

Global Economy

In some sense, the world was more united than it has been in a long time in March. As COVID-19 moves like a tidal wave across the globe, all countries are at different but inevitable stages in addressing the abrupt social and economic impacts of this external health shock. Whereas China has most of its production facilities back on-line, the US has at least another month of recommended social distancing. The lingering effect is not clear, but forecasts show significant GDP declines for Q1 and Q2, with a fairly rapid snapback in the latter part of the year. Monetary policy has delivered rate cuts, unprecedented quantitative easing, and broad support of markets. Fiscal response is also robust, with programs including direct payments to individuals, small business loans/grants, and specific industry support. While markets handled uncertainty in typical risk-off fashion, the sheer speed of valuation adjustments has been historically noteworthy.

The Federal Open Market Committee (FOMC) did not officially meet in March, but instead had two unscheduled announcements in response to the coronavirus challenges. Two rate changes, March 3rd and March 15th, lowered the targeted policy rate by 150 basis points (bps) to a range of 0.00% to 0.25%. In addition, the FOMC began a new round of QE, this time with an essentially unlimited ceiling. It is also acting to support the mortgage-backed securities markets, money markets, and for the first time ever the investment grade corporate market. Chairman Powell commented there are still "arrows in the quiver" to respond to additional stresses in the financial markets and support the flow of credit.

The third estimate of 4Q-19 real GDP remained at an annualized rate of 2.1% as an upward revision to personal consumption was offset by a downward revision to government spending and nonresidential fixed investment. GDP forecasts for the first half of 2020 vary widely, but suggest one of the deepest declines on record given the sudden stop.

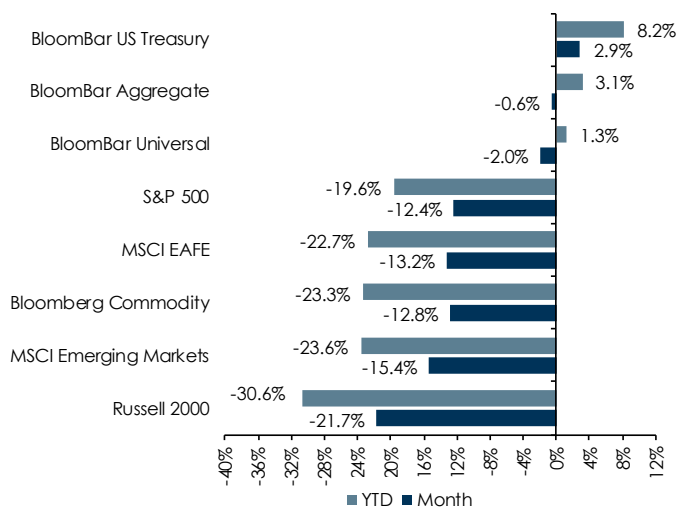
Employment went down by 701,000 in March, a likely precursor to a far greater contraction next month, when 9.9 million of initial unemployment claims from the second half of the month will be recognized. The official unemployment rate advanced 0.9% to 4.4% overall. Although inflation expectations plummeted in March, Core CPI moved up slightly to 2.4% year-over-year, and the FOMC's preferred measure, Core PCE, edged up to 1.8% year-over-year through February.

	Current	Dec-19
US GDP (%)	2.10	2.10
US Unemployment (%)	4.40	3.50
CPI (Core) (%)	2.40	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.67	1.92
S&P 500 Div Yld (%)	2.34	1.82
S&P 500 P/E (Trailing)	17.04	21.60
Gold/oz.	\$1,583.40	\$1,523.10
Oil (Crude)	\$20.48	\$61.06
Gasoline (Natl Avg)	\$2.10	\$2.66
USD/Euro	\$1.10	\$1.12
USD/GBP	\$1.24	\$1.33
Yen/USD	¥107.54	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indices were down materially in March. The S&P 500, which represents large US-based entities, was off -12.4% with substantial daily swings. Healthcare (4.0%) and Consumer Staples (-5.9%) did relatively well, while Financials (-21.5%) and Industrials (-19.3%) had a rough go. Small cap stocks, as represented by the Russell 2000, were shockingly down -21.7%. Among the sectors, Energy (-41.4%), Consumer Discretionary (-36.2%) and Real Estate (-27.0%) were the worst performing, with Utilities (-5.7%) and Consumer Staples (-8.3%) holding up relatively well in a very difficult month. Across the market capitalization spectrum, Value underperformed Growth.

In the broad international developed markets, the MSCI EAFE index surrendered -13.2% as no single sector or country escaped the sell-off. Financials (-22.5%), Real Estate (-20.5%), and Energy (-17.8%) led the declines, with Health Care (-2.3%) and Consumer Staples (-3.8%) being relative sector outperformers. Switzerland (-4.2%) and Japan (-7.0%) held up fairly well, while Australia (-25.1%), France (-17.7%) and the UK (-16.0%) were down notably in March.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down slightly more than their developed market counterparts at -15.4%. China's equity benchmark was notably a relative outperformer (-6.6%), with all other countries double-digit negative ranging from South Korea (-11.5%) to India (-25.1%) and Brazil (-38.2%). The US dollar's strong appreciation against the broad emerging market currency basket contributed to declines.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was dramatically down at -22.6%. The energy-related Alerian MLP index was impacted more significantly and returned -47.2%. The near-month NYMEX oil contract was down -54.2% in March and is now off by -66.5% to start the year. Gold acted as a safe-haven, up slightly at +1.1% for the month. The diversified Bloomberg Commodity index was down -12.8% for the month as broad-based demand for most commodities is thought to be declining until meaningful production resumes across the globe.

Global Markets (continued)

US Treasury (UST) yields declined across the board in March, with historic moves taking place in the first half of the month as the expanding global reach of the coronavirus epidemic consumed media, policymaker, and investor attention. In an environment where demand for the highest-quality US dollar assets was robust, the overall UST complex returned +2.9% for the month. The government yield curve steepened modestly, with the 2-year UST yield falling 67 bps while the 10-year UST yield declined 48 bps and settled at a new month-end low of 0.67%. As yields for developed market sovereign bonds outside of the US moved marginally higher, the global stock of negative yielding debt contracted to \$10.6 trillion.

The BloomBar US Aggregate Bond index again underperformed risk-free US Treasuries on both an absolute and duration-matched basis. That said, even with a loss of -0.6% in March, the benchmark's trailing 12-month performance of +8.9% has been astonishing given prevailing yield levels. In what was termed a "dash for cash," investors distanced themselves from virtually all types of credit risk. IG corporates became unanchored amid a period of extreme illiquidity, and spreads exploded 150 bps wider despite a rally late in the month. With the robust decline in UST yields essentially offsetting wider spreads across categories, the benchmark's yield-to-worst settled at a quite modest 1.59%.

The BloomBar 1-15-Year Municipal index struggled mightily in March, with its -2.9% return pulling year-to-date results into negative territory. With 60 consecutive months of inflows transitioning to record-setting outflows, tax-exempt yields were higher across the curve and lower-rated issues underperformed. Municipal/UST ratios reside at historically cheap levels.

The BloomBar US Corporate High Yield index declined -11.5% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 382 bps wider on average, with CCC's hurt most by a steeper credit curve. All-in yields pushed materially higher, ending at nearly 9.5%. 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	0.01	-0.02
Germany	-0.47	-0.19
France	-0.02	0.12
United Kingdom	0.35	0.82
Spain	0.67	0.46
United States	0.67	1.92
Italy	1.52	1.41
Mexico	7.07	6.89
Brazil	8.62	6.79

Source: Bloomberg

Indices Report (Periods Ending March 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-12.35	-19.60	-6.98	5.10	6.73	10.53	7.58
Russell 1000	-13.21	-20.22	-8.03	4.64	6.22	10.39	7.63
Russell 1000 Growth	-9.84	-14.10	0.91	11.32	10.36	12.97	9.69
Russell 1000 Value	-17.09	-26.73	-17.17	-2.18	1.90	7.67	5.41
Russell 2500	-21.70	-29.72	-22.47	-3.10	0.49	7.73	6.49
Russell 2000	-21.73	-30.61	-23.99	-4.64	-0.25	6.90	5.71
Russell 2000 Growth	-19.10	-25.76	-18.58	0.10	1.70	8.89	7.17
Russell 2000 Value	-24.67	-35.66	-29.64	-9.51	-2.42	4.79	4.11
Wilshire 5000 Cap Wtd	-13.62	-20.70	-8.94	4.09	5.99	10.19	7.60
MSCI ACWI	-13.44	-21.26	-10.76	2.05	3.41	6.45	5.79
MSCI ACWI ex US	-14.40	-23.26	-15.14	-1.48	-0.17	2.52	3.86
MSCI EAFE	-13.25	-22.72	-13.92	-1.33	-0.13	3.20	3.55
MSCI EAFE Local Currency	-12.39	-20.43	-12.12	-1.31	0.34	4.85	4.45
MSCI EAFE Growth	-9.10	-17.41	-5.44	3.39	2.87	5.09	4.93
MSCI EAFE Value	-17.61	-28.08	-22.26	-6.09	-3.26	1.20	2.06
MSCI Emerging Markets	-15.38	-23.57	-17.36	-1.25	0.01	1.04	5.80
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	1.38	2.81	5.43	2.70	1.85	1.43	2.36
BloomBar US Aggregate	-0.59	3.15	8.93	4.82	3.36	3.88	4.40
BloomBar Gov't Bond	2.84	8.08	13.08	5.78	3.63	3.72	4.21
BloomBar US Credit	-6.63	-3.14	5.10	4.19	3.28	4.75	4.95
BloomBar 10 Yr Municipal	-3.43	-0.40	4.00	4.19	3.34	4.45	4.64
BloomBar US Corp High Yield	-11.46	-12.68	-6.94	0.77	2.78	5.64	6.35
FTSE World Govt Bond	-0.61	2.00	6.17	4.27	2.96	2.19	3.04
BloomBar Global Aggregate	-2.24	-0.33	4.20	3.55	2.64	2.47	3.29
BloomBar Multiverse	-2.78	-1.11	3.47	3.37	2.67	2.58	3.40
Real Assets							
NCREIF Property	0.00	0.00	4.54	6.16	7.50	10.09	8.09
NFI ODCE Net	0.00	0.00	3.17	5.60	7.32	10.34	6.44
FTSE NAREIT US Real Estate	-21.92	-27.30	-21.26	-3.14	-0.35	7.40	6.18
Bloomberg Commodity	-12.81	-23.29	-22.31	-8.61	-7.76	-6.74	-4.98
Cash and Equivalents							
US T-Bills 90 Day	0.29	0.57	2.26	1.83	1.19	0.64	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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