

February 2020

DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 02/29/2020

Global Overview

The Novel Coronavirus (COVID-19) spread to dozens of countries, and the global death toll reached over 3,000 at the end of February. Global equity markets entered into correction territory, falling precipitously over the final week of the month as bad news came out about the containment of the virus. U.S. Treasuries experienced significant inflows as U.S. guaranteed debt cemented its place as the true safe haven for investor capital in times of investor fear.

U.S. Markets & Economy

The S&P 500 dropped nearly 13% in the final seven trading days of the month after reaching all-time highs on February 19th. A market correction occurs when there is a 10% decline from the most recent peak. The S&P 500 Index's recent correction was the fastest on record, taking just six days to fall 10% from the all-time high. Through most of February U.S. equity investors appeared to brush off concerns about the economic risks of COVID-19; however, market participants reacted strongly when cases began being reported in the U.S. These concerns were compounded when it was learned that the virus can be asymptomatic and/or dormant for weeks before detection. Due to this discovery, the number of cases of infection are likely much higher than being reported. Concurrent with the worsening news about COVID-19, some investors sought to take profits and exit the market following the historic bull market run before the (commonly tumultuous) election cycle ramps up. At the close of February, the Fed Fund futures priced in the probability of a 50 basis point rate cut during the March 18 FOMC meeting at nearly 100%. Many market participants believe the Fed will take action to stimulate the U.S. economy in response to the economic risks that COVID-19 may bring. Credit spreads widened rapidly in the last few days of February due to decreasing Treasury yields and increasing default risk, particularly among lower credit-quality issues.

- The S&P 500 Index lost 8.2% in the month, while the Russell 2000 Index lost 8.4%. The energy sector was particularly impacted as WTI Crude Oil prices have fallen 23% since year-end.
- U.S. Treasury yields fell to historic lows and thus investors saw a 1.8% return out of the Treasury-heavy Bloomberg Barclays Aggregate Index, as bond prices rise when yields fall.

International Markets & Economy

Travel restrictions and quarantines were not able to slow the spread of the COVID-19 in February, as Korea, Iran, and Italy each reported over 2,000 known cases of the infection and in aggregate recorded 150 fatalities. China cited both monetary and fiscal stimulus may be needed to revitalize their economy, while Hong Kong took the controversial fiscal measure of giving each citizen nearly \$1,300 to boost demand. Unsurprisingly, Chinese manufacturing production fell to anemic levels as many factories were closed throughout the entirety of the month. Regionally, lack of demand from Chinese consumers particularly hurt the economies of Thailand, Korea, and Japan, as these nations generate a sizable amount of GDP through tourism and trade with Chinese businesses. While both developed ex-U.S. and emerging market stocks grinded downward in the month, the magnitude of losses did not match that of the U.S. markets. Valuations of the MSCI EAFE and MSCI EM Indexes are far below that of the S&P 500, indicating that the U.S. market had farther to fall despite the lack of any real impact on economic activity or demand disruption. Interestingly enough, China was the only constituent in either the EM Index or EAFE Index to actually post a gain in the month, as reports of new cases began to decline and many citizens returned to work.

- The MSCI EAFE Index (USD) lost 9.0% and the MSCI Emerging Markets Index (USD) lost 5.3% in the month.

In the News

- o It is undeniable the spread of COVID-19 has damaged both the Chinese manufacturing and services sectors and will have a meaningful bearing on their economic situation in 2020. What may be different with the coronavirus compared to prior recession or correction triggers is that both global supply *and* demand are being affected. The travel and leisure industries are among the most impaired by the lack of demand from Chinese consumers both in and outside of the country, while the pause in manufacturing and production is severely hurting global supply chains which rely heavily on China. Monetary easing via rate cuts have been enacted by numerous countries across the globe, but the demand impact of extending borrowing power has yet to be seen given the risks surrounding the outbreak. Both consumer and business borrowers may decide to wait until the virus is better contained before utilizing the 'cheap money,' thereby reducing much of the purpose of a rate cut. With rates already very low in countries like Germany, Japan, and even the U.S., this phenomenon will be one to watch.

U.S. industries such as consumer electronics, furniture, machinery, and apparel were all burdened by the shutdown of factories, but none of the industries sourced more than 20% of their intermediate goods from China. Additionally, manufacturing and wholesaling inventories were at relatively high levels at the end of February. This may help alleviate supply chain disruptions caused by COVID-19 in the U.S. China is a key supplier of active and inactive materials used in pharmaceutical manufacturing. An extended halt in supply chain would present a number of challenges for the pharmaceutical industry and the wellbeing of people around the globe. Pressures on top-line revenue from weak demand and increased expenses due to a lack of supply is not a good combination for the financial health of companies both within and outside of China, and may have sparked some of the fear that hit U.S. markets so hard at the end the month. Time will tell when supply and demand will begin to normalize and how global GDP will ultimately be impacted by the coronavirus epidemic.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation ² (Most recently available)
	Latest	2019 ¹	2020 ¹			Sovereign Bonds, 10 Year	Current	
United States	2.30	2.32	2.00	3.60	1.50	-	-	2.26
China	6.00	6.16	5.73	3.60	2.78	6.99	6.69	4.41
Japan	1.70	1.02	0.55	2.20	-0.07	108.12	111.38	0.79
United Kingdom	1.10	1.24	1.00	3.80	0.83	1.28	1.33	1.31
Euro Area	0.90	1.10	1.00	7.40	0.32	1.10	1.14	1.30
Germany	0.50	0.60	0.44	3.20	-0.31	1.10	1.14	1.54
France	0.80	1.31	1.20	8.40	0.04	1.10	1.14	1.46
Italy	0.00	0.19	0.42	9.80	1.37	1.10	1.14	0.29
Canada	1.70	1.52	1.62	5.50	1.49	1.34	1.32	2.78
India	4.50	5.76	6.20	7.20	5.40	71.53	71.17	9.63
Mexico	-0.50	0.17	1.24	3.10	6.85	19.73	19.27	2.83
Brazil	1.20	0.83	1.67	11.00	4.24	4.49	3.75	4.31

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, and *The Economist*

1. Euro Area data forecasted by The World Bank, all other forecasted data from OECD

2. In terms of CPI All Items



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(8.45)	(6.28)	(9.01)	4.63	7.24	5.88	8.75
	BBgBarc US Agg Bond TR USD	1.80	3.69	3.76	11.68	5.01	3.58	3.93
	Russell 3000 TR USD	(8.19)	(5.64)	(8.29)	6.90	9.28	8.72	12.48
	DJ Industrial Average TR USD	(9.75)	(8.88)	(10.55)	0.44	9.42	9.63	12.20
	NASDAQ Composite PR USD	(6.38)	(1.13)	(4.52)	13.74	13.72	11.54	14.37
	MSCI EAFE NR USD	(9.04)	(8.05)	(10.94)	(0.57)	3.92	1.96	4.83
	FTSE Treasury Bill 3 Mon USD	0.13	0.40	0.26	2.12	1.71	1.10	0.58
	Bloomberg Commodity TR USD	(5.04)	(7.59)	(12.03)	(11.05)	(5.19)	(6.20)	(5.58)
Domestic Equities	S&P 500 TR USD	(8.23)	(5.50)	(8.27)	8.19	9.87	9.23	12.65
	S&P MidCap 400 TR	(9.49)	(9.38)	(11.86)	(3.39)	3.29	5.49	11.11
	S&P SmallCap 600 TR USD	(9.61)	(10.60)	(13.20)	(7.68)	2.96	6.01	11.67
	Russell 1000 TR USD	(8.17)	(5.42)	(8.07)	7.82	9.73	9.00	12.64
	Russell 1000 Growth TR USD	(6.81)	(1.85)	(4.73)	15.11	15.67	12.41	14.79
	Russell 1000 Value TR USD	(9.68)	(9.20)	(11.63)	0.54	3.78	5.51	10.40
	Russell Mid Cap TR USD	(8.69)	(7.34)	(9.42)	2.34	6.57	6.37	11.91
	Russell Mid Cap Growth TR USD	(6.90)	(4.92)	(6.02)	7.86	12.63	9.14	13.44
	Russell Mid Cap Value TR USD	(9.90)	(8.97)	(11.66)	(1.36)	2.21	4.44	10.79
	Russell 2000 TR USD	(8.42)	(8.80)	(11.36)	(4.92)	3.52	5.12	10.41
	Russell 2000 Growth TR USD	(7.22)	(6.14)	(8.24)	(0.72)	7.85	6.48	12.07
	Russell 2000 Value TR USD	(9.72)	(11.60)	(14.59)	(9.29)	(0.83)	3.61	8.67
International Equities	MSCI ACWI Ex USA NR USD	(7.90)	(6.50)	(10.38)	(0.69)	4.15	2.18	4.34
	MSCI EAFE NR USD	(9.04)	(8.05)	(10.94)	(0.57)	3.92	1.96	4.83
	MSCI EAFE Growth NR USD	(8.63)	(6.56)	(9.15)	5.52	7.30	4.24	6.39
	MSCI EAFE Value NR USD	(9.46)	(9.55)	(12.74)	(6.61)	0.54	(0.40)	3.20
	MSCI Japan NR USD	(9.14)	(8.51)	(10.38)	1.07	3.35	3.65	5.11
	MSCI AC Asia Ex Japan NR USD	(2.87)	(1.02)	(7.19)	0.11	6.62	4.06	5.84
	MSCI Europe NR USD	(9.28)	(8.10)	(11.56)	(0.64)	4.23	1.27	4.73
	MSCI United Kingdom NR USD	(11.94)	(10.91)	(15.28)	(7.37)	1.39	(1.12)	3.98
	MSCI EAFE Small Cap NR USD	(9.80)	(8.59)	(12.42)	(0.94)	4.13	4.65	7.57
MSCI EM NR USD	(5.27)	(2.95)	(9.69)	(1.88)	4.89	2.73	3.18	
Fixed Income	BBgBarc US Govt/Credit TR USD	2.09	4.32	4.52	13.41	5.53	3.88	4.22
	BBgBarc US Govt/Credit Interm TR USD	1.41	2.98	2.85	8.81	3.96	2.95	3.16
	BBgBarc US Govt/Credit Long TR USD	4.01	8.20	9.44	28.73	10.58	6.74	8.32
	ICE BofA US High Yield TR USD	(1.55)	0.51	(1.55)	5.91	4.76	5.16	7.15
	Credit Suisse HY USD	(1.92)	0.24	(1.83)	5.40	4.43	4.99	6.97
	S&P/LSTA Leveraged Loan TR	(1.32)	0.81	(0.77)	3.48	3.71	3.92	4.68
	FTSE WGBI NonUS USD	(0.06)	1.86	1.03	5.74	4.24	2.60	1.47
	BBgBarc Gbl Agg Ex USD TR	(0.20)	1.65	0.55	4.83	3.80	2.27	1.60
REITs	FTSE Nareit All REITs TR	(7.08)	(5.05)	(5.78)	7.76	6.59	6.56	11.78
	Wilshire US REIT TR USD	(7.78)	(7.71)	(7.08)	3.95	4.05	4.72	11.16

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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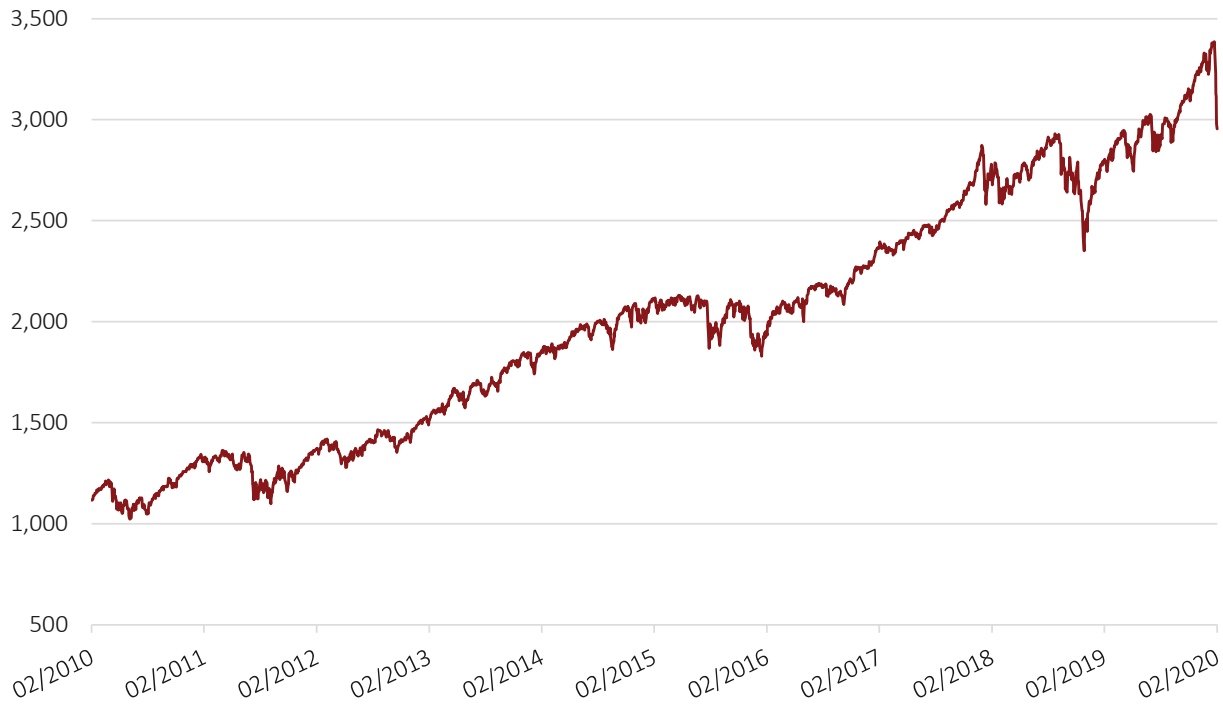
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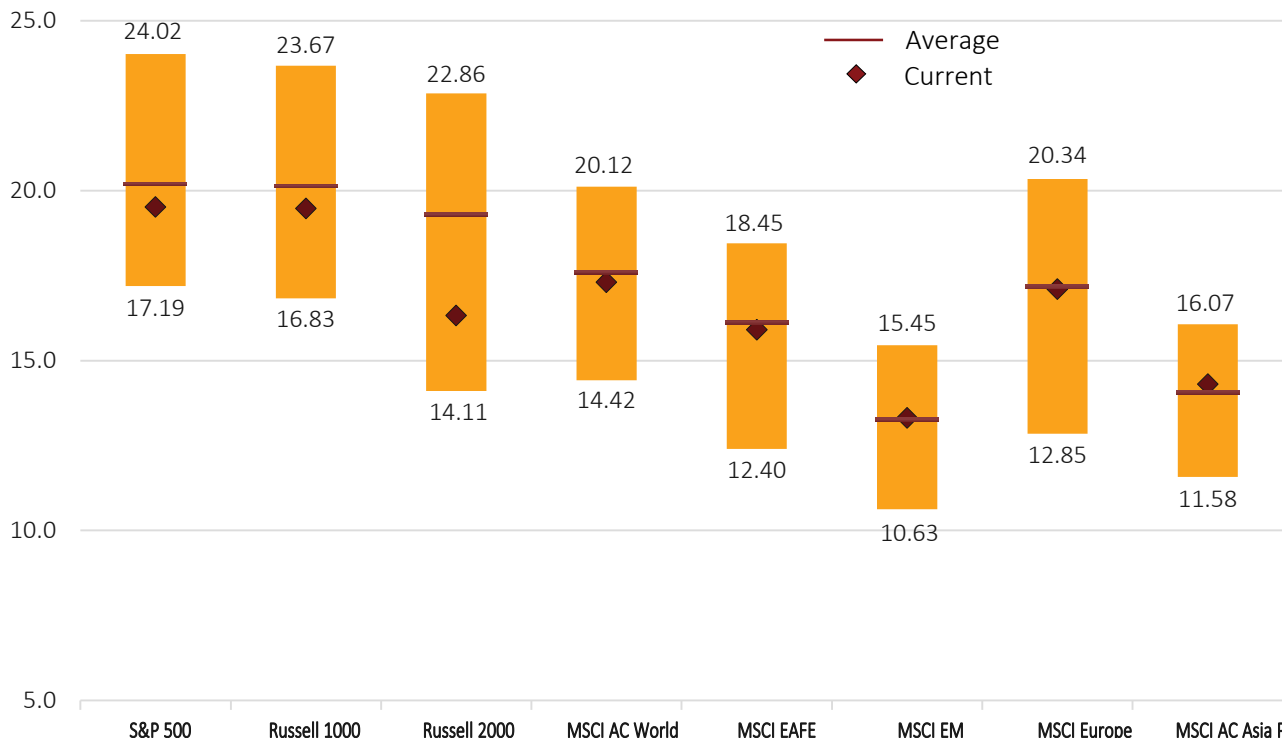
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S&P 500 Price Level



Source: Standard & Poors

Current P/E vs. Trailing 5-Year High, Low, Average

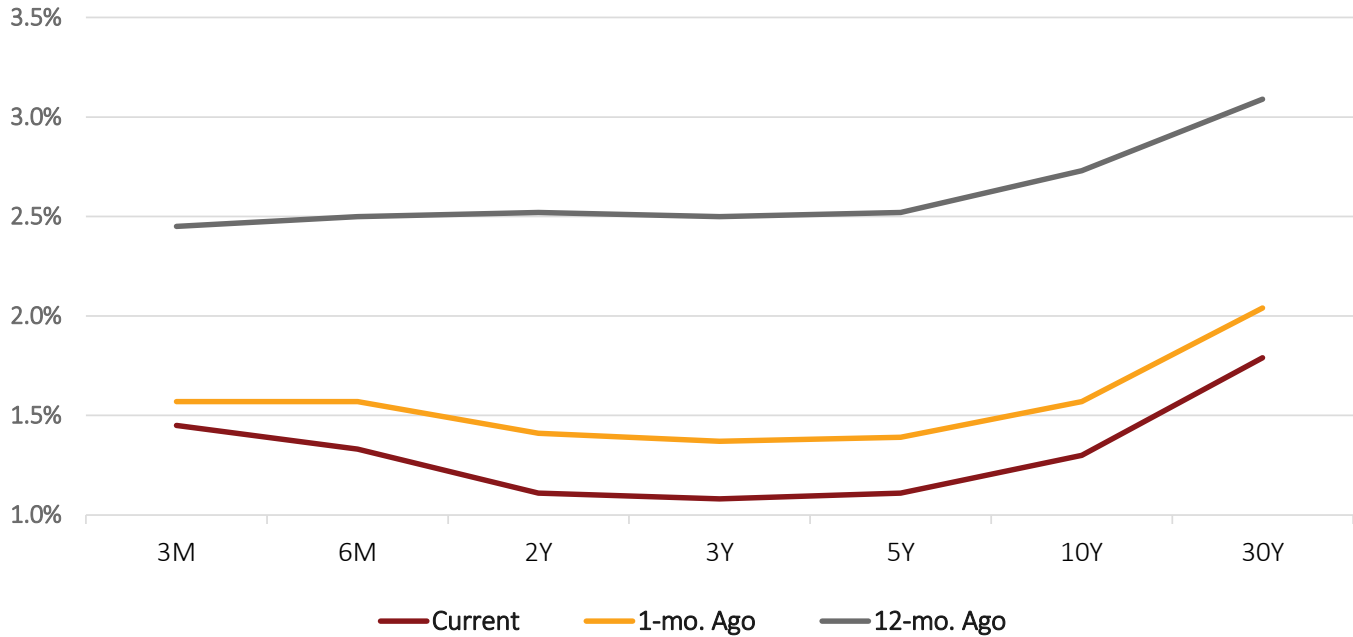


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Month	Dec-18	Dec-18	Dec-18	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

U.S. Treasury Yield Curves

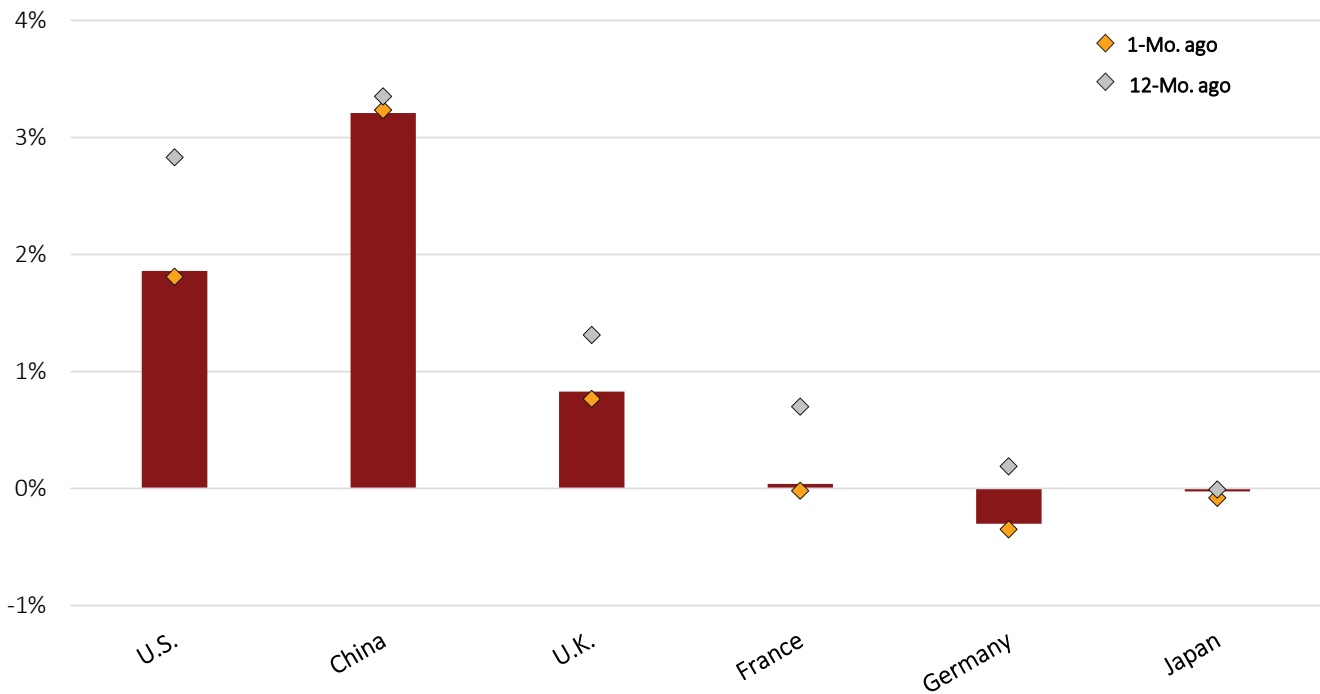
as of 2/29/2020



Source: Federal Reserve Bank of St. Louis

10-Year Sovereign Yields

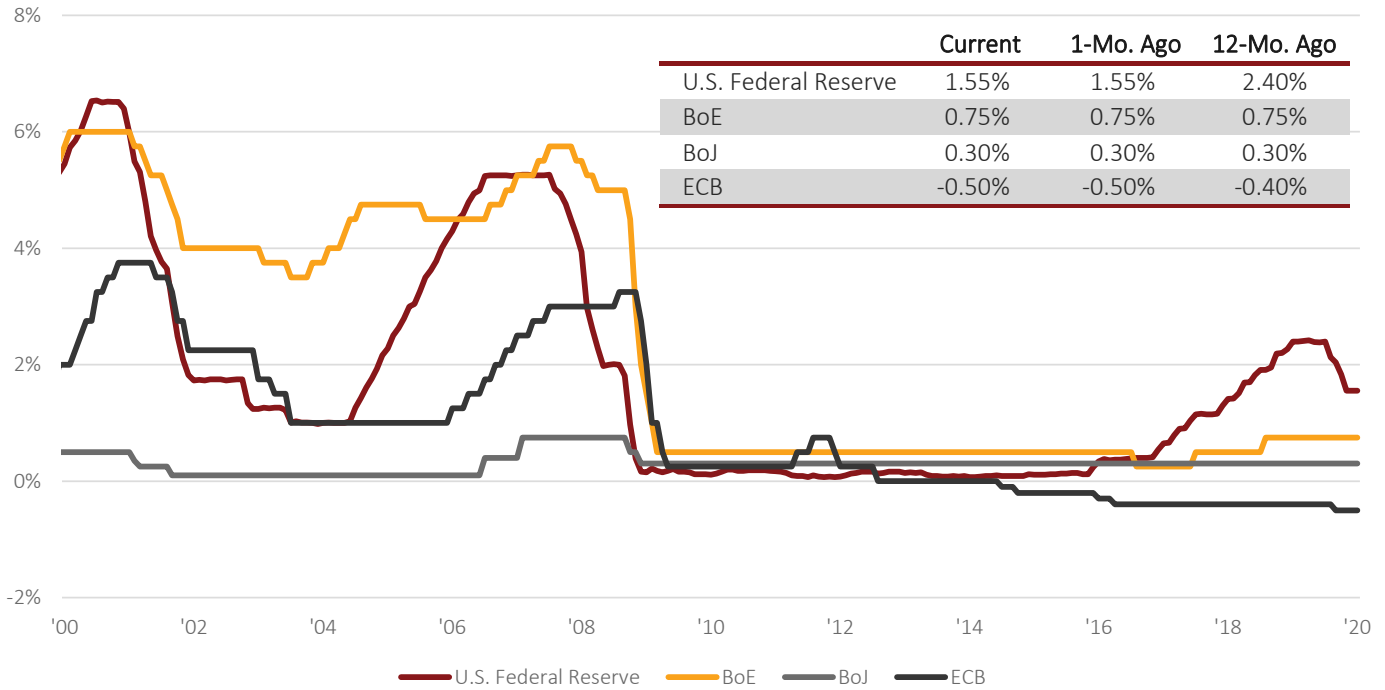
as of 12/31/2019 (most recently available)



Source: Federal Reserve Bank of St. Louis, Wall Street Journal

Central Bank Policy Rates

as of 1/31/2020 (most recently available)



Source: Federal Reserve Bank, Bank of England, European Central Bank

Corporate Bond Average Spread (bps)

