

April 2020

# DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 04/30/2020

## Global Overview

Global equity markets rebounded strongly in April as central bank intervention, continued fiscal support, and positive medical research developments appeared to encourage investors' outlook the months ahead. The time offset of lagging economic data versus real-time financial data was particularly evident in the month of April with markets rising in the wake of a multitude of negative economic reports.

## U.S. Markets & Economy

U.S. equity markets began to recover almost as quickly as they fell, as the S&P 500 had its best one-month return in over 30 years. This latest rally will go down as one of the fastest recoveries on record if it holds. The S&P 500 fell from its February 19<sup>th</sup> peak of 3,386 all the way to 2,237 by March 23<sup>rd</sup>, then rebounded back up to 2,912 by April 30<sup>th</sup>. The Federal Reserve announced its plan to inject an additional \$2.3 trillion of liquidity into markets, including the much anticipated Main Street Lending Program, where the FOMC will buy \$600 billion of loans for small-to-midsize businesses. In two unprecedented moves, the Fed also pledged to buy \$500 billion in state and local bonds (municipal bonds) and also announced they would be buying non-investment grade corporate debt for the first time ever. Almost immediately high yield credit spreads tightened on the news. Economic data began reflecting the carnage wrought by shelter-in-place laws, capped off with a first quarter GDP reading of -4.8%, the first quarterly contraction since 2014. Over 30 million people (or roughly 18.6% of the workforce) filed for unemployment in the past six weeks, manufacturing PMI slowed significantly with a reading of 36.1 (<50 is a contraction), and consumer spending fell sharply. Certain states began the process of re-opening, which should be an interesting study in consumer spending behavior and will shed light on how a potential economic recovery may look before a vaccine is available.

- The S&P 500 Index posted a 12.8% gain in April, led by energy (29.8%), and consumer discretionary (20.5%). The Russell 2000 Index returned 13.7% in the month, though lags the S&P 500 by nearly 12% year-to-date.
- The Bloomberg Barclays Aggregate Index returned 1.8% in April as treasury yields remained stable, while corporate credit spreads tightened, and Federal Reserve intervention positively impacted securitized assets.

## International Markets & Economy

Non-U.S. equity markets were able to rebound alongside U.S. markets, as select Asian and European nations appeared to have passed the inflection point in new cases of the coronavirus. Labor markets in Europe didn't quite experience the magnitude of unemployment claims as the United States, but that does not mean their employment situation was superior. The Eurozone had a distinct approach in cushioning the economic burden on individuals, enacting a form of wage subsidies in the hope of stabilizing the level of unemployment on the front-end rather than the U.S. approach of encouraging businesses to accept Federal loans to retain employees that will later turn to grants on the back-end. The April Purchasing Managers Index (PMI) illustrates just how deep the contraction in manufacturing has been across Europe and Japan through the duration of the crisis, some hitting levels last experienced following World War II. Japan has been mired in an environment of negative interest rates, deflation, and poor demographic conditions which combined to cause slowing economic growth even before the pandemic had begun. That said, Japan has been surprisingly resilient in both a health-preparedness and an economic sense thus far in 2020. Prime Minister Shinzo Abe's strict lockdown has helped Japanese businesses in the short run, as evidenced by Japan's relatively attractive year-to-date returns versus other major MSCI EAFE constituents.

- The MSCI EAFE Index (USD) and MSCI EM Index (USD) had April returns of 6.5% and 9.2%, respectively. International developed stocks were led by strong results out of Australia and Germany, while the emerging market index benefited from strong results out of India, Thailand, and Taiwan.

## In the News

- Growth has considerably outpaced value during the volatility of the past four months, carrying on the trend that has held true since about 2009. Large cap growth has outperformed large cap value by over 17% in this year alone. The five largest stocks by market capitalization in the U.S. (Microsoft, Apple, Amazon, Facebook, and Alphabet) all fit into the growth category and have broadly seen their earnings hold up remarkably well in 2020, despite the multitude of supply and demand issues caused by COVID-19. Nearly all of these companies have benefited somewhat in the current crisis given their sway in daily business and consumer life. There has not been all that material of an impact to the earnings of companies like Amazon and Microsoft, as people ship goods to their homes and businesses, use Amazon web services, while both individuals and businesses use Microsoft cloud computing. Dominant companies of years past like General Electric or Exxon Mobil were significantly harmed in prior downturns, unlike today's environment. That said, capital expenditures are expected to decline sharply in 2020 as a large number of companies have provided guidance on reduced corporate spending, yet another factor that will materially impact business-to-business revenue and business investment in the U.S.
- Economic crises often create noteworthy activity in the capital markets, none more prevalent than what is happening in commodities. The May WTI crude oil futures contract traded at -\$37.63/barrel on April 20<sup>th</sup>. Due to extreme demand reduction and excess supply, oil producers and processors were forced to pay others to store their oil as their existing storage capacity was already maxed out. Livestock (specifically beef and pork) is another sector experiencing significant stress. Numerous processing plants were forced to close for employee safety reasons, skyrocketing the price of certain cuts of meat as there became a large bottleneck at the processing plants that were able to remain open. These are both classic supply and demand examples previously unheard of until COVID-19.

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates <i>Sovereign Bonds, 10 Year</i>	Exchange Rates <i>per US \$</i>		Inflation <sup>2</sup> <i>(Most recently available)</i>
	Latest	2020 <sup>1</sup>	2021 <sup>1</sup>			Current	1 Year Ago	
<b>United States</b>	0.30	2.00	1.98	4.40	0.66	-	-	2.09
<b>China</b>	-6.80	5.73	5.50	3.70	2.53	7.06	6.73	5.18
<b>Japan</b>	-0.70	0.55	0.74	2.50	0.01	106.94	111.40	0.49
<b>United Kingdom</b>	1.10	1.00	1.21	4.00	0.46	1.26	1.30	1.69
<b>Euro Area</b>	1.00	1.00	1.30	7.30	0.37	1.09	1.12	1.21
<b>Germany</b>	0.50	0.44	0.93	3.20	-0.54	1.09	1.12	1.73
<b>France</b>	0.90	1.20	1.22	8.10	-0.18	1.09	1.12	1.43
<b>Italy</b>	0.10	0.42	0.47	9.70	0.96	1.09	1.12	0.29
<b>Canada</b>	1.50	1.62	1.73	7.80	0.82	1.39	1.34	2.29
<b>India</b>	4.70	6.20	6.39	8.50	5.40	76.17	69.41	6.84
<b>Mexico</b>	-0.50	1.24	1.58	3.30	6.47	23.98	18.99	3.70
<b>Brazil</b>	1.70	1.67	1.83	11.60	3.38	5.43	3.94	4.01

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

# DeMarche



**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	10.92	(11.89)	(12.43)	(4.00)	4.99	4.92	7.68
	BBgBarc US Agg Bond TR USD	1.78	3.00	4.98	10.84	5.17	3.80	3.96
	Russell 3000 TR USD	13.24	(10.33)	(10.42)	(1.04)	8.02	8.33	11.29
	DJ Industrial Average TR USD	11.22	(13.30)	(14.07)	(6.16)	7.67	9.06	11.01
	NASDAQ Composite PR USD	15.45	(2.86)	(0.93)	9.81	13.70	12.46	13.70
	MSCI EAFE NR USD	6.46	(16.09)	(17.84)	(11.34)	(0.58)	(0.17)	3.55
	FTSE Treasury Bill 3 Mon USD	0.08	0.33	0.47	1.92	1.75	1.14	0.60
Bloomberg Commodity TR USD	(1.54)	(18.48)	(24.47)	(23.18)	(8.62)	(9.07)	(7.07)	
Domestic Equities	S&P 500 TR USD	12.82	(9.26)	(9.29)	0.86	9.04	9.12	11.69
	S&P MidCap 400 TR	14.18	(17.58)	(19.73)	(14.94)	(0.03)	3.58	8.86
	S&P SmallCap 600 TR USD	12.70	(20.94)	(24.08)	(19.60)	(1.79)	3.37	8.74
	Russell 1000 TR USD	13.21	(9.78)	(9.68)	0.09	8.68	8.74	11.57
	Russell 1000 Growth TR USD	14.80	(3.54)	(1.39)	10.84	15.69	13.34	14.41
	Russell 1000 Value TR USD	11.24	(16.70)	(18.49)	(11.01)	1.42	3.90	8.54
	Russell Mid Cap TR USD	14.36	(15.92)	(16.60)	(10.00)	3.46	4.81	9.83
	Russell Mid Cap Growth TR USD	15.66	(8.38)	(7.52)	0.23	11.28	8.88	12.19
	Russell Mid Cap Value TR USD	13.35	(21.05)	(22.59)	(16.74)	(2.02)	1.99	8.09
	Russell 2000 TR USD	13.74	(18.47)	(21.08)	(16.39)	(0.82)	2.88	7.69
	Russell 2000 Growth TR USD	14.89	(13.76)	(14.71)	(9.22)	4.21	5.19	9.96
	Russell 2000 Value TR USD	12.34	(23.60)	(27.72)	(23.84)	(6.06)	0.30	5.30
	International Equities	MSCI ACWI Ex USA NR USD	7.58	(15.27)	(17.55)	(11.51)	(0.25)	(0.17)
MSCI EAFE NR USD		6.46	(16.09)	(17.84)	(11.34)	(0.58)	(0.17)	3.55
MSCI EAFE Growth NR USD		7.41	(10.89)	(11.40)	(2.07)	4.43	3.19	5.63
MSCI EAFE Value NR USD		5.35	(21.52)	(24.35)	(20.48)	(5.67)	(3.66)	1.35
MSCI Japan NR USD		5.39	(11.09)	(12.30)	(3.00)	2.38	2.18	4.39
MSCI AC Asia Ex Japan NR USD		8.96	(6.93)	(11.07)	(7.45)	3.25	1.66	4.45
MSCI Europe NR USD		5.93	(17.78)	(19.84)	(13.58)	(1.59)	(1.01)	3.34
MSCI United Kingdom NR USD		5.14	(22.20)	(25.14)	(20.80)	(3.91)	(3.67)	2.23
MSCI EAFE Small Cap NR USD		10.40	(17.60)	(19.99)	(12.28)	(1.01)	2.07	5.67
MSCI EM NR USD	9.16	(12.52)	(16.60)	(12.00)	0.57	(0.10)	1.45	
Fixed Income	BBgBarc US Govt/Credit TR USD	2.23	3.21	5.67	12.21	5.66	4.11	4.25
	BBgBarc US Govt/Credit Interm TR USD	1.41	2.39	3.84	8.18	4.06	3.06	3.20
	BBgBarc US Govt/Credit Long TR USD	4.51	5.49	11.00	25.20	10.74	7.45	8.23
	ICE BofA US High Yield TR USD	3.80	(9.82)	(9.82)	(5.26)	1.43	3.19	5.66
	Credit Suisse HY USD	4.14	(10.40)	(10.32)	(6.06)	1.04	2.93	5.47
	S&P/LSTA Leveraged Loan TR	4.50	(9.64)	(9.13)	(6.61)	0.54	1.85	3.39
	FTSE WGBI NonUS USD	1.51	(1.47)	(0.40)	3.99	3.10	2.32	1.62
	BBgBarc Gbl Agg Ex USD TR	2.04	(1.44)	(0.69)	3.43	2.78	2.01	1.67
REITs	FTSE Nareit All REITs TR	9.06	(19.79)	(18.67)	(10.69)	1.79	4.24	8.47
	Wilshire US REIT TR USD	8.43	(19.97)	(19.36)	(12.43)	0.19	2.64	7.81

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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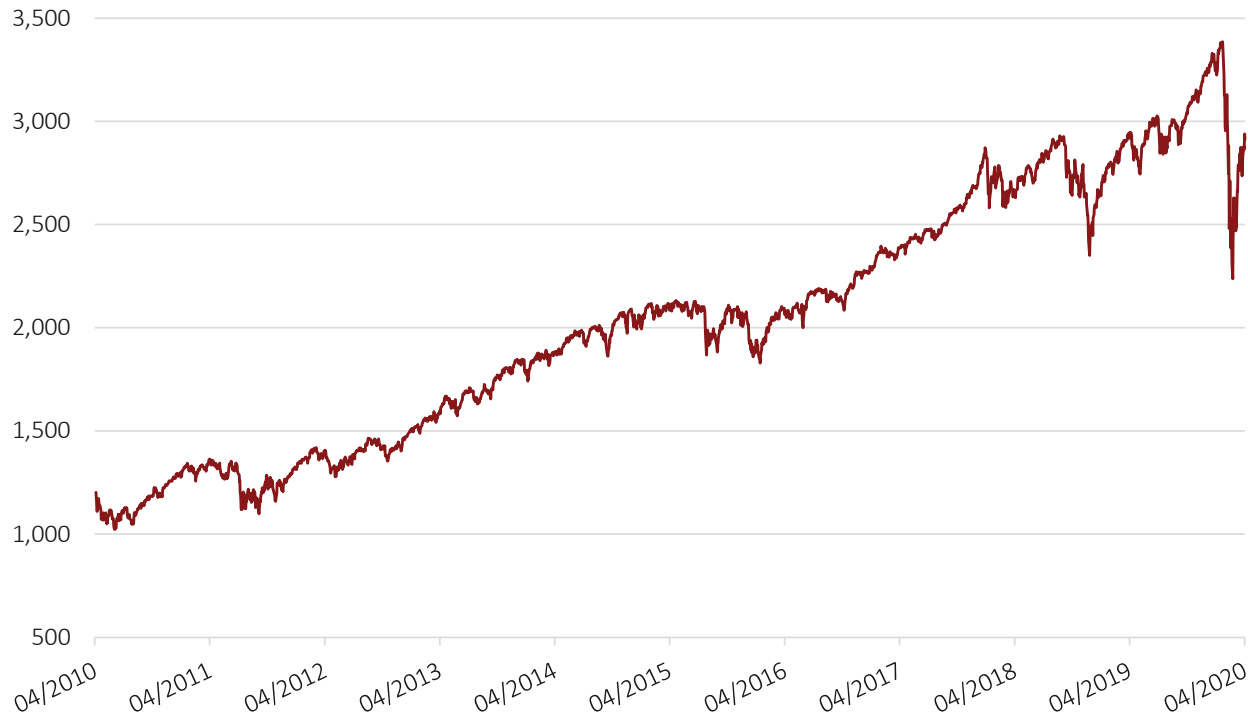
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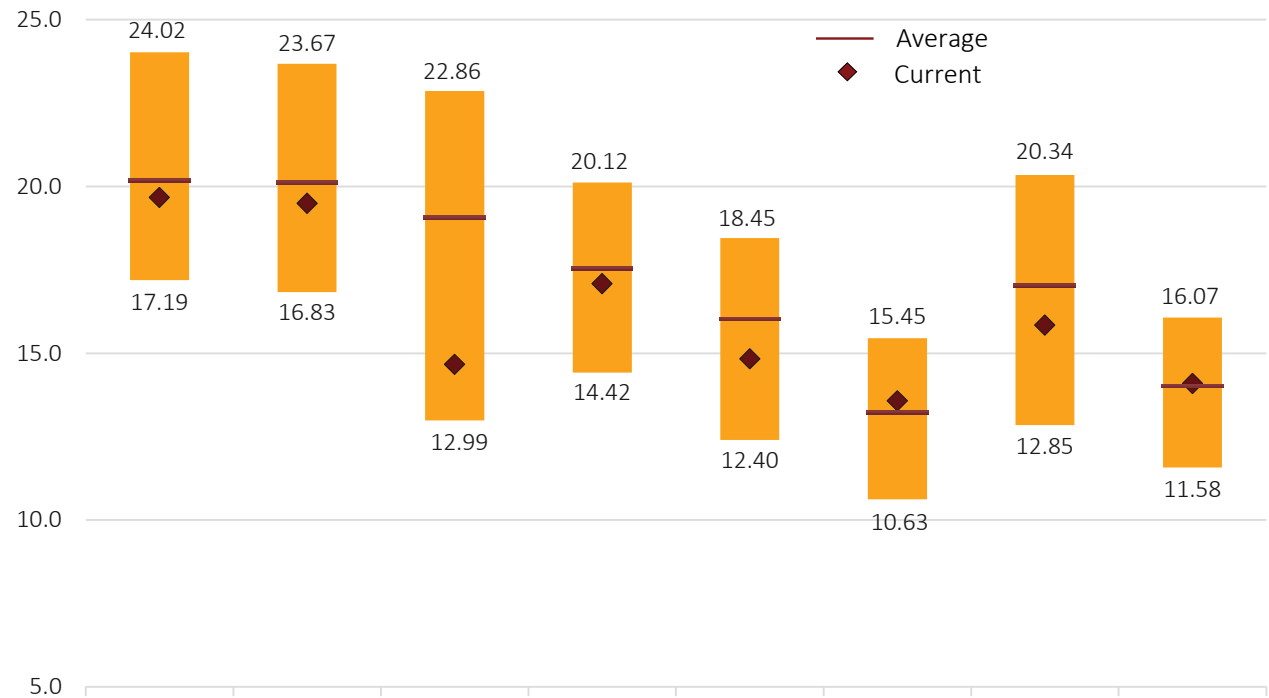
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## S&P 500 Price Level



Source: Standard & Poors

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

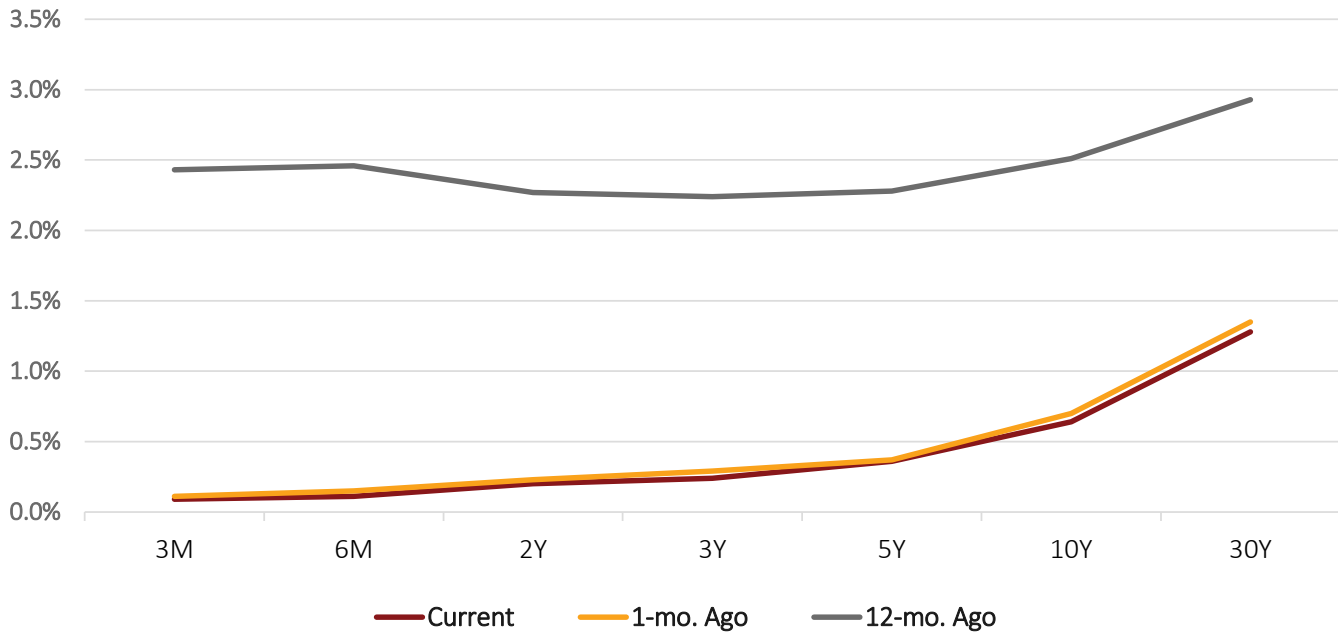


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Month	Dec-18	Dec-18	Mar-20	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

## U.S. Treasury Yield Curves

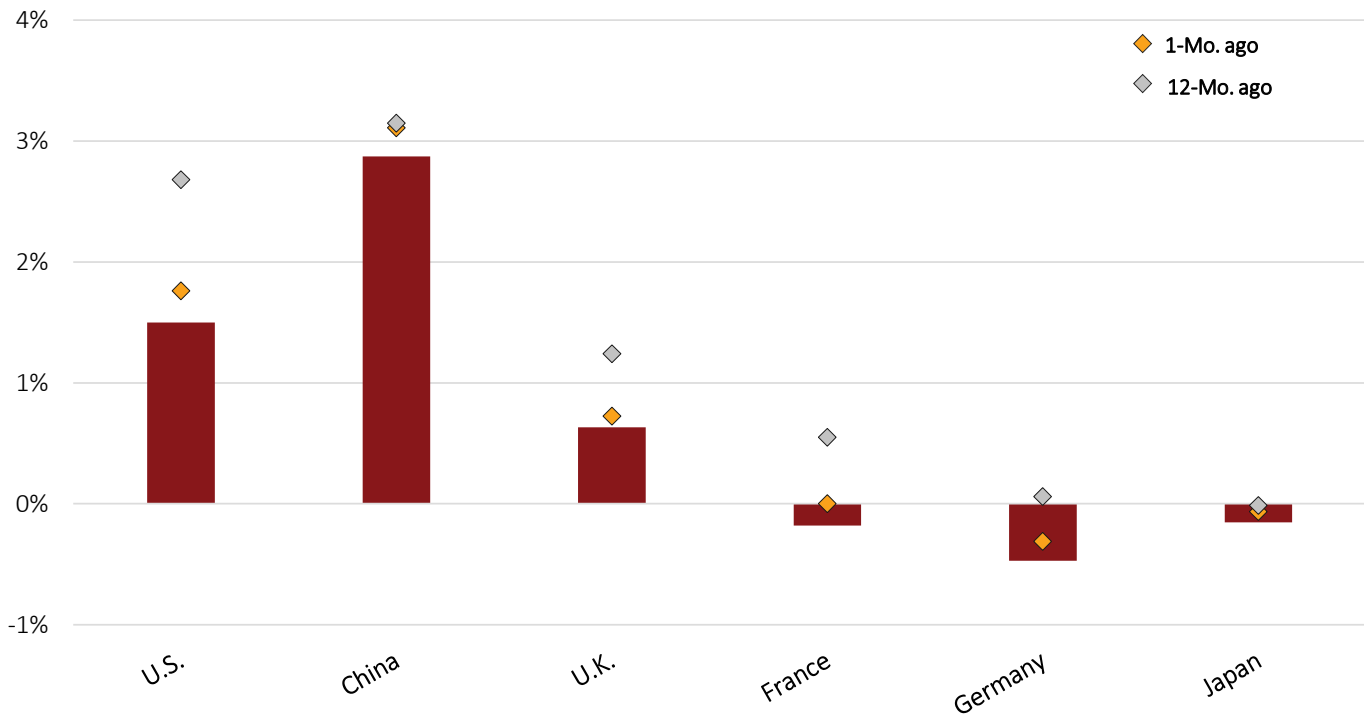
as of 4/30/2020



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

## 10-Year Sovereign Yields

as of 2/29/20 (most recently available)



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

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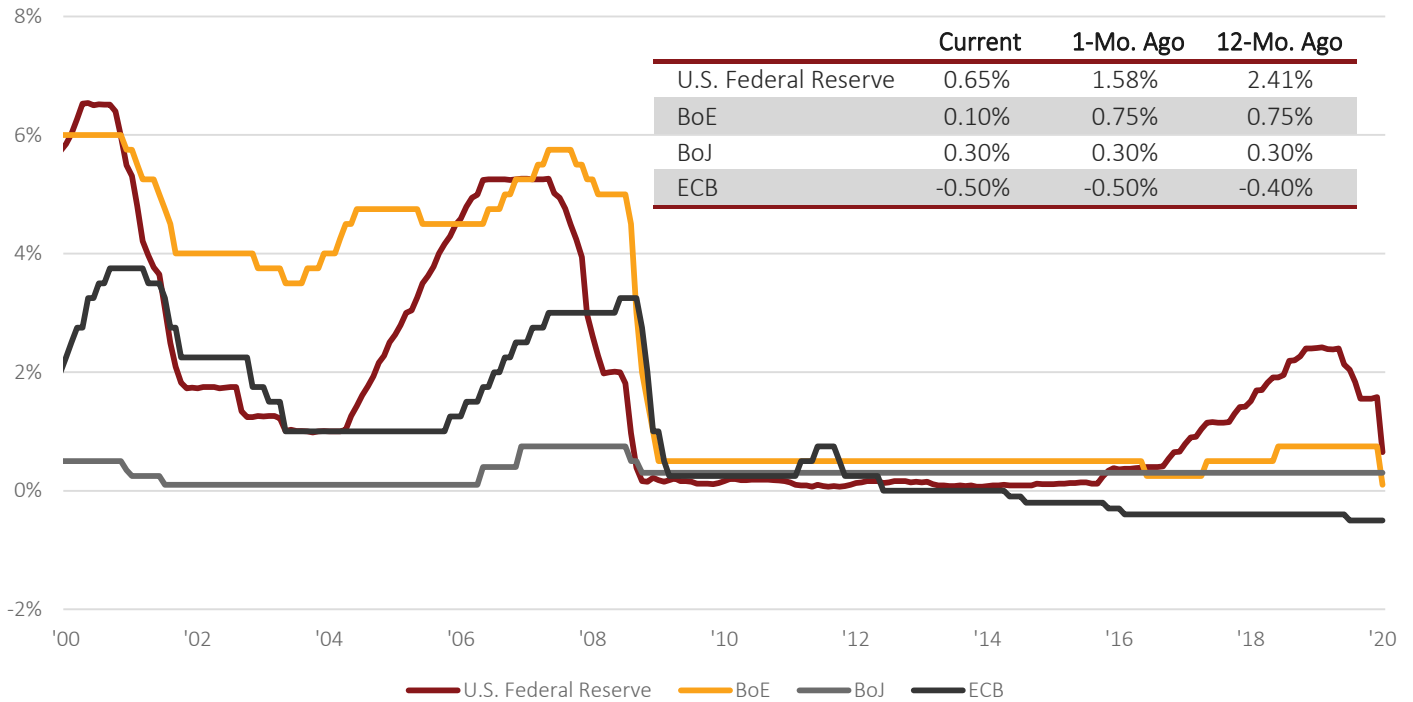
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## Central Bank Policy Rates

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



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

## Corporate Bond Average Spread (bps)

