MARKET REVIEW & OUTLOOK

MARCH 2020

ASHTON THOMAS PRIVATE WEALTH

MARKET PULSE

KEY TAKEAWAYS

- The historic drop in equity prices continued into March.
- After a brief scare, high-quality fixed income continued to provide good diversification benefits.
- The Fed cut rates 150 basis points and launched $4 trillion in emergency support.[1]
- Congress passed a $2 trillion stimulus package.[2]

BREAKING NEWS

The much anticipated (dreaded?) initial jobless claims report was released Thursday morning. It was as ugly as feared, with the report showing a jump from last week's reading of 3.3 million to 6.6 million[3]. Friday morning, the March Job's report was released…and it was ugly, as anticipated. 701,000 jobs were lost and the unemployment rate soared to 4.4% from 3.5% in March.[4]

Back to our regular programming…

Coronavirus Is Here to Stay

The equity markets started March with a mild reprieve from the late-month selloff in February, finishing the first week of the month nearly flat. However, during the first weekend of March, the dominoes started falling and almost broke the high-quality fixed income market. The one-two punch from coronavirus taking hold in the US and Saudi Arabia abandoning OPEC+ spooked the equity markets and triggered significant selling across the board. Initially, treasuries and high-quality municipal bonds continued to rally. But the cracks started to show in high-quality corporate fixed income,[5] which closed down for the day on March 9th. That was a harbinger of things to come, as the next wave crashed through the entire high-quality fixed income complex.

As was highlighted in our Market Brief piece last week, what happened within the high-quality fixed income space was arguably worse than what we saw in 2008. The equity markets sold off. Treasury yields climbed. Bond prices fell. Credit spreads widened.[6]

It was briefly a worst-case scenario for diversified investors and businesses alike. The Fed stepped in with an emergency relief program for treasuries, while simultaneously throwing in lifelines for municipal bonds and corporate high-quality bonds, tools they did not use in 2008.[7] Fortunately, it appears the strategy worked for now, as we saw a rebound in US fixed income following the Fed's emergency measures.

The Fed action and resulting turnaround in munis and high-quality fixed income added some much-needed ballast to portfolios of investors employing asset allocation. High-quality fixed income, as measured by the Barclays iShares US Aggregate Bond Index, was down only 0.5% for the month.[8] US 10-year treasury bond yields dropped even further in March, blasting through last month's record lows and touching an astounding 0.40% on March 9th.[9] The yield ended at 0.68%, down significantly from last month's close of 1.13%. The Fed also cut interest rates by 1.5% in an emergency measure.[10]

During the month, stock market results ended very weak, with the Dow dropping -13.7%,[11] the S&P 500 sliding -12.5%[12] and the small cap Russell 2000 plummeting -21.9%.[13] The international markets were also weak: the MSCI EAFE International Developed Markets Index fell -14.6%[14] and MSCI Emerging Markets index plunged -16.9%.[15]

Source: [ZeroHedge]

As with February, there were no sector winners in March, with the worst performers being…[16]

- Energy: -35.8%
- Financials: -21.7%
- Industrials: -19.3%
- Real Estate: -15.7%

Oil prices started out the month benignly enough, but the Saudi's effectively tossed OPEC and sent the oil markets into a tailspin. This was further compounded by the impacts of the pandemic. The lockdowns have dramatically reduced oil demand in an already oversupplied oil market. The net result is two-fold: first, the amount of storage for additional output is very limited and, second, some land-locked oil supplies in the US have actually seen negative prices.[17] As a result, March Nymex crude oil futures settled at $20.48, tumbling from $47.09 a barrel, posting a loss of almost 57%[18] and continuing the year-to-date weakness. The price for RBOB gasoline followed a similar path to crude oil, as prices got crushed when the Saudi news hit, closing lower by over 61% for the month.[19] Last month's comment regarding the summer driving season price bump being put on hold proved true, as prices at the pump have continued their fall. The lockdowns could potentially result in no summer driving season for 2020 if the coronavirus-related uncertainty persists.

Economic indicators showed the US economy was on good footing before the COVID-19 pandemic took hold in March. The February ISM Manufacturing PMI Index eased 0.8 points to 50.1 from January's reading of 50.9.[20] Additionally, the ISM Services NMI Index climbed again to 57.3 from 55.5 in January.[21] Any reading above 50 generally indicates improving conditions, though the reprieve is likely to be short-lived with the lockdowns from the COVID-19 pandemic continuing. Consumer confidence dropped sharply in March to 120.0 from an upwardly revised 132.6 in February,[22] as the severity of the pandemic became more apparent. The unemployment rate fell slightly in February to 3.5% and the economy added a stronger-than-expected 273,000 to non-farm payrolls.[23] With the initial jobless claims number last week coming in at 3.3 million,[24] the March employment report is likely to show significant weakness. The Consumer Price Index for All Urban Consumers (CPI-U) rose again by +0.1% in February on a seasonally-adjusted basis. Over the last 12 months, the all-items index rose

Source: [ZeroHedge]

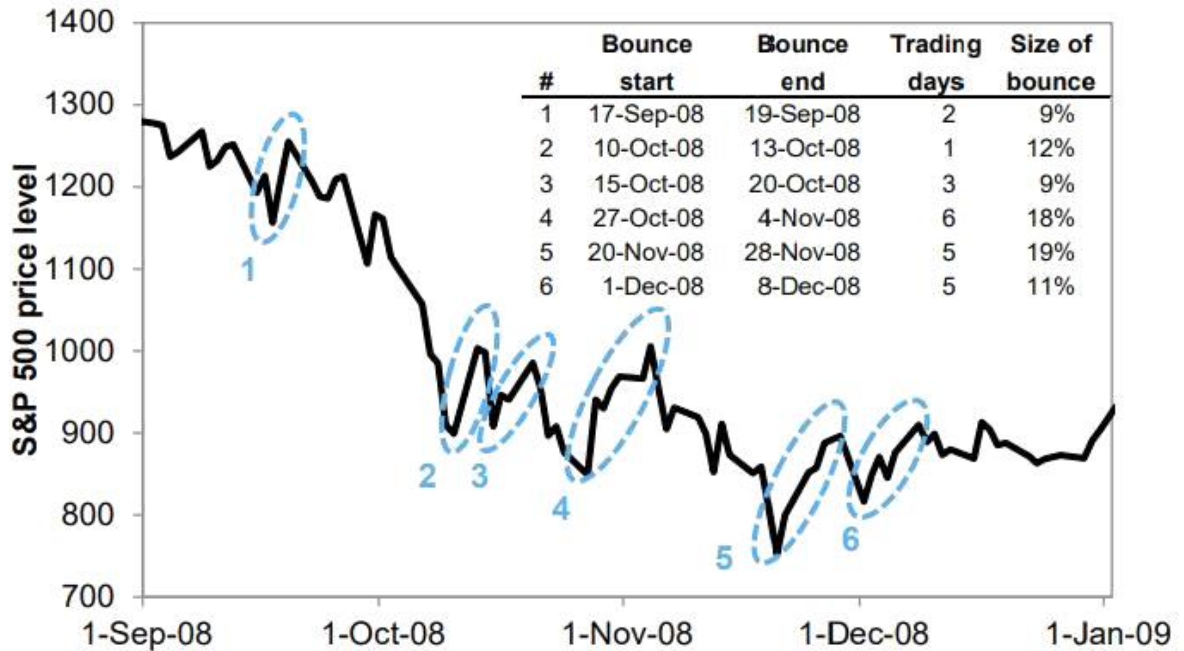
+2.3% on a non-seasonally-adjusted basis.[25] Overall, these backward-looking numbers are history at this point and the forward outlook has an unprecedented amount of negative uncertainty.

Global growth is on hold with the world in lockdown due to COVID-19. There is no longer a question of if this pandemic will impact the economy and earnings. The question is now how long will the shutdown last and how deeply will the economic impact be felt. The economic forecasts out of the likes of Goldman Sachs and JP Morgan harken one back to the Great Depression era, at least as far second quarter projections go. On the flip side, they are also forecasting the strongest quarterly growth in US history for the third quarter of 2020.[26]

Right now, the markets appear to be in a tug-of-war between the apparent seriousness of the coronavirus pandemic and the mantra of do-not-fight-the-Fed (or any central bank, for that matter). Add to that the unknowns of the massive stimulus package recently passed by the US Congress and signed by the President, as well as other fiscal rescue efforts like it around the world. With so many unknowns stemming from the impact of COVID-19 and the abundant news flow every day, market turmoil is likely to continue in the near term.

You should discuss any questions about your allocation with your advisor. Stretching for additional risk or trying to “time the bottom” are generally not advisable at any time, much less now. For those who utilize them, our tactical third-party strategists will continue to employ risk-on and risk-off measures based on their philosophies and trading methodologies. Most importantly, our advisors remain focused on helping their clients appropriately manage risk levels and corresponding asset allocations in line with their financial goals. This balanced approach helps reduce the scramble for unnecessary answers or novel ideas during times of market turmoil such as we have witnessed this year.

We, along with your advisor, will continue to monitor the situation and provide additional updates as merited.



#	Bounce start	Bounce end	Trading days	Size of bounce
1	17-Sep-08	19-Sep-08	2	9%
2	10-Oct-08	13-Oct-08	1	12%
3	15-Oct-08	20-Oct-08	3	9%
4	27-Oct-08	4-Nov-08	6	18%
5	20-Nov-08	28-Nov-08	5	19%
6	1-Dec-08	8-Dec-08	5	11%

Source: ZeroHedge, Goldman Sachs Global Investors

IMPLICATIONS FOR YOUR FINANCIAL PICTURE

Here are some key points to bear in mind when discussing your portfolio and your financial goals with your advisor…

- ***You***: Volatility in the markets is likely to continue. Stay focused on the long-term. Keep your primary goals and objectives in mind. Now, more than ever, having a vibrant financial plan aligned with an appropriate asset allocation strategy is key to your financial wellbeing.
- ***Your Advisor***: We will continue to support your advisor in evaluating your risk profile, your financial goals and your portfolio allocation. As economic conditions change, we will be watchful and keep you informed. We will continue to follow the pandemic and other developments and advise you accordingly. Most importantly, be sure to communicate with your advisor and keep your financial plan up to date.

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Ashton Thomas Private Wealth

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