

March 2020

DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 03/31/2020

Global Overview

March 2020 will go down as one of the worst months in global capital market history, as the spread of COVID-19 sent numerous nations into a technical recession and triggered historic monetary and fiscal action across the world.

U.S. Markets & Economy

The S&P 500 officially entered into a bear market on March 11th, marking the end to the longest bull market on record. March 2020 was the most volatile month in equity markets since the Crash of 1929. The S&P 500 had its third largest daily decline on record (-12.0%), and eight trading days later had its ninth largest ever increase (9.4%). Market swings of +/- 5% became normal in the month as investors attempted to price both economic and health data into asset prices as soon as the ever-evolving data became available. One of the more ominous readings was the number of unemployment claims during the last full week of the month. A record 3.3 million Americans filed for unemployment in a single week, shattering levels seen in 2008-2009 by a multiple of 5x. Fiscal relief to the tune of \$2.2 trillion was enacted when the CARES Act was signed into law on March 27th. Roughly 30% of the aid was allocated to individuals, 25% to large corporations, 19% to small businesses, 17% to state and local governments, and 9% to public services. U.S. Treasury yields continued their historic fall as investors flocked to U.S.-guaranteed debt, breaking records throughout the month for the lowest yields ever recorded. Following the Fed's emergency 50 basis point rate cut on March 3rd, the entire Treasury Yield Curve (1 month to 30 years) read below 1% on March 9th. 30-year Treasury bonds closed March at 1.35%. The Fed later cut the federal funds rate to near 0% at another unscheduled meeting on March 15th. A week later the Fed went on to offer "unlimited quantitative easing" to combat the liquidity crunch occurring in certain parts of the bond/loan markets. Corporate bonds fell nearly as hard as equities in March, as the strain on businesses to meet interest payments quickly increased default risks, particularly with lower-quality issuers.

- The S&P 500 Index lost 12.4% and the Russell 2000 Index lost 21.7% in March. The two major indexes finished the quarter down 20% and 31%, respectively. The S&P 500 energy sector fell 34.8% in the month and finished the quarter down over 50%. Cyclical sectors such as materials and industrials were among the most battered, while defensive sectors like consumer staples and health care had single digit losses.

International Markets & Economy

As China and Korea appeared to pass their COVID-19 case inflection point in mid-March, the situation in Italy, Spain, Germany, and France began getting much worse. As of the end of March, Italy, France, and Spain all had more deaths than China, as their hospital systems became overwhelmed, and lack of needed medical supplies cost lives. Speaking of China, the communist nation forced out non-state owned journalists in a move that stirred even more suspicion that they are being less than transparent in their reporting of the real economic and health impacts of the disease, as well as the strength of their recovery. That said, manufacturing activity in China has picked up, with manufacturing new orders and output both normalizing to pre-crisis levels despite the export demand reduction. Over 80 central banks took the monetary action of cutting rates in March to spur economic activity, though the European Central Bank surprisingly decided to hold their deposit rate steady at -0.5%. Rather than a cut, the ECB decided to expand their asset purchase program by 120 billion euros with a focus on buying private sector bonds, along with offering cheap loans for banks at interest rates around -0.75%. This decision further weakened the Euro vs. the Dollar.

- The MSCI EAFE Index (USD) had a monthly result of -13.4%, and the MSCI EM Index (USD) lost 15.4% over the same time period. EAFE Growth has far outpaced EAFE Value year-to-date, similar the U.S. China continued to hold up the best versus their EM equity peers, with a quarterly decline of 10.2%.

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In the News

- The U.S. experienced historic levels of unemployment claims in the latter-half of March, driven by sweeping layoffs and furloughs in response to a drop-off in demand associated with “shelter in place” directives. Unemployment claims could plausibly reach the tens of millions by mid-April, a level not experienced since the Great Depression. The CARES Act includes relief to employers of all sizes, but market history teaches us that controlling a surge in unemployment during times of crisis is key to stabilizing the economy. The first weeks of April will be critical, not only to slow the spread of the virus, but to slow the increase in unemployment through definitive fiscal intervention.
- Oil prices plummeted throughout March as Russia and Saudi Arabia kicked off a price war early in the month. The two countries worked under OPEC’s guidance to sustain oil prices at desired levels for the past three years, but a recent production disagreement induced a price war. The nations abandoned supply standards previously agreed upon and began drilling and refining oil in extraordinary excess of demand. Brent crude hit the \$23 mark on March 30th, its lowest price since 2002. The United States attempted to take actions to diffuse the tension between Russia and Saudi Arabia, sending Secretary of State Mike Pompeo to speak with Saudi Crown Prince Mohammed bin Salman, though no tangible progress was made. Producers have concurrently suffered with demand for oil plunging, as customers around the world have sharply reduced orders in response to the ongoing health crisis. Standard Chartered warned that oil producers could potentially exhaust spare storage capacity within two months, leading to an unprecedented output shutdown by producers. Storage for oil is so scarce that producers have resorted to storing barrels in rail cars parked in abandoned lots. Brent crude oil at \$23/barrel may sound attractive for individuals at the gas pump, but prices sustained at these levels have incredibly negative impacts for the overall U.S. economy. Bankruptcies, loan defaults, job losses, a halt in capital spending, and other economic disruptions may occur at these prices, according to Moody’s.

Economic Indicators

| | GDP | | | Unemployment Rate | Interest Rates <i>Sovereign Bonds, 10 Year</i> | Exchange Rates <i>per US \$</i> | | Inflation ² <i>(Most recently available)</i> |
|-----------------------|--------|-------------------|-------------------|-------------------|---|------------------------------------|------------|--|
| | Latest | 2020 ¹ | 2021 ¹ | | | Current | 1 Year Ago | |
| United States | 2.30 | 2.00 | 1.98 | 3.50 | 0.88 | - | - | 2.36 |
| China | 6.00 | 5.73 | 5.50 | 3.60 | 2.69 | 7.09 | 6.73 | 5.42 |
| Japan | -0.70 | 0.55 | 0.74 | 2.40 | -0.16 | 108.16 | 110.38 | 0.69 |
| United Kingdom | 1.10 | 1.00 | 1.21 | 3.90 | 0.63 | 1.24 | 1.32 | 1.79 |
| Euro Area | 1.00 | 1.00 | 1.30 | 7.40 | 0.14 | 1.11 | 1.13 | 1.09 |
| Germany | 0.50 | 0.44 | 0.93 | 3.20 | -0.47 | 1.11 | 1.13 | 1.74 |
| France | 0.90 | 1.20 | 1.22 | 8.20 | 0.00 | 1.11 | 1.13 | 1.49 |
| Italy | 0.10 | 0.42 | 0.47 | 9.80 | 1.28 | 1.11 | 1.13 | 0.29 |
| Canada | 1.50 | 1.62 | 1.73 | 5.60 | 1.29 | 1.41 | 1.34 | 2.70 |
| India | 4.70 | 6.20 | 6.39 | 7.80 | 5.40 | 71.53 | 71.17 | 7.49 |
| Mexico | -0.50 | 1.24 | 1.58 | 3.70 | 6.47 | 23.41 | 19.34 | 3.24 |
| Brazil | 1.70 | 1.67 | 1.83 | 11.20 | 4.24 | 5.11 | 3.96 | 4.19 |

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 | (13.23) | (21.05) | (21.05) | (10.39) | 1.92 | 3.25 | 6.57 |
| | BBgBarc US Agg Bond TR USD | (0.59) | 3.15 | 3.15 | 8.93 | 4.82 | 3.36 | 3.88 |
| | Russell 3000 TR USD | (13.75) | (20.90) | (20.90) | (9.13) | 4.00 | 5.77 | 10.15 |
| | DJ Industrial Average TR USD | (13.62) | (22.73) | (22.73) | (13.38) | 4.42 | 6.86 | 10.00 |
| | NASDAQ Composite PR USD | (10.12) | (14.18) | (14.18) | (0.38) | 9.21 | 9.46 | 12.37 |
| | MSCI EAFE NR USD | (13.35) | (22.83) | (22.83) | (14.38) | (1.82) | (0.62) | 2.72 |
| | FTSE Treasury Bill 3 Mon USD | 0.13 | 0.39 | 0.39 | 2.04 | 1.74 | 1.12 | 0.60 |
| Bloomberg Commodity TR USD | (12.81) | (23.29) | (23.29) | (22.31) | (8.61) | (7.76) | (6.74) | |
| Domestic Equities | S&P 500 TR USD | (12.35) | (19.60) | (19.60) | (6.98) | 5.10 | 6.73 | 10.53 |
| | S&P MidCap 400 TR | (20.25) | (29.70) | (29.70) | (22.51) | (4.09) | 0.56 | 7.88 |
| | S&P SmallCap 600 TR USD | (22.40) | (32.64) | (32.64) | (25.89) | (5.34) | 0.45 | 8.06 |
| | Russell 1000 TR USD | (13.21) | (20.22) | (20.22) | (8.03) | 4.64 | 6.22 | 10.39 |
| | Russell 1000 Growth TR USD | (9.84) | (14.10) | (14.10) | 0.91 | 11.32 | 10.36 | 12.97 |
| | Russell 1000 Value TR USD | (17.09) | (26.73) | (26.73) | (17.17) | (2.18) | 1.90 | 7.67 |
| | Russell Mid Cap TR USD | (19.49) | (27.07) | (27.07) | (18.31) | (0.81) | 1.85 | 8.77 |
| | Russell Mid Cap Growth TR USD | (14.91) | (20.04) | (20.04) | (9.45) | 6.53 | 5.61 | 10.89 |
| | Russell Mid Cap Value TR USD | (22.70) | (31.71) | (31.71) | (24.13) | (5.97) | (0.76) | 7.22 |
| | Russell 2000 TR USD | (21.73) | (30.61) | (30.61) | (23.99) | (4.64) | (0.25) | 6.90 |
| | Russell 2000 Growth TR USD | (19.10) | (25.76) | (25.76) | (18.58) | 0.10 | 1.70 | 8.89 |
| | Russell 2000 Value TR USD | (24.67) | (35.66) | (35.66) | (29.64) | (9.51) | (2.42) | 4.79 |
| International Equities | MSCI ACWI Ex USA NR USD | (14.48) | (23.36) | (23.36) | (15.57) | (1.96) | (0.64) | 2.05 |
| | MSCI EAFE NR USD | (13.35) | (22.83) | (22.83) | (14.38) | (1.82) | (0.62) | 2.72 |
| | MSCI EAFE Growth NR USD | (9.20) | (17.51) | (17.51) | (5.84) | 2.98 | 2.47 | 4.71 |
| | MSCI EAFE Value NR USD | (17.72) | (28.20) | (28.20) | (22.76) | (6.65) | (3.83) | 0.62 |
| | MSCI Japan NR USD | (7.15) | (16.79) | (16.79) | (6.69) | 0.95 | 1.82 | 3.83 |
| | MSCI AC Asia Ex Japan NR USD | (12.05) | (18.38) | (18.38) | (13.44) | 1.06 | 1.34 | 3.77 |
| | MSCI Europe NR USD | (14.44) | (24.33) | (24.33) | (15.50) | (2.34) | (1.31) | 2.46 |
| | MSCI United Kingdom NR USD | (15.97) | (28.81) | (28.81) | (22.98) | (4.85) | (3.34) | 1.60 |
| | MSCI EAFE Small Cap NR USD | (17.24) | (27.52) | (27.52) | (18.15) | (2.88) | 0.97 | 4.81 |
| MSCI EM NR USD | (15.40) | (23.60) | (23.60) | (17.69) | (1.62) | (0.37) | 0.68 | |
| Fixed Income | BBgBarc US Govt/Credit TR USD | (1.11) | 3.37 | 3.37 | 9.82 | 5.17 | 3.54 | 4.15 |
| | BBgBarc US Govt/Credit Interm TR USD | (0.44) | 2.40 | 2.40 | 6.88 | 3.79 | 2.76 | 3.14 |
| | BBgBarc US Govt/Credit Long TR USD | (2.95) | 6.21 | 6.21 | 19.32 | 9.68 | 5.99 | 8.07 |
| | ICE BofA US High Yield TR USD | (11.76) | (13.12) | (13.12) | (7.45) | 0.55 | 2.67 | 5.50 |
| | Credit Suisse HY USD | (12.28) | (13.88) | (13.88) | (8.43) | 0.07 | 2.37 | 5.29 |
| | S&P/LSTA Leveraged Loan TR | (12.37) | (13.05) | (13.05) | (9.16) | (0.78) | 1.14 | 3.08 |
| | FTSE WGBI NonUS USD | (2.88) | (1.88) | (1.88) | 1.79 | 3.14 | 2.39 | 1.38 |
| | BBgBarc Gbl Agg Ex USD TR | (3.22) | (2.68) | (2.68) | 0.74 | 2.57 | 2.04 | 1.39 |
| REITs | FTSE Nareit All REITs TR | (20.85) | (25.42) | (25.42) | (18.16) | (0.94) | 1.46 | 8.22 |
| | Wilshire US REIT TR USD | (19.96) | (25.63) | (25.63) | (19.38) | (2.49) | (0.19) | 7.67 |

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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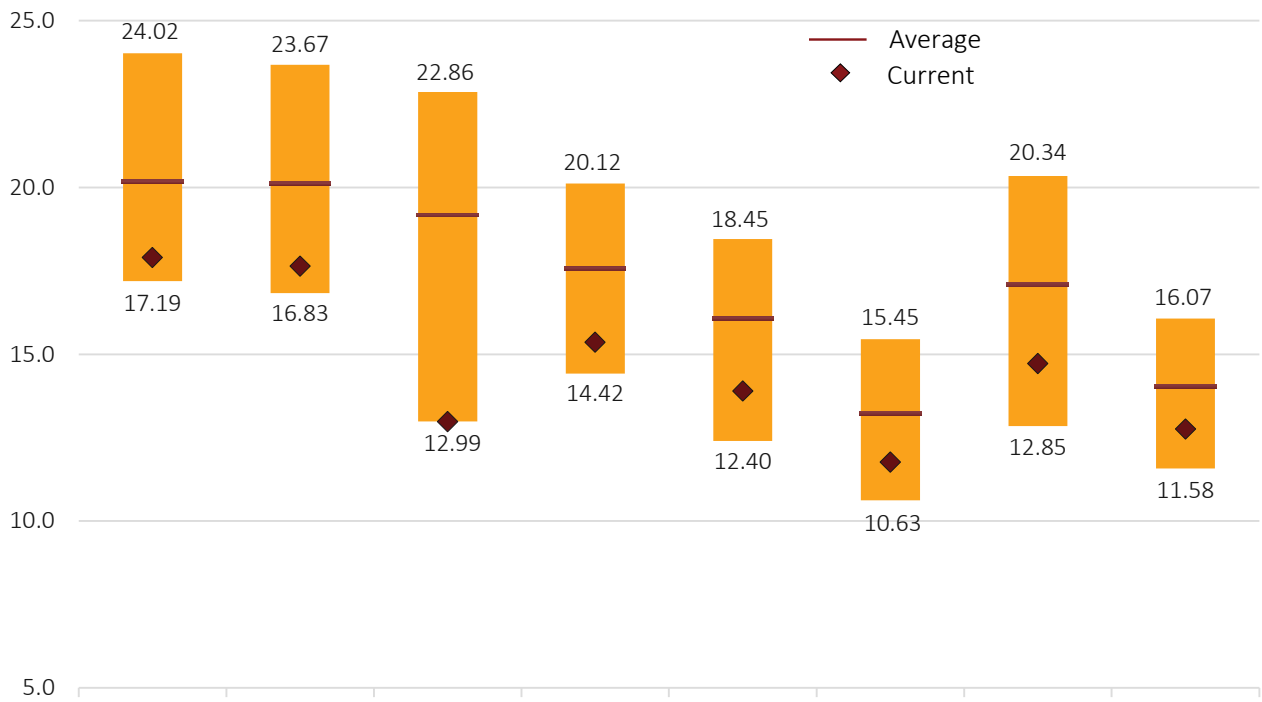
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S&P 500 Price Level



Source: Standard & Poors

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

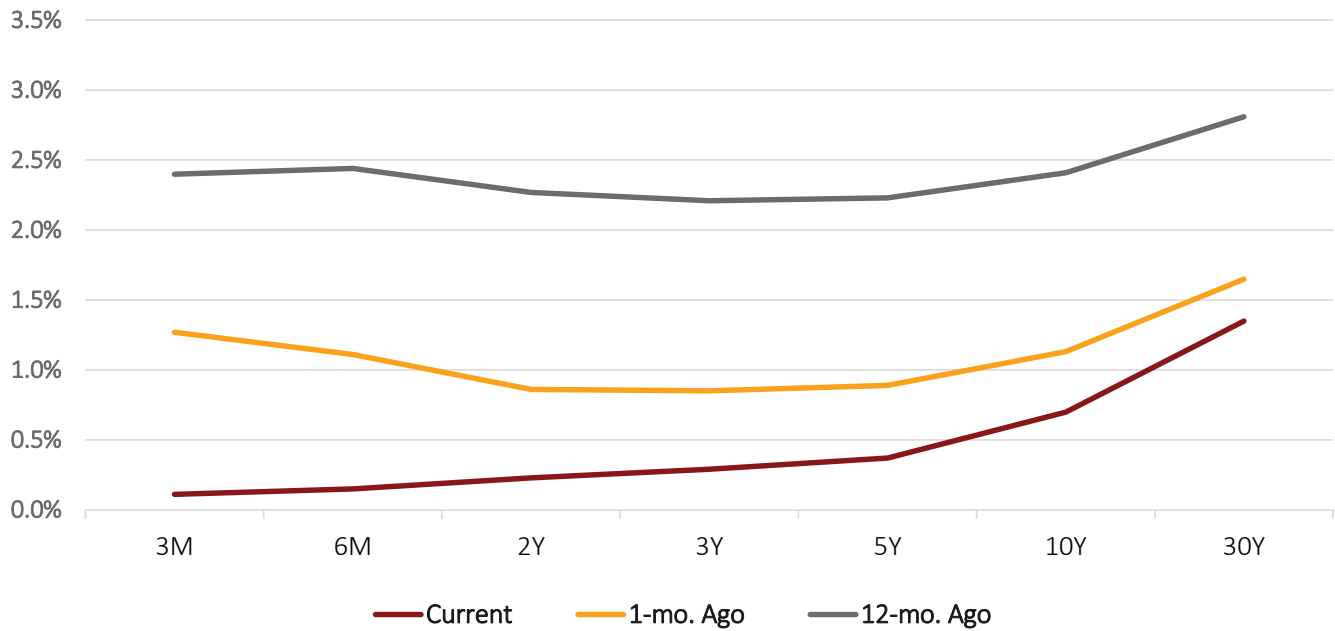


| | S&P 500 | Russell 1000 | Russell 2000 | MSCI AC World | MSCI EAFE | MSCI EM | MSCI Europe | MSCI AC Asia Pac |
|------------|---------|--------------|--------------|---------------|-----------|---------|-------------|------------------|
| High Month | Jan-18 | Jan-18 | Nov-17 | Jan-18 | May-17 | 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

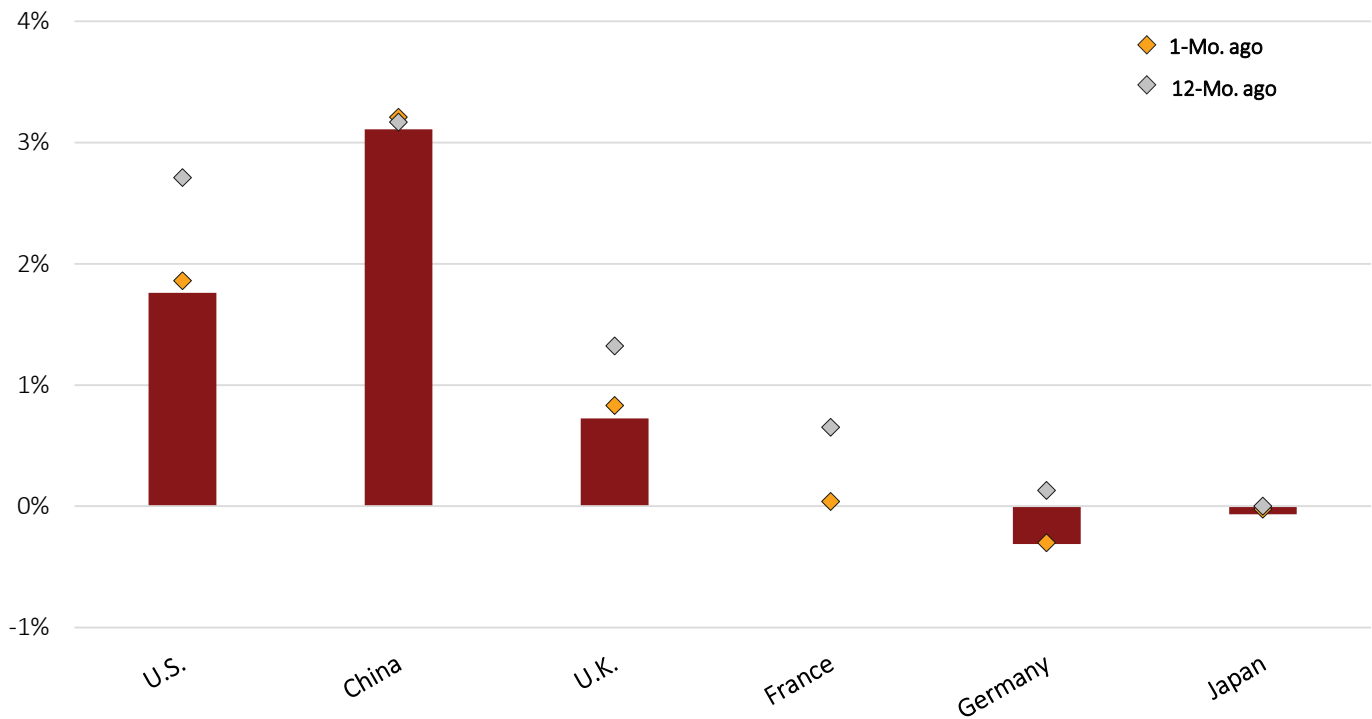
as of 3/31/2020



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

10-Year Sovereign Yields

as of 1/31/2019 (most recently available)



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

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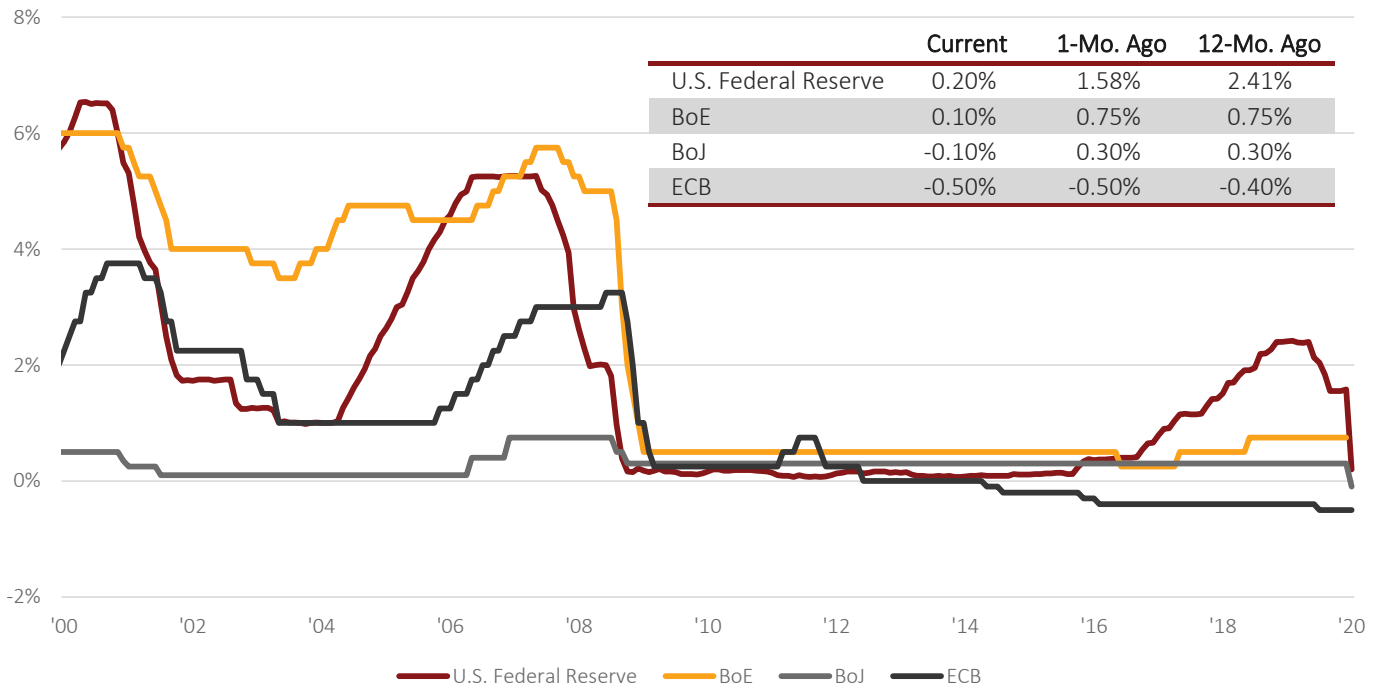
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Central Bank Policy Rates

as of 3/31/2020 (most recently available)



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

Corporate Bond Average Spread (bps)

