

May 2020

DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 05/31/2020

Global Overview

Global equity markets continued to rebound as the mass re-opening in Europe and early stages in the U.S. have improved investor sentiment and outlook for a recovery. EM Debt and High Yield Credit posted strong results in fixed income.

U.S. Markets & Economy

U.S. equity markets were positive for the second straight month, with the S&P 500 Index now down just 5.0% year-to-date. Markets appeared to be reacting to encouraging news regarding early signs of success in vaccination trials in addition to many states starting to re-open their economies. While state-by-state data is more nuanced, declining infection and death rates from the April peak appears to have swayed investor sentiment, supported by forward P/E multiple expansion due to both price appreciation and waning earnings expectations. Unsurprisingly, economic data now reflects the stark reality of a near complete shut-down of a number of U.S. industries. Both the U.S. manufacturing and services sectors remained firmly in contraction territory through May, though some early signs of recovery are present. During times of extreme market stress and rising unemployment, personal savings rates typically increase, and personal consumption typically declines. The U.S. household savings rate has increased 20% in April and personal consumption declined by 14% in the same time period. While the yields on shorter-term Treasuries were relatively unmoved in May, the Treasury Yield Curve steepened on the long-end. The curve steepening may be attributable to the Fed slowing their purchasing of long-term debt towards the end of the month.

- The S&P 500 Index posted a 4.8% gain in May, led by cyclical sectors like information technology (7.1%) and materials (7.0%). Small cap stocks outperformed large caps during the month, with a 6.5% return for the Russell 2000 Index. Small caps still lag large caps by approximately 11% year-to-date.
- The Bloomberg Barclays Aggregate Index returned 0.5% in the month. Although Treasury yields remained relatively flat in May, credit and particularly high yield credit spreads contracted as liquidity improved and risks were further repriced by market participants. The ICE BofA U.S. High Yield Index gained 4.6% in May.

International Markets & Economy

Developed non-U.S. equity markets were broadly positive in May with the re-opening of many businesses, cafés, and even soccer leagues in certain countries (no fans). As these industries resume there is hope for a rebound in Eurozone economies and their capital markets. France and Germany proposed a \$2 trillion coronavirus fiscal response plan with the debt to be issued by the EU itself. The plan includes \$824 billion in grants and loans to be distributed immediately to harder-hit members like Spain, Italy, and Greece. The “frugal four” of Sweden, the Netherlands, Denmark, and Austria oppose the plan, which may put their more conservatively leveraged nations on the hook for the EU-issued debt earmarked to be spent elsewhere. The Euro strengthened considerably versus the dollar on the news. Japan reports the total size of its fiscal relief package is nearly 40% of its \$5 trillion GDP, which could be a large reason why Japanese equity markets have held up remarkably well versus Eurozone peers. Chinese equity markets stalled in May as a number of geopolitical factors overshadowed the recovery in industrial production and service sectors of the world’s second largest economy. China voted to impose highly restrictive laws on Hong Kong, ostensibly ending the “one country, two systems” status the mainland has employed since the Tiananmen Square Incident in 1989. The U.S. looks poised to remove Hong Kong’s autonomous status due to the law, which seems likely to further ignite trade tensions already in flux between the U.S. and China. Hong Kong serves as a regional hub for many U.S.-based institutions.

- The MSCI EAFE Index (USD) returned 4.4% in the month as improved investor sentiment along with the aforementioned economic improvements bolstered returns. Despite robust results from many index constituent countries, negative returns from MSCI Emerging Markets Index heavyweights China and Taiwan (which account for over half the Index) resulted in the modest 0.8% return for the month.

In the News

- “Zombie companies” are corporations that are not able to pay off existing debt and can only fund further operations through raising additional debt capital. These companies have come into the spotlight as the Fed’s action to slash interest rates to near-zero and inject liquidity into high yield markets has allowed many of these companies to continue to survive when they otherwise would have gone extinct given the current market conditions. The Fed is attempting to provide liquidity within debt markets while not engaging in what dissenters would argue is “the business of picking winners and losers.”
- Real estate investment trusts (REITs) are publicly listed companies that trade like stocks. REIT revenues are mandated to be primarily driven (> 90%) by the income generated from real estate assets owned by the trust. The REIT structure provides investors access to the real estate market without requiring the substantial capital necessary to access these assets through a private partnership structure (typically in the millions). Goldman Sachs estimates that the U.S. REIT market is nearly \$1 trillion in size and is largely comprised of real estate assets such as apartments, hotels, offices, malls, warehouses, infrastructure investments, and cell towers. REITs have been around in the U.S. since the 1960’s and are currently issued in 35 other countries. Why is this relevant today? China rolled out a REIT trial of sorts in late April, with an initial focus on using investor equity funding rather than debt to finance infrastructure projects. While nascent in its current stage, if REITs became a readily available investment option in China the addressable market could be over \$3 trillion, or three times the size of the U.S. market and 1.5x greater than the current global REIT market (Goldman Sachs). Although the minutia of current Chinese laws regarding REIT structures differs from that of the U.S. and Europe, the advent of an investible REIT universe in the world’s largest real estate market could not only lead to positive implications from an investor standpoint, but could rejuvenate the Chinese economy that saw its first contraction in GDP since 1992, not to mention to help curb their \$40 trillion in national debt.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation ²
	Latest	2020 ¹	2021 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	-4.80	2.00	1.98	13.30	0.67	-	-	1.43
China	-33.80	5.73	5.50	3.70	2.72	7.13	6.91	4.27
Japan	-3.40	0.55	0.74	2.50	-0.05	107.77	109.24	0.39
United Kingdom	-7.70	1.00	1.21	3.90	0.36	1.23	1.26	1.50
Euro Area	-14.20	1.00	1.30	7.40	0.56	1.11	1.11	1.03
Germany	-8.60	0.44	0.93	3.50	-0.45	1.11	1.11	1.44
France	-21.40	1.20	1.22	8.40	-0.06	1.11	1.11	0.67
Italy	-17.70	0.42	0.47	8.40	1.55	1.11	1.11	0.29
Canada	0.30	1.62	1.73	13.00	0.66	1.38	1.35	1.44
India	4.90	6.20	6.39	23.50	4.65	75.66	69.78	5.50
Mexico	-4.90	1.24	1.58	3.30	7.37	22.17	19.23	2.15
Brazil	2.00	1.67	1.83	12.20	3.01	5.42	3.99	3.30

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, Bureau of Economic Analysis, 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



PARTNER

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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	4.83	0.89	(8.20)	6.80	5.91	5.84	9.28
	BBgBarc US Agg Bond TR USD	0.47	1.65	5.47	9.42	5.07	3.94	3.92
	Russell 3000 TR USD	5.35	2.89	(5.63)	11.46	9.54	9.17	12.80
	DJ Industrial Average TR USD	4.66	0.55	(10.06)	4.83	9.05	9.76	12.39
	NASDAQ Composite PR USD	6.75	10.77	5.77	27.33	15.25	13.36	15.44
	MSCI EAFE NR USD	4.35	(3.73)	(14.26)	(2.81)	(0.37)	0.79	5.27
	FTSE Treasury Bill 3 Mon USD	0.04	0.25	0.51	1.75	1.75	1.15	0.61
	Bloomberg Commodity TR USD	4.34	(10.42)	(21.20)	(17.06)	(6.90)	(7.79)	(6.00)
Domestic Equities	S&P 500 TR USD	4.76	3.59	(4.97)	12.84	10.23	9.86	13.15
	S&P MidCap 400 TR	7.31	(2.27)	(13.86)	(0.81)	2.51	4.68	10.45
	S&P SmallCap 600 TR USD	4.31	(8.77)	(20.81)	(8.11)	0.32	3.93	10.02
	Russell 1000 TR USD	5.28	3.44	(4.91)	12.54	10.09	9.58	13.07
	Russell 1000 Growth TR USD	6.71	10.45	5.23	26.25	17.21	14.50	16.07
	Russell 1000 Value TR USD	3.43	(4.61)	(15.70)	(1.64)	2.60	4.36	9.85
	Russell Mid Cap TR USD	7.03	(1.45)	(10.73)	2.63	5.51	5.94	11.43
	Russell Mid Cap Growth TR USD	10.05	8.30	1.77	17.03	13.99	10.72	14.07
	Russell Mid Cap Value TR USD	4.64	(8.31)	(19.00)	(6.91)	(0.43)	2.56	9.47
	Russell 2000 TR USD	6.51	(5.18)	(15.95)	(3.44)	1.98	3.72	9.23
	Russell 2000 Growth TR USD	9.45	1.74	(6.65)	7.32	7.72	6.34	11.72
	Russell 2000 Value TR USD	2.87	(12.95)	(25.65)	(14.69)	(4.16)	0.71	6.54
	International Equities	MSCI ACWI Ex USA NR USD	3.27	(4.99)	(14.85)	(3.43)	(0.24)	0.79
MSCI EAFE NR USD		4.35	(3.73)	(14.26)	(2.81)	(0.37)	0.79	5.27
MSCI EAFE Growth NR USD		5.46	2.86	(6.56)	7.44	4.56	4.30	7.44
MSCI EAFE Value NR USD		3.04	(10.68)	(22.05)	(13.03)	(5.45)	(2.89)	2.96
MSCI Japan NR USD		5.92	3.65	(7.11)	6.98	3.34	3.09	5.88
MSCI AC Asia Ex Japan NR USD		(1.16)	(5.29)	(12.10)	0.01	1.40	1.97	5.24
MSCI Europe NR USD		4.55	(5.24)	(16.19)	(4.41)	(1.68)	0.03	5.15
MSCI United Kingdom NR USD		1.05	(10.72)	(24.36)	(14.85)	(5.01)	(3.44)	3.52
MSCI EAFE Small Cap NR USD		7.13	(2.12)	(14.28)	(0.78)	0.07	3.27	7.83
MSCI EM NR USD		0.77	(6.95)	(15.96)	(4.39)	(0.15)	0.88	2.47
Fixed Income	BBgBarc US Govt/Credit TR USD	0.58	1.68	6.28	10.68	5.57	4.30	4.22
	BBgBarc US Govt/Credit Interm TR USD	0.76	1.73	4.63	7.60	4.15	3.21	3.20
	BBgBarc US Govt/Credit Long TR USD	0.09	1.51	11.10	20.34	10.04	7.84	8.09
	ICE BofA US High Yield TR USD	4.57	(4.22)	(5.70)	0.35	2.65	4.06	6.51
	Credit Suisse HY USD	4.66	(4.38)	(6.14)	(0.32)	2.33	3.79	6.30
	S&P/LSTA Leveraged Loan TR	3.80	(4.95)	(5.68)	(2.86)	1.67	2.57	4.01
	FTSE WGBI NonUS USD	0.48	(0.94)	0.08	3.11	2.50	3.12	1.88
	BBgBarc Gbl Agg Ex USD TR	0.30	(0.94)	(0.40)	2.67	2.14	2.70	2.03
REITs	FTSE Nareit All REITs TR	1.71	(12.20)	(17.28)	(9.35)	2.42	4.61	9.25
	Wilshire US REIT TR USD	(0.32)	(13.48)	(19.61)	(13.04)	0.28	2.61	8.37

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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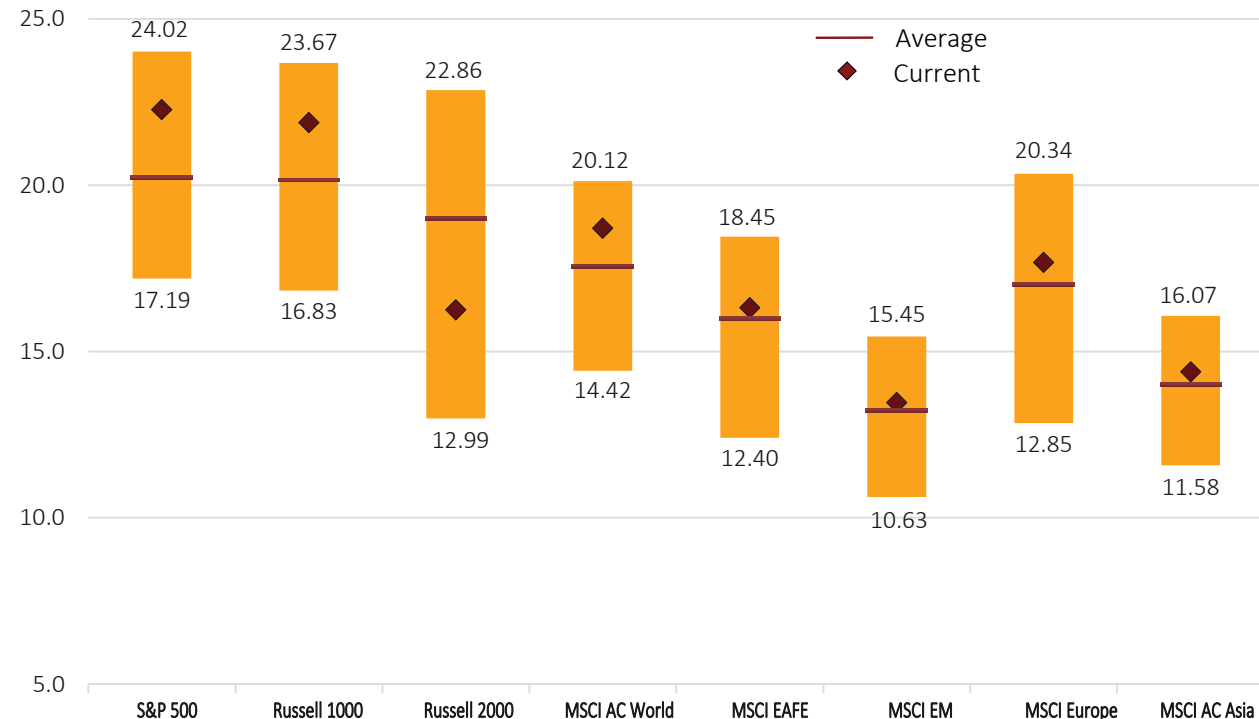
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S&P 500 Price Level



Source: Standard & Poors

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

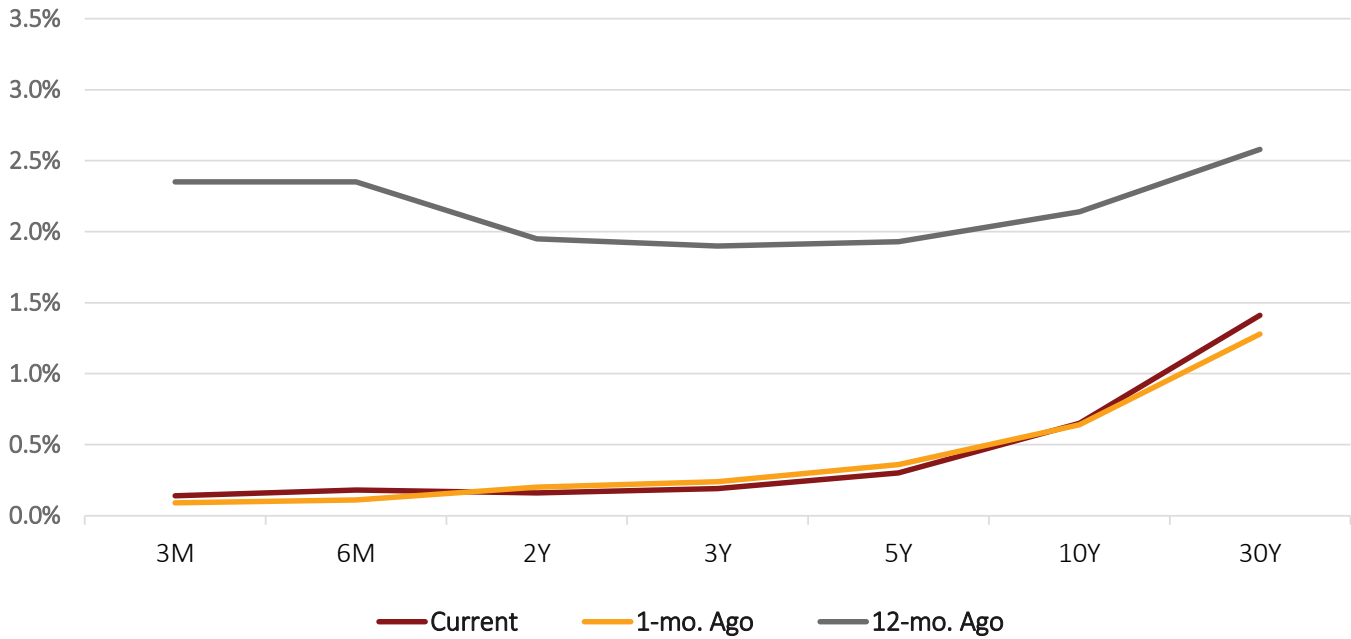


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Month	Dec-18	Dec-18	Mar-20	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

U.S. Treasury Yield Curves

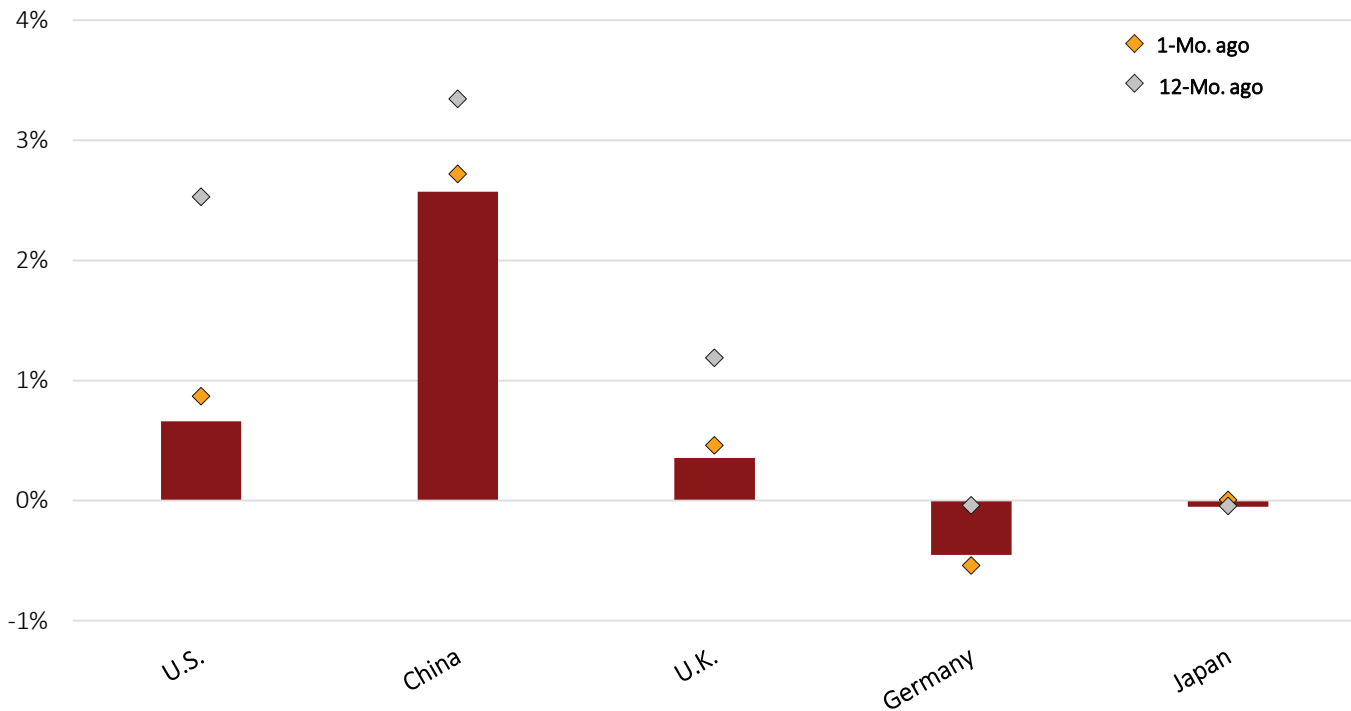
as of 5/31/2020



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

10-Year Sovereign Yields

as of 4/30/20 (most recently available)



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

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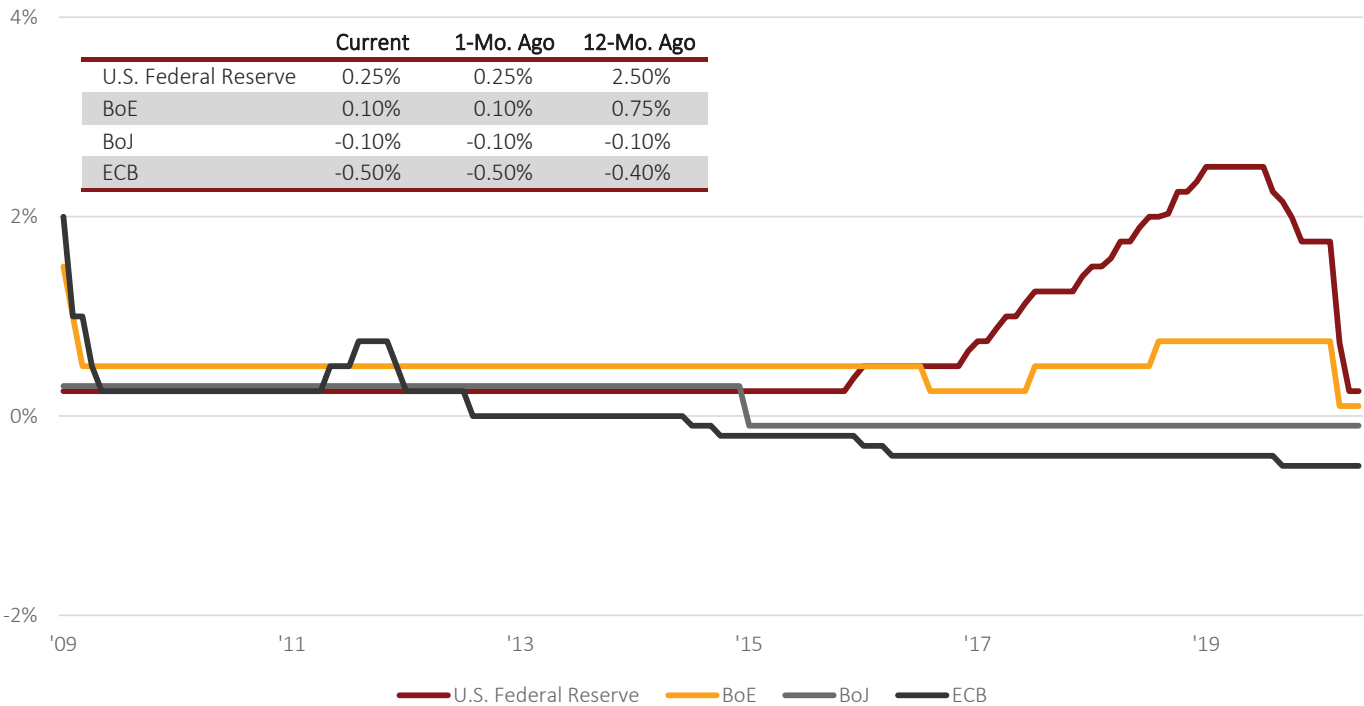
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Central Bank Policy Rates

(as of the most current policy decision)



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

Corporate Bond Average Spread (bps)

