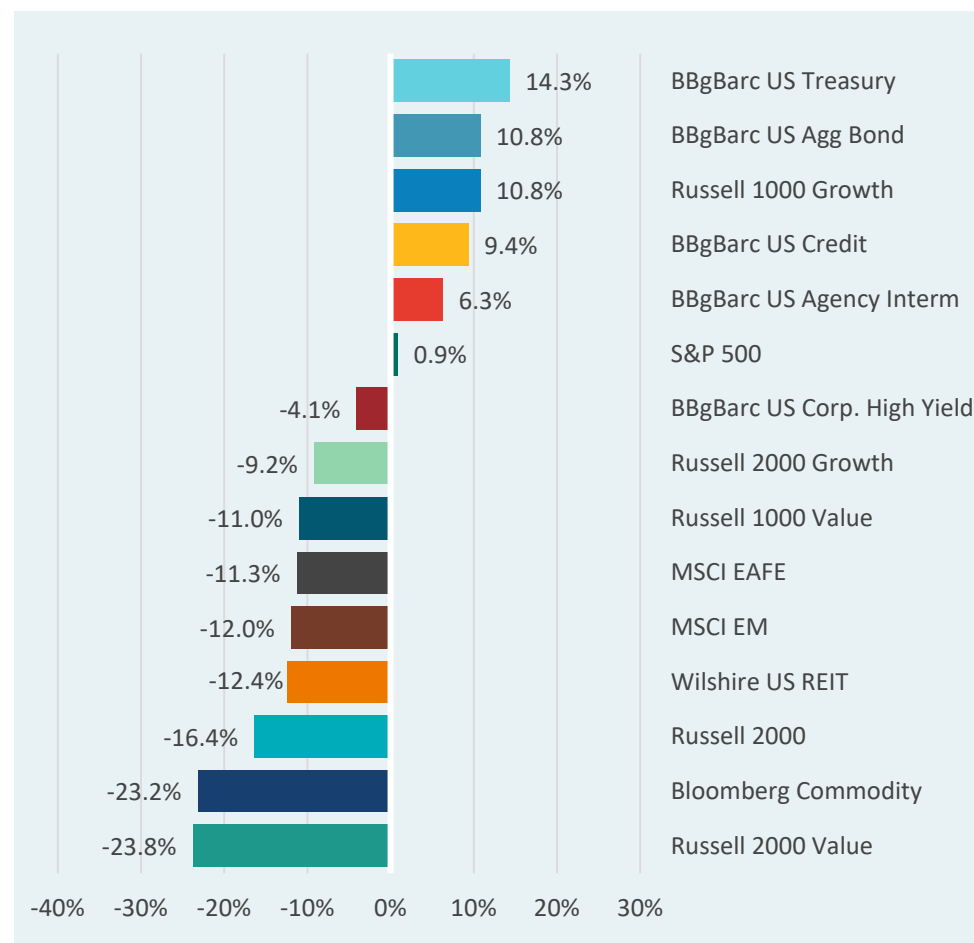
- In the May FOMC meeting, the Federal Reserve guided that interest rates would remain near zero percent for as long as necessary to achieve its dual mandate of full employment and stable prices. The Federal Reserve balance sheet has grown by \$2.4 trillion over the past two months.
- On April 9<sup>th</sup>, the Federal Reserve created the Municipal Liquidity Facility which will backstop \$500 billion in municipal borrowing. During the Global Financial Crisis, the Federal Reserve elected not to intervene in the municipal and state funding markets.
- In order to finance the large amount of fiscal stimulus spending approved by Congress, the Treasury has begun issuing long-term debt, taking advantage of historically low financing costs.

## INTERNATIONAL MARKETS

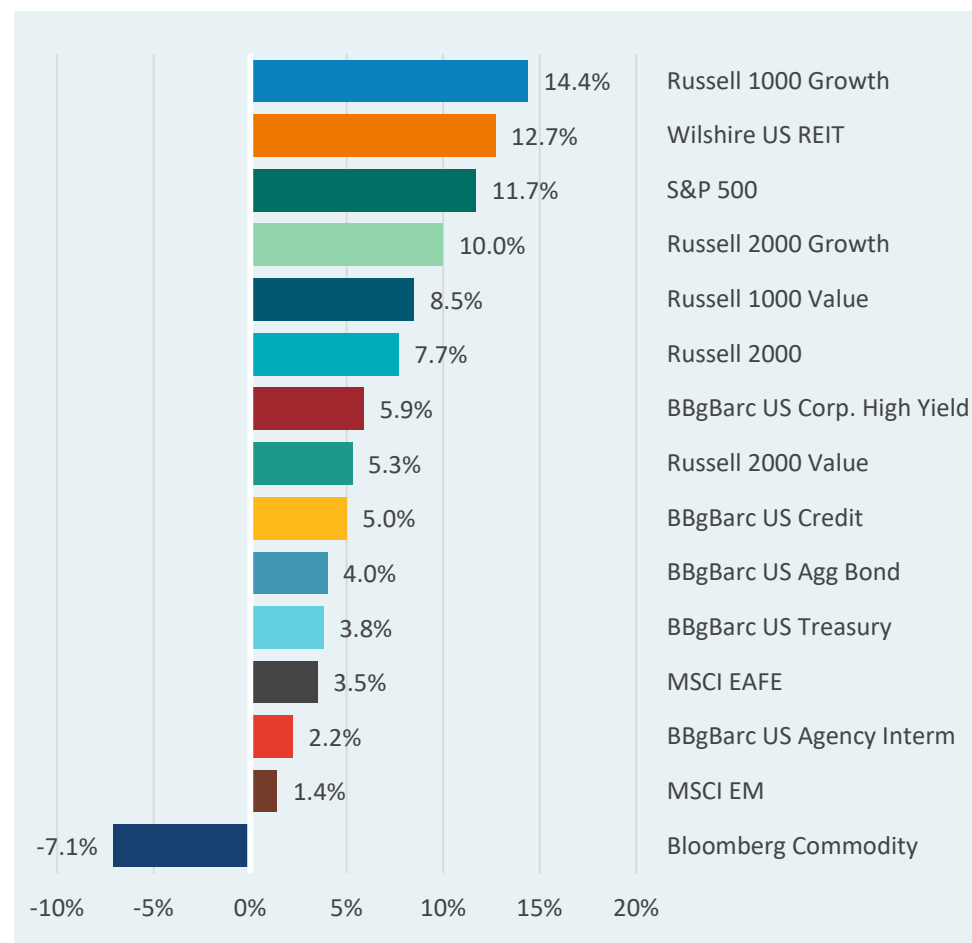
- COVID-19 left few places in the world untouched. Global confirmed cases increased by 2.3 million people in April, and the death toll climbed to 233,824. After months of government-enforced lockdowns and halts to international travel, countries are beginning to set the stage for a gradual reopening.
- In Q1 2020, GDP contracted at a quarterly annualized rate of -3.3% in the Eurozone, -4.1% in Spain, -4.8% in Italy, and -5.4% in France. Global governments have stepped in, providing an unprecedented amount of stimulus to combat mass layoffs and other economic fallout from COVID-19.
- The European Central Bank's Public Sector Purchase Program, which was introduced as quantitative easing in 2015, was ruled by German authorities to be in violation of E.U. treaties.

# Major asset class returns

ONE YEAR ENDING APRIL



TEN YEARS ENDING APRIL



\*Only publicly traded asset performance is shown here. Performance of private assets is typically released with a 3- to 6-month delay.

Source: Morningstar, as of 4/30/20

Source: Morningstar, as of 4/30/20

# U.S. large cap equities

- In April, the S&P 500 Index bounced back, returning 12.9% following a precipitous slide in equity prices in the first quarter. The advance was likely supported by evidence that the transmission of COVID-19 was slowing in certain hot spots, as well as promises of both fiscal and monetary support.
- Analysts slashed earnings estimates for S&P 500 companies. During the month of April, the median EPS estimate for the index declined -28.4%. The largest decline in quarterly EPS estimates during the Global Financial Crisis was -20.6% back in Q1 2009.
- All eleven GICS sectors contributed positively to returns, and the Energy sector (+29.8%) was the top performer as concerns around oversupply faded following an OPEC+ decision to cut oil production. The Consumer Discretionary sector (+20.5%) fueled the move higher for the overall index.
- The CBOE VIX Index of implied volatility fell 19.8 points in April, starting the month at 57.1 and closing the month at 37.2. The popular “fear gauge” is still well above its 3-year average of 18.7.

**S&P 500 PRICE INDEX**



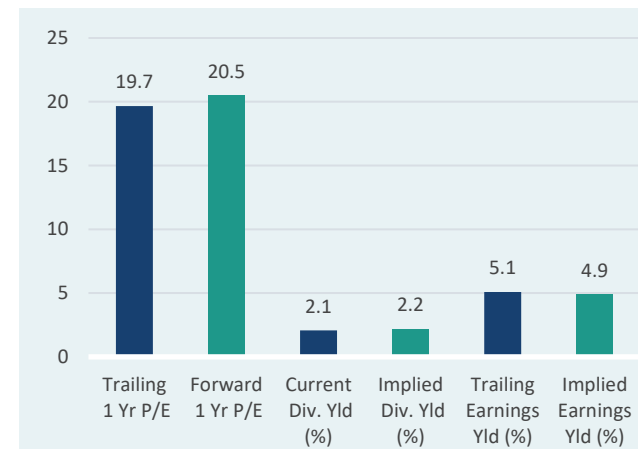
Source: Bloomberg, as of 4/30/20

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 4/30/20

**S&P 500 VALUATION SNAPSHOT**

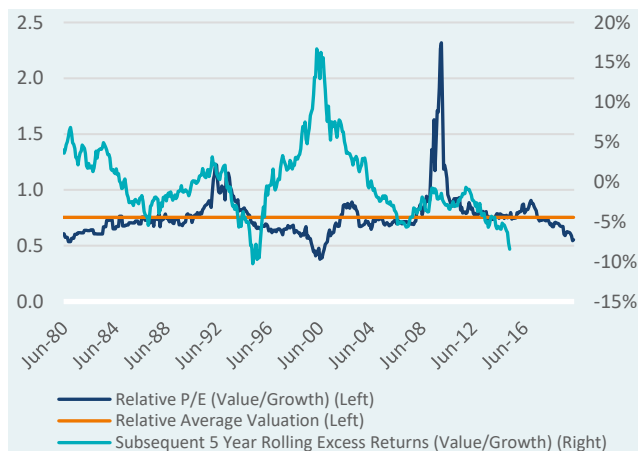


Source: Bloomberg, as of 4/30/20

# Domestic equity size and style

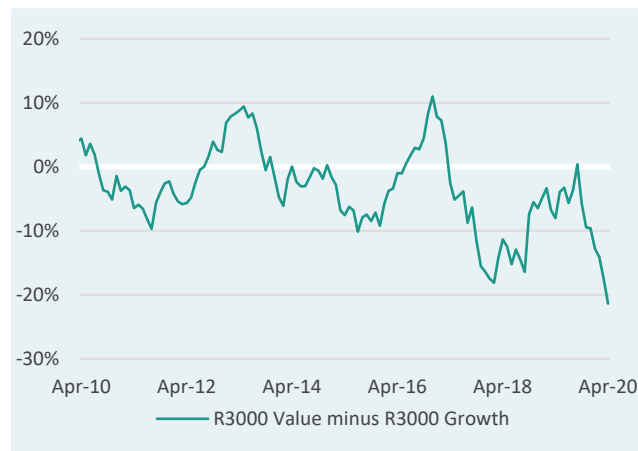
- The Russell 3000 Value Index (+11.3%) continued to underperform the Russell 3000 Growth Index (+14.8%). The underperformance of the value factor relative to the growth factor was attributable to the Health Care and Consumer Discretionary sectors being more highly weighted in the growth index.
- The Russell 2000 Index advanced 13.7% while the Russell 1000 Index gained 13.2%. Small-cap equities, which tend to outperform in anticipation of higher economic growth, notched their best monthly performance since April 2011.
- The Russell Mid-Cap Index (+14.4%) outperformed the small- and large-cap indexes measured, respectively, by the Russell 2000 (+13.7%) and the Russell Top 200 (+12.8%). Some analysts have argued mid-caps are well positioned, being large enough to weather the impact of the pandemic and small enough that global supply chain disruptions may not affect them quite as hard.
- The S&P 500 Low Volatility High Dividend Index (+10.7%) underperformed the S&P 500 Index (+12.8%). Mega-cap tech stocks powered the S&P 500 rebound in April while safer, higher-yielding stocks lagged.

**VALUE VS. GROWTH RELATIVE VALUATIONS**



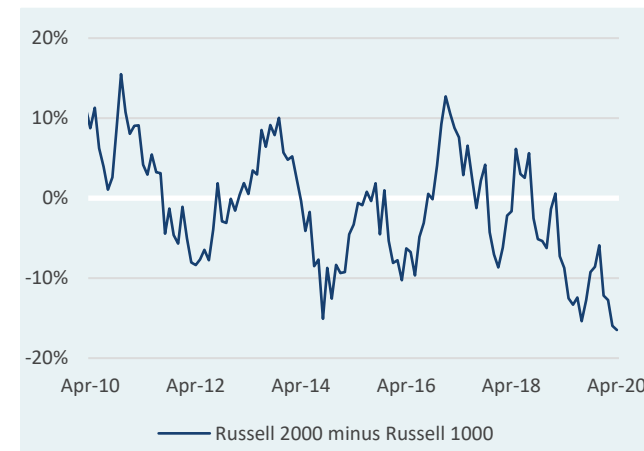
Source: Russell, Bloomberg, as of 4/30/20

**VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, Bloomberg, as of 4/30/20

**SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE**

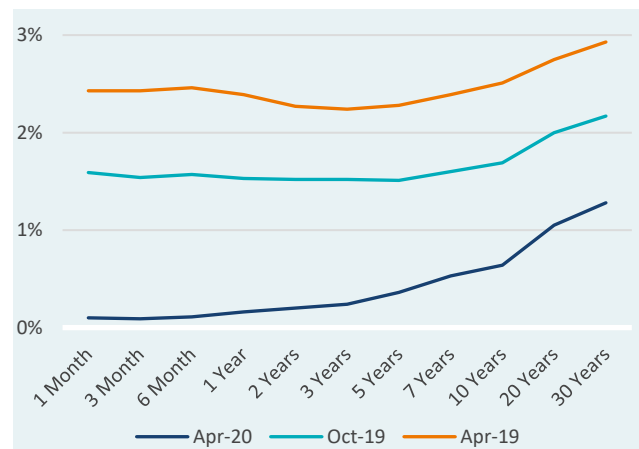


Source: FTSE, Bloomberg, as of 4/30/20

# Fixed income

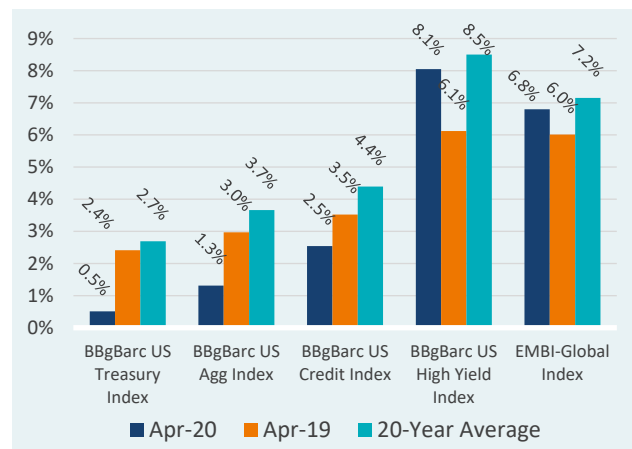
- On April 9th, the Federal Reserve announced that the Primary and Secondary Corporate Credit Facilities, which were initially slated to support \$100 billion in new financing, were expanded. The facilities will now backstop up to \$750 billion in corporate debt.
- The Fed also announced the establishment of the Main Street Lending Program aimed at supporting businesses too large to participate in the Paycheck Protection Program and too small to qualify for the Corporate Credit Facility loans. The program will fund up to \$600 billion in four-year loans.
- In a bounce-back month for riskier credit, local-currency denominated emerging market debt (J.P. Morgan GBI-EM +3.9%) outperformed hard-currency denominated emerging market debt (J.P. Morgan EMBI +2.2%). Outperformance was partly attributed to emerging market currency tailwinds.
- Five-year breakeven inflation rates have fallen 1.2% since April 2019. Some analysts have expressed the view that despite the massive fiscal and monetary policy response, the pandemic is likely to introduce disinflationary, rather than inflationary pressures.

U.S. TREASURY YIELD CURVE



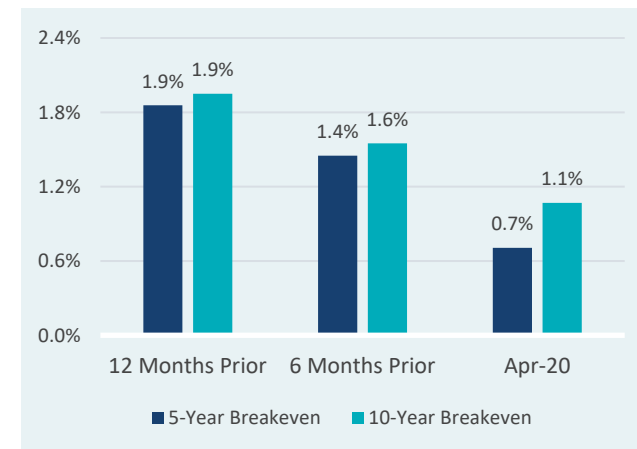
Source: Bloomberg, as of 4/30/20

NOMINAL YIELDS



Source: Morningstar, as of 4/30/20

BREAKEVEN INFLATION RATES

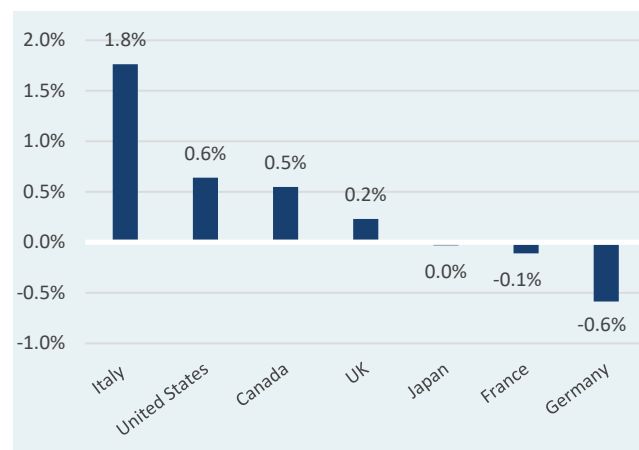


Source: Bloomberg, as of 4/30/20

# Global markets

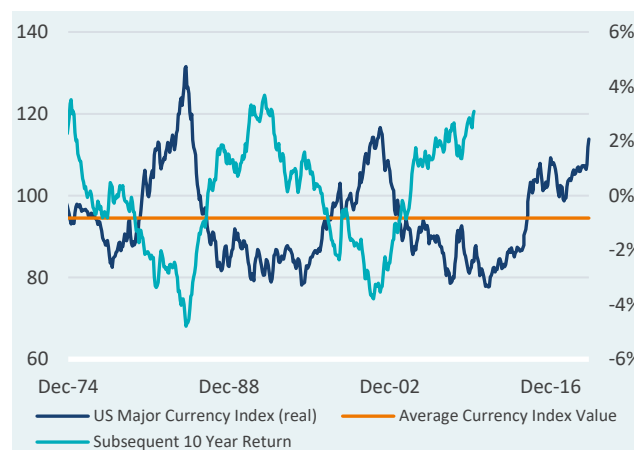
- The pound rallied +1.7% against the U.S. dollar, resulting in currency tailwinds for unhedged U.S. investors in U.K. equities. The MSCI United Kingdom Index, hedged to U.S. dollars, returned +3.5%, while the unhedged index returned +5.1%.
- In Q1 2020, Chinese GDP contracted at a -6.8% quarter over quarter annualized rate, marking the first contraction since 1992. The People's Bank of China has stepped forward to provide support to its economy, which was battered by COVID-19 related disruptions in Q1. Aggregate financing to the real economy increased 12.0% year-over-year in April, a 22-month high.
- Global equities (MSCI ACWI +10.7%) outperformed both emerging market equities (MSCI EM +9.2%) and international developed equities (MSCI EAFE +6.5%), likely buoyed by a bounce back in U.S. equities. The four countries with the largest economies in the Eurozone were among the top six countries in terms of confirmed COVID-19 cases.
- The J.P. Morgan Global FX Volatility Index declined from 11.0% to 8.6%, after hitting multi-year peaks at 15.0% in mid-March. Currency markets have calmed down markedly following the Fed's rollout of liquidity programs which have eased dollar funding pressures.

**GLOBAL SOVEREIGN 10-YEAR YIELDS**



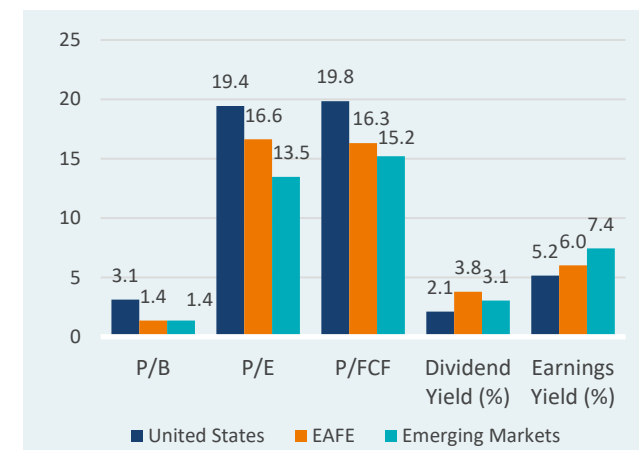
Source: Bloomberg, as of 4/30/20

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 4/30/20

**MSCI VALUATION METRICS (3-MONTH AVG)**



Source: Bloomberg, as of 4/30/20

# Commodities

- The Bloomberg Commodity Index fell -1.5% during the month of April. Precious Metals (+5.9%) and Industrial Metals (+2.3%) significantly outperformed the index overall. The Petroleum component (-14.9%) was a major laggard for the second month in row.
- WTI crude oil futures pricing briefly dropped into negative territory prior to the rolling of the front-month contract from May to June. The precipitous decline in oil demand resulted in a supply glut and the eventual depletion of storage capacity. This forced investors unable to take physical receipt of oil to sell their contracts at negative prices, namely, paying other investors to take their oil.

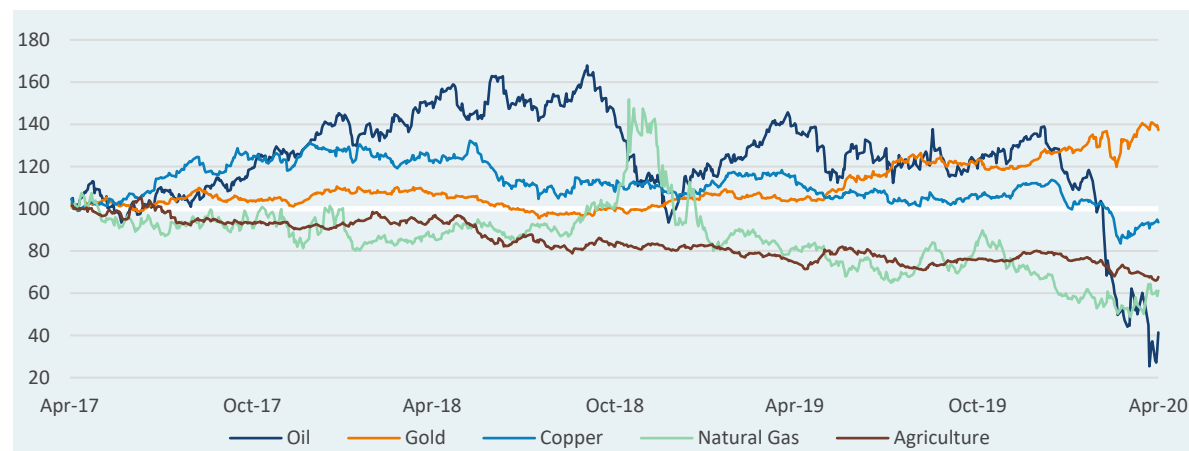
## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(1.5)	(1.5)	(24.5)	(23.2)	(8.6)	(9.1)	(7.1)
Bloomberg Agriculture	(5.7)	(5.7)	(15.0)	(7.6)	(10.5)	(8.2)	(4.4)
Bloomberg Energy	(3.5)	(3.5)	(52.8)	(56.4)	(20.0)	(21.4)	(17.6)
Bloomberg Grains	(6.0)	(6.0)	(12.7)	(4.7)	(9.6)	(9.0)	(4.8)
Bloomberg Industrial Metals	2.3	2.3	(16.6)	(18.1)	(3.7)	(4.4)	(5.5)
Bloomberg Livestock	(5.1)	(5.1)	(31.8)	(37.3)	(14.6)	(11.0)	(6.2)
Bloomberg Petroleum	(14.9)	(14.9)	(66.0)	(66.3)	(22.6)	(23.4)	(16.1)
Bloomberg Precious Metals	5.9	5.9	4.7	23.6	5.9	4.6	1.7
Bloomberg Softs	(3.6)	(3.6)	(19.8)	(14.5)	(15.5)	(9.5)	(6.2)

Source: Morningstar, as of 4/30/20

- On April 12<sup>th</sup>, to prop up oil prices amidst withered demand, OPEC+ agreed to cut production by 9.7 million barrels per day effective May 1<sup>st</sup> and extending through June. The U.S. Secretary of Energy said about two to three million barrels per day will be taken offline in the U.S. this year due to low prices.
- The Bloomberg Precious Metals Sub-Index posted a +5.9% return for the month as investors sought a store of value amidst many economies' vast stimulus spending. Gold prices rose +6.1% in April to \$1,690 per ounce. Other precious metals including platinum showed their largest monthly gains in almost four years.

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 4/30/20



# Appendix

# Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	5-Year	10-Year
US Bonds	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	36.4	5.0	13.3	14.4
Real Estate	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.9	31.4	0.7	8.7	11.6
Cash	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	0.0	28.5	0.4	7.7	10.2
Large Cap Growth	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	-1.5	26.5	-1.4	5.2	10.0
Hedge Funds of Funds	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	-3.5	25.5	-6.0	4.0	8.5
60/40 Global Portfolio	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	-6.0	22.4	-7.0	3.9	7.7
Large Cap Equity	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	-4.8	22.0	-9.7	3.8	5.4
Small Cap Growth	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-8.3	18.6	-14.7	2.9	5.3
Emerging Markets Equity	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-9.3	18.4	-16.6	1.1	4.0
International Equity	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	8.7	-17.8	0.6	3.5
Large Cap Value	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	7.0	-11.2	7.8	-18.5	0.3	2.0
Small Cap Equity	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-12.9	7.7	-21.1	-0.1	1.4
Commodities	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-13.8	6.4	-24.5	-0.2	0.6
Small Cap Value	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-14.6	2.1	-27.7	-9.1	-7.1

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

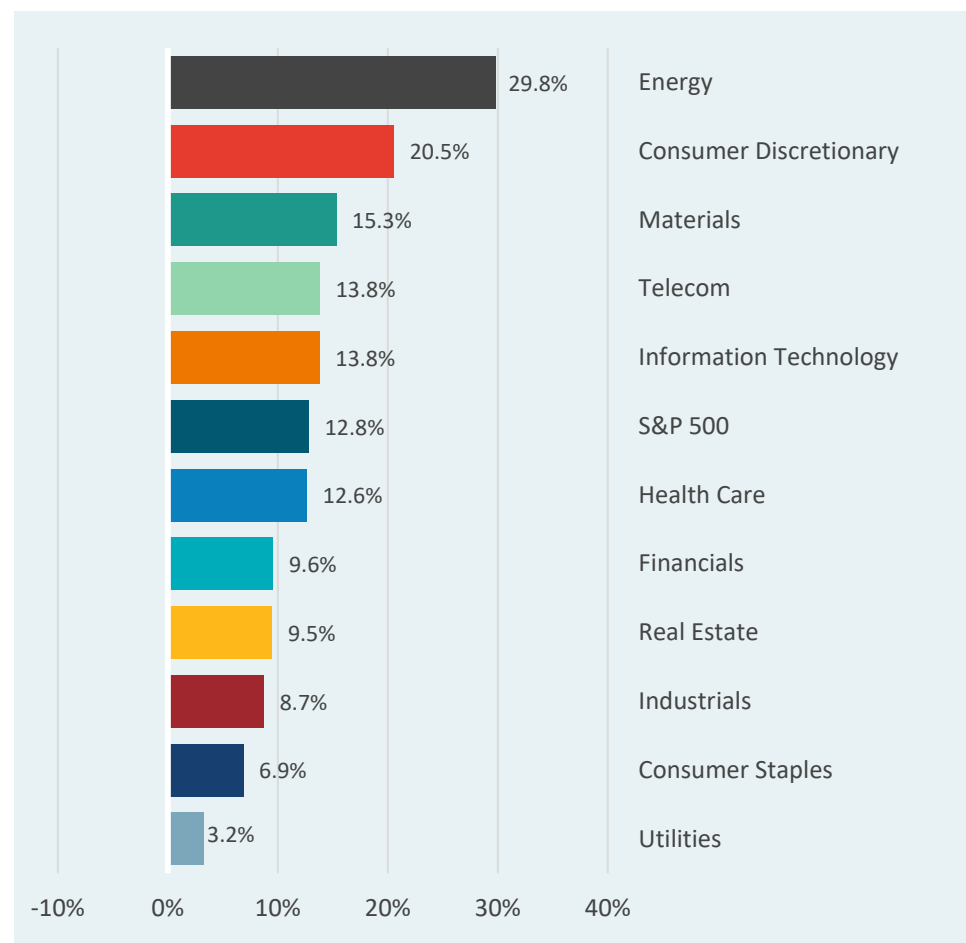
Hedge Funds of Funds

60% MSCI ACWI/40% BBgBarc Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 3/31/20.

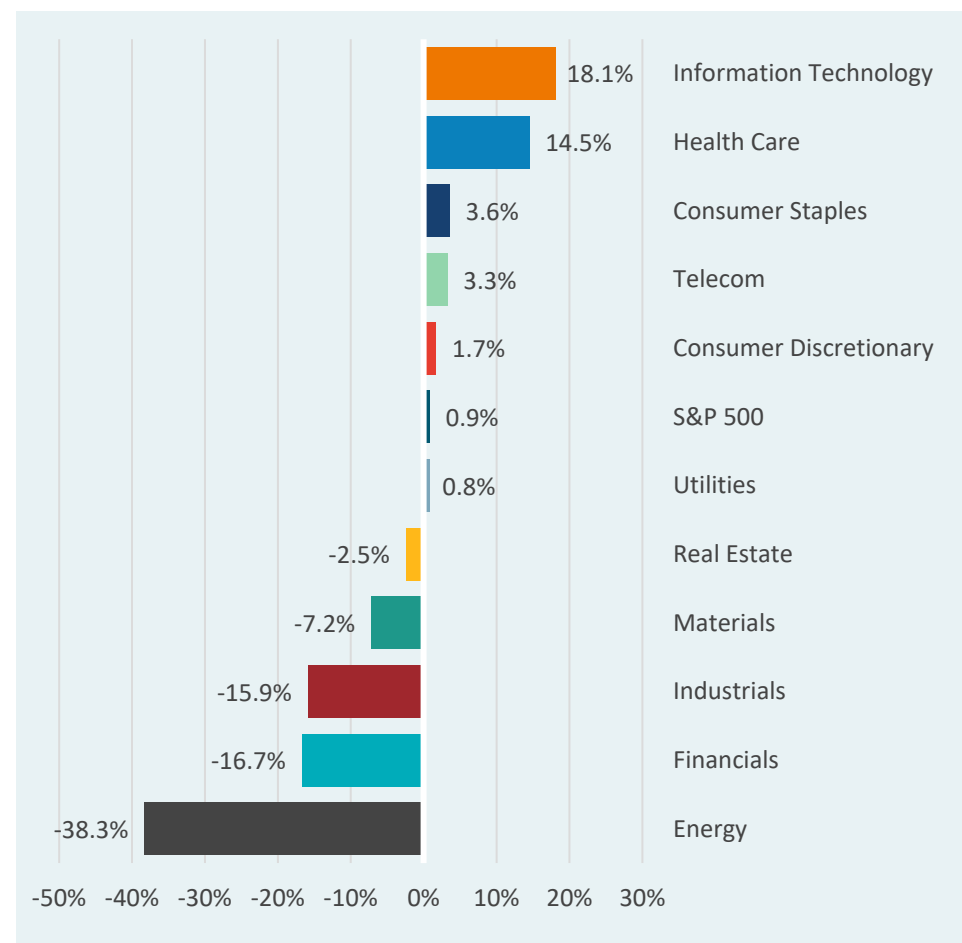
# S&P 500 sector returns

QTD



Source: Morningstar, as of 4/30/20

ONE YEAR ENDING APRIL



Source: Morningstar, as of 4/30/20



# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	12.8	12.8	(9.3)	0.9	9.0	9.1	11.7
S&P 500 Equal Weighted	14.4	14.4	(16.1)	(8.9)	3.9	5.5	10.4
DJ Industrial Average	11.2	11.2	(14.1)	(6.2)	7.7	9.1	11.0
Russell Top 200	12.8	12.8	(7.1)	3.9	10.7	10.3	12.2
Russell 1000	13.2	13.2	(9.7)	0.1	8.7	8.7	11.6
Russell 2000	13.7	13.7	(21.1)	(16.4)	(0.8)	2.9	7.7
Russell 3000	13.2	13.2	(10.4)	(1.0)	8.0	8.3	11.3
Russell Mid Cap	14.4	14.4	(16.6)	(10.0)	3.5	4.8	9.8
<b>Style Index</b>							
Russell 1000 Growth	14.8	14.8	(1.4)	10.8	15.7	13.3	14.4
Russell 1000 Value	11.2	11.2	(18.5)	(11.0)	1.4	3.9	8.5
Russell 2000 Growth	14.9	14.9	(14.7)	(9.2)	4.2	5.2	10.0
Russell 2000 Value	12.3	12.3	(27.7)	(23.8)	(6.1)	0.3	5.3

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	10.7	10.7	(12.9)	(5.0)	4.5	4.4	6.9
MSCI ACWI ex US	7.6	7.6	(17.5)	(11.5)	(0.3)	(0.2)	2.9
MSCI EAFE	6.5	6.5	(17.8)	(11.3)	(0.6)	(0.2)	3.5
MSCI EM	9.2	9.2	(16.6)	(12.0)	0.6	(0.1)	1.4
MSCI EAFE Small Cap	10.4	10.4	(20.0)	(12.3)	(1.0)	2.1	5.7
<b>Style Index</b>							
MSCI EAFE Growth	7.4	7.4	(11.4)	(2.1)	4.4	3.2	5.6
MSCI EAFE Value	5.4	5.4	(24.4)	(20.5)	(5.7)	(3.7)	1.3
<b>Regional Index</b>							
MSCI UK	5.1	5.1	(25.1)	(20.8)	(3.9)	(3.7)	2.2
MSCI Japan	5.4	5.4	(12.3)	(3.0)	2.4	2.2	4.4
MSCI Euro	5.7	5.7	(22.9)	(17.8)	(3.8)	(1.7)	2.1
MSCI EM Asia	9.2	9.2	(10.6)	(5.7)	3.6	1.8	4.2
MSCI EM Latin American	6.3	6.3	(42.2)	(37.3)	(11.2)	(6.6)	(6.1)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	2.8	2.8	4.5	9.5	4.2	3.1	3.5
BBgBarc US Treasury Bills	0.0	0.0	0.6	2.2	1.8	1.2	0.7
BBgBarc US Agg Bond	1.8	1.8	5.0	10.8	5.2	3.8	4.0
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.1	0.1	2.9	5.3	2.7	1.9	1.4
BBgBarc US Treasury Long	2.0	2.0	23.4	37.8	13.6	8.4	8.9
BBgBarc US Treasury	0.6	0.6	8.9	14.3	5.8	3.9	3.8
<b>Issuer</b>							
BBgBarc US MBS	0.6	0.6	3.5	7.8	4.0	3.1	3.3
BBgBarc US Corp. High Yield	4.5	4.5	(8.8)	(4.1)	1.9	3.4	5.9
BBgBarc US Agency Interm	0.4	0.4	3.3	6.3	3.2	2.4	2.2
BBgBarc US Credit	4.6	4.6	1.3	9.4	5.4	4.3	5.0

## OTHER

<b>Index</b>							
Bloomberg Commodity	(1.5)	(1.5)	(24.5)	(23.2)	(8.6)	(9.1)	(7.1)
Wilshire US REIT	8.4	8.4	(19.4)	(12.4)	0.2	5.7	12.7
CS Leveraged Loans	4.3	4.3	(9.5)	(7.1)	0.5	4.6	5.0
Alerian MLP	47.6	47.6	(38.2)	(43.1)	(19.7)	(15.6)	(1.3)
<b>Regional Index</b>							
JPM EMBI Global Div	2.2	2.2	(11.4)	(5.0)	0.7	2.9	5.1
JPM GBI-EM Global Div	3.9	3.9	(11.9)	(2.7)	0.1	0.4	0.7
<b>Hedge Funds</b>							
HFRI Composite	4.8	4.8	(6.6)	(3.4)	1.2	1.5	3.0
HFRI FOF Composite	2.7	2.7	(6.0)	(3.4)	0.8	0.6	2.0
<b>Currency (Spot)</b>							
Euro	(0.2)	(0.2)	(2.4)	(2.3)	0.2	(0.5)	(1.9)
Pound	1.7	1.7	(4.8)	(3.2)	(0.8)	(3.9)	(1.9)
Yen	1.0	1.0	1.6	4.2	1.4	2.3	(1.3)

Source: Morningstar, HFR, as of 4/30/20

# Notices & disclosures

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