Parkside Financial
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Monthly Market Update - March 2020

Global Economy

In some sense, the world was more united than it has been in a long time in March. As COVID-19 moves like a tidal wave across the globe, all countries are at different but inevitable stages in addressing the abrupt social and economic impacts of this external health shock. Whereas China has most of its production facilities back on-line, the US has at least another month of recommended social distancing. The lingering effect is not clear, but forecasts show significant GDP declines for Q1 and Q2, with a fairly rapid snapback in the latter part of the year. Monetary policy has delivered rate cuts, unprecedented quantitative easing, and broad support of markets. Fiscal response is also robust, with programs including direct payments to individuals, small business loans/grants, and specific industry support. While markets handled uncertainty in typical risk-off fashion, the sheer speed of valuation adjustments has been historically noteworthy.

The Federal Open Market Committee (FOMC) did not officially meet in March, but instead had two unscheduled announcements in response to the coronavirus challenges. Two rate changes, March 3rd and March 15th, lowered the targeted policy rate by 150 basis points (bps) to a range of 0.00% to 0.25%. In addition, the FOMC began a new round of QE, this time with an essentially unlimited ceiling. It is also acting to support the mortgage-backed securities markets, money markets, and for the first time ever the investment grade corporate market. Chairman Powell commented there are still "arrows in the quiver" to respond to additional stresses in the financial markets and support the flow of credit.

The third estimate of 4Q-19 real GDP remained at an annualized rate of 2.1% as an upward revision to personal consumption was offset by a downward revision to government spending and nonresidential fixed investment. GDP forecasts for the first half of 2020 vary widely, but suggest one of the deepest declines on record given the sudden stop.

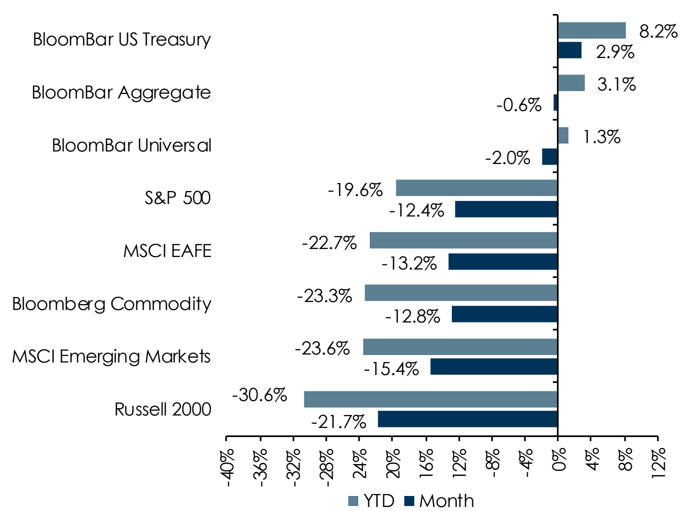
Employment went down by 701,000 in March, a likely precursor to a far greater contraction next month, when 9.9 million of initial unemployment claims from the second half of the month will be recognized. The official unemployment rate advanced 0.9% to 4.4% overall. Although inflation expectations plummeted in March, Core CPI moved up slightly to 2.4% year-over-year, and the FOMC's preferred measure, Core PCE, edged up to 1.8% year-over-year through February.

	Current	Dec-19
US GDP (%)	2.10	2.10
US Unemployment (%)	4.40	3.50
CPI (Core) (%)	2.40	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.67	1.92
S&P 500 Div Yld (%)	2.34	1.82
S&P 500 P/E (Trailing)	17.04	21.60
Gold/oz.	$1,583.40	$1,523.10
Oil (Crude)	$20.48	$61.06
Gasoline (Natl Avg)	$2.10	$2.66
USD/Euro	$1.10	$1.12
USD/GBP	$1.24	$1.33
Yen/USD	¥107.54	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indices were down materially in March. The S&P 500, which represents large US-based entities, was off -12.4% with substantial daily swings. Healthcare (4.0%) and Consumer Staples (-5.9%) did relatively well, while Financials (-21.5%) and Industrials (-19.3%) had a rough go. Small cap stocks, as represented by the Russell 2000, were shockingly down -21.7%. Among the sectors, Energy (-41.4%), Consumer Discretionary (-36.2%) and Real Estate (-27.0%) were the worst performing, with Utilities (-5.7%) and Consumer Staples (-8.3%) holding up relatively well in a very difficult month. Across the market capitalization spectrum, Value underperformed Growth.

In the broad international developed markets, the MSCI EAFE index surrendered -13.2% as no single sector or country escaped the sell-off. Financials (-22.5%), Real Estate (-20.5%), and Energy (-17.8%) led the declines, with Health Care (-2.3%) and Consumer Staples (-3.8%) being relative sector outperformers. Switzerland (-4.2%) and Japan (-7.0%) held up fairly well, while Australia (-25.1%), France (-17.7%) and the UK (-16.0%) were down notably in March.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down slightly more than their developed market counterparts at -15.4%. China's equity benchmark was notably a relative outperformer (-6.6%), with all other countries double-digit negative ranging from South Korea (-11.5%) to India (-25.1%) and Brazil (-38.2%). The US dollar's strong appreciation against the broad emerging market currency basket contributed to declines.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was dramatically down at -22.6%. The energy-related Alerian MLP index was impacted more significantly and returned -47.2%. The near-month NYMEX oil contract was down -54.2% in March and is now off by -66.5% to start the year. Gold acted as a safe-haven, up slightly at +1.1% for the month. The diversified Bloomberg Commodity index was down -12.8% for the month as broad-based demand for most commodities is thought to be declining until meaningful production resumes across the globe.

Global Markets (continued)

US Treasury (UST) yields declined across the board in March, with historic moves taking place in the first half of the month as the expanding global reach of the coronavirus epidemic consumed media, policymaker, and investor attention. In an environment where demand for the highest-quality US dollar assets was robust, the overall UST complex returned +2.9% for the month. The government yield curve steepened modestly, with the 2-year UST yield falling 67 bps while the 10-year UST yield declined 48 bps and settled at a new month-end low of 0.67%. As yields for developed market sovereign bonds outside of the US moved marginally higher, the global stock of negative yielding debt contracted to $10.6 trillion.

The BloomBar US Aggregate Bond index again underperformed risk-free US Treasuries on both an absolute and duration-matched basis. That said, even with a loss of -0.6% in March, the benchmark's trailing 12-month performance of +8.9% has been astonishing given prevailing yield levels. In what was termed a "dash for cash," investors distanced themselves from virtually all types of credit risk. IG corporates became unanchored amid a period of extreme illiquidity, and spreads exploded 150 bps wider despite a rally late in the month. With the robust decline in UST yields essentially offsetting wider spreads across categories, the benchmark's yield-to-worst settled at a quite modest 1.59%.

The BloomBar 1-15-Year Municipal index struggled mightily in March, with its -2.9% return pulling year-to-date results into negative territory. With 60 consecutive months of inflows transitioning to record-setting outflows, tax-exempt yields were higher across the curve and lower-rated issues underperformed. Municipal/UST ratios reside at historically cheap levels.

The BloomBar US Corporate High Yield index declined -11.5% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 382 bps wider on average, with CCC's hurt most by a steeper credit curve. All-in yields pushed materially higher, ending at nearly 9.5%. With a stronger US dollar overall, unhedged international bonds underperformed. Emerging market local bonds were particularly weak as commodity-related currencies struggled.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.01	-0.02
Germany	-0.47	-0.19
France	-0.02	0.12
United Kingdom	0.35	0.82
Spain	0.67	0.46
United States	0.67	1.92
Italy	1.52	1.41
Mexico	7.07	6.89
Brazil	8.62	6.79

Source: Bloomberg

Indices Report (Periods Ending March 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-12.35	-19.60	-6.98	5.10	6.73	10.53	7.58
Russell 1000	-13.21	-20.22	-8.03	4.64	6.22	10.39	7.63
Russell 1000 Growth	-9.84	-14.10	0.91	11.32	10.36	12.97	9.69
Russell 1000 Value	-17.09	-26.73	-17.17	-2.18	1.90	7.67	5.41
Russell 2500	-21.70	-29.72	-22.47	-3.10	0.49	7.73	6.49
Russell 2000	-21.73	-30.61	-23.99	-4.64	-0.25	6.90	5.71
Russell 2000 Growth	-19.10	-25.76	-18.58	0.10	1.70	8.89	7.17
Russell 2000 Value	-24.67	-35.66	-29.64	-9.51	-2.42	4.79	4.11
Wilshire 5000 Cap Wtd	-13.62	-20.70	-8.94	4.09	5.99	10.19	7.60
MSCI ACWI	-13.44	-21.26	-10.76	2.05	3.41	6.45	5.79
MSCI ACWI ex US	-14.40	-23.26	-15.14	-1.48	-0.17	2.52	3.86
MSCI EAFE	-13.25	-22.72	-13.92	-1.33	-0.13	3.20	3.55
MSCI EAFE Local Currency	-12.39	-20.43	-12.12	-1.31	0.34	4.85	4.45
MSCI EAFE Growth	-9.10	-17.41	-5.44	3.39	2.87	5.09	4.93
MSCI EAFE Value	-17.61	-28.08	-22.26	-6.09	-3.26	1.20	2.06
MSCI Emerging Markets	-15.38	-23.57	-17.36	-1.25	0.01	1.04	5.80
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	1.38	2.81	5.43	2.70	1.85	1.43	2.36
BloomBar US Aggregate	-0.59	3.15	8.93	4.82	3.36	3.88	4.40
BloomBar Gov't Bond	2.84	8.08	13.08	5.78	3.63	3.72	4.21
BloomBar US Credit	-6.63	-3.14	5.10	4.19	3.28	4.75	4.95
BloomBar 10 Yr Municipal	-3.43	-0.40	4.00	4.19	3.34	4.45	4.64
BloomBar US Corp High Yield	-11.46	-12.68	-6.94	0.77	2.78	5.64	6.35
FTSE World Govt Bond	-0.61	2.00	6.17	4.27	2.96	2.19	3.04
BloomBar Global Aggregate	-2.24	-0.33	4.20	3.55	2.64	2.47	3.29
BloomBar Multiverse	-2.78	-1.11	3.47	3.37	2.67	2.58	3.40
Real Assets							
NCREIF Property	0.00	0.00	4.54	6.16	7.50	10.09	8.09
NFI ODCE Net	0.00	0.00	3.17	5.60	7.32	10.34	6.44
FTSE NAREIT US Real Estate	-21.92	-27.30	-21.26	-3.14	-0.35	7.40	6.18
Bloomberg Commodity	-12.81	-23.29	-22.31	-8.61	-7.76	-6.74	-4.98
Cash and Equivalents							
US T-Bills 90 Day	0.29	0.57	2.26	1.83	1.19	0.64	1.40

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