

Global Economy

Despite risk-on sentiment that drove stocks to record levels in the first half of the month, it was a dramatic “leap” in volatility that ultimately defined the investor experience in February. Though seemingly under control in China, concerns of the expanding global effect of the coronavirus epidemic drove key equity benchmarks into correction territory as the month ended with the worst one-week loss since 2008. Markets reacted to the observed economic impact on supply (constrained) and demand (delayed or even omitted) as well as considerable uncertainty among health experts and business leaders regarding both the magnitude and longevity of these disruptions. Investor concern sustained the flight to quality that drove government bond yields through all-time lows, even as the US dollar retreated from recent highs amid growing expectations for Fed rate cuts.

The Federal Open Market Committee (FOMC) did not officially meet in February, but Chairman Powell acknowledged how “the coronavirus poses evolving risks to economic activity.” With the futures market focused on the return of “act as appropriate” messaging, a near-term rate cut is fully priced in with as many as four 25 bps cuts expected by year-end. The US economy continues to show signs of overall strength, which is the counterpoint to any rate-cutting discussions.

The second estimate of 4Q-19 real GDP remained at an annualized rate of 2.1% as upward revision to net exports and inventory investment was offset by a downward revision to personal consumption. The Atlanta Fed’s GDPNow estimate for 1Q-20 continues to be robust at 2.7% while the analyst consensus estimate suggests roughly 1.4%.

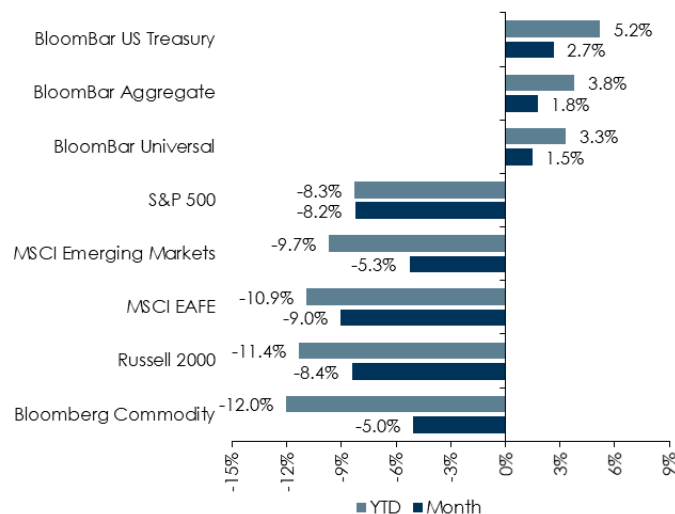
273,000 new jobs were added in February, well above expectations, with December and January adjusted upward by a total of 85,000. The unemployment rate moved down slightly to 3.5%, while the participation rate was stable. Average hourly wage gains remained moderate, continuing its narrow range and advancing at a year-over-year pace of 3.0%. The Core CPI index remained at 2.3% year-over-year, while the FOMC’s preferred measure, the Core PCE index, continued to be anchored at 1.6% year-over-year through January.

	Current	Dec-19
US GDP (%)	2.10	2.10
US Unemployment (%)	3.50	3.50
CPI (Core) (%)	2.30	2.30
Fed Funds (%)	1.50 – 1.75	1.50 – 1.75
10 Year UST Yld (%)	1.15	1.92
S&P 500 Div Yld (%)	2.04	1.82
S&P 500 P/E (Trailing)	19.42	21.60
Gold/oz.	\$1,566.70	\$1,523.10
Oil (Crude)	\$44.76	\$61.06
Gasoline (Natl Avg)	\$2.56	\$2.66
USD/Euro	\$1.10	\$1.12
USD/GBP	\$1.28	\$1.33
Yen/USD	¥107.89	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indexes were negative in February. The S&P 500, which represents large US-based entities, was down significantly at -8.2%. While there was remarkable consistency across the index, all sectors declined meaningfully, Energy (-15.3%), Financials (-11.4%) and Utilities (-10.4%) were hardest hit. Small cap stocks, as represented by the Russell 2000, were down similarly at -8.4%. Among the sectors, Energy (-17.1%), Materials (-13.0%), Consumer Discretionary (-11.6%) and Utilities (-10.1%) retreated most significantly. Healthcare (-3.5%) was the relative outperformer. Across the market capitalization spectrum, Value declined more than Growth.

In the broad international developed markets, the MSCI EAFE index was down deeply at -9.0% as no single sector or country escaped the sell-off. Among the major sectors, Energy (-15.3%), Materials (-11.4%) and Industrials (-10.2%) led the declines, with Utilities (-3.8%) being a relative outperformer. The Asian region, most notably Hong Kong (-1.4%), was the best performer with most other countries down between -8% and -12%.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down less than their developed market counterparts at -5.3%. Even as closed factories and quarantines drove steep declines in reported PMIs, China’s equity benchmark was actually up slightly for the month at +1.0%. Looking past this notable outlier, all other sectors and countries were down with a fair amount of dispersion. Sector returns ranged from Energy (-12.9%) to Real Estate (-1.1%), while individual country returns ranged from Greece (-22.1%) to Taiwan (-1.9%).

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was hard hit at -8.2%. The energy-related Alerian MLP index was impacted more significantly and returned -14.0%. The near-month NYMEX oil contract was down -13.2% for the month and is now off by -26.7% to start the year. Gold lost some of its safe haven luster, but was relatively stable with a loss of -1.0% for the month. The diversified Bloomberg Commodity index was down -5.0% for the month as broad-based demand for most commodities is thought to be declining in the short run.

Global Markets (continued)

US Treasury (UST) yields declined across the board in February, with historic moves taking place in the second half of the month as the expanding global reach of the coronavirus epidemic consumed media and investor attention. In what remained a favorable environment for fixed income, the high-quality government bond complex returned +2.7% for the month. The yield curve steepened modestly, with the 2-year UST yield falling 40 bps while the 10-year UST yield declined 36 bps and settled at its all-time closing low of 1.15%. As yields for developed market sovereign bonds outside of the US followed a similar pattern, the global stock of negative yielding debt expanded back to nearly \$14.5 trillion.

The BloomBar US Aggregate Bond index underperformed risk-free US Treasuries on both an absolute and duration-matched basis. That said, with a gain of +1.8% in February, the benchmark's trailing 12-month performance of +11.7% has been astonishing given prevailing yield levels. Spreads for IG corporates were another 20 bps wider for the month as investors continue to distance themselves from credit risk. With the robust decline in UST yields overwhelming spread widening across categories, the benchmark's yield-to-worst moved 34 bps lower overall, and now resides at just 1.68%.

The BloomBar 1-15-Year Municipal index returned a respectable +1.0% in February. Despite continued investor demand, tax-exempt issues underperformed amid the powerful interest rate rally. As the yield curve flattened, maturities beyond seven years all finished the month at all-time lows. Municipal/UST ratios generally cheapened back to fair value levels.

The BloomBar US Corporate High Yield index declined -1.4% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 110 bps wider on average, with CCC's hurt most by a steeper credit curve. All-in yields pushed higher, ending at just over 6.2%. 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	-0.16	-0.02
Germany	-0.61	-0.19
France	-0.29	0.12
United Kingdom	0.44	0.82
Spain	0.28	0.46
United States	1.15	1.92
Italy	1.10	1.41
Mexico	6.84	6.89
Brazil	6.68	6.79

Source: Bloomberg

Indices Report (Periods Ending February 29, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-8.23	-8.27	8.19	9.87	9.23	12.65	8.40
Russell 1000	-8.17	-8.07	7.82	9.73	9.00	12.64	8.53
Russell 1000 Growth	-6.81	-4.73	15.11	15.67	12.41	14.79	10.32
Russell 1000 Value	-9.68	-11.63	0.54	3.78	5.51	10.40	6.64
Russell 2500	-8.39	-10.25	-1.80	5.10	5.81	11.21	8.09
Russell 2000	-8.42	-11.36	-4.92	3.52	5.12	10.41	7.24
Russell 2000 Growth	-7.22	-8.24	-0.72	7.85	6.48	12.07	8.42
Russell 2000 Value	-9.72	-14.59	-9.29	-0.83	3.61	8.67	5.94
Wilshire 5000 Cap Wtd	-8.20	-8.19	7.00	9.31	8.89	12.50	8.52
MSCI ACWI	-8.04	-9.03	4.45	7.54	6.12	8.68	6.66
MSCI ACWI ex US	-7.89	-10.35	-0.19	4.66	2.67	4.82	4.75
MSCI EAFE	-9.03	-10.92	-0.05	4.44	2.45	5.32	4.36
MSCI EAFE Local Currency	-8.06	-9.18	1.77	4.00	3.32	7.02	5.36
MSCI EAFE Growth	-8.62	-9.14	5.94	7.72	4.65	6.78	5.43
MSCI EAFE Value	-9.44	-12.71	-6.00	1.15	0.18	3.79	3.21
MSCI Emerging Markets	-5.27	-9.68	-1.51	5.28	3.11	3.54	6.50
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.87	1.41	4.63	2.24	1.62	1.27	2.27
BloomBar US Aggregate	1.80	3.76	11.68	5.01	3.58	3.93	4.41
BloomBar Gov't Bond	2.62	5.10	12.04	4.78	3.18	3.35	3.99
BloomBar US Credit	1.36	3.73	15.30	6.54	4.78	5.50	5.35
BloomBar 10 Yr Municipal	1.18	3.14	9.29	5.53	4.14	4.74	4.82
BloomBar US Corp High Yield	-1.41	-1.38	6.10	4.86	5.19	7.27	7.01
FTSE World Govt Bond	0.99	2.63	8.17	4.54	2.86	2.08	2.99
BloomBar Global Aggregate	0.67	1.96	7.92	4.39	2.90	2.63	3.36
BloomBar Multiverse	0.53	1.72	7.70	4.40	3.04	2.80	3.50
Real Assets							
NCREIF Property	0.00	0.00	6.43	6.71	8.25	10.18	8.34
NFI ODCE Net	0.00	0.00	4.41	6.14	7.99	10.39	6.73
FTSE NAREIT US Real Estate	-8.01	-6.90	4.22	4.38	5.06	11.16	7.84
Bloomberg Commodity	-5.04	-12.03	-11.05	-5.19	-6.20	-5.58	-3.89
Cash and Equivalents							
US T-Bills 90 Day	0.15	0.28	2.18	1.73	1.13	0.61	1.40

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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