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Market Review **APRIL 2020**

The effects of the Coronavirus crisis are now beginning to show up in earnings and economic data. Economic numbers have deteriorated, but shrinking economies come as no surprise to anyone given the widespread impacts of COVID-19. The US economy contracted at an annualized rate of -4.8% in the first quarter of 2020 and unemployment claims have climbed into the millions. The Eurozone saw similar annualized declines in GDP of -3.8% annualized as a whole.

However, fiscal policy response was especially fast and prepared for the crisis. The US has led in terms of fiscal spending as a percent of GDP compared to other countries. US legislatures have passed multiple spending bills, which now exceed $3 trillion, since the start of the outbreak. The ability to get cash in the hands of Americans is crucial in times like this and it helps buy time when waiting for the next economic recovery.

Worldwide efforts to stabilize the average interest rate on debt is another important development being led by the central banks. The US Federal Reserve Bank has flooded global capital markets with liquidity, helping to move cash onto individual and corporate balance sheets. Bank facilities remain open to secure the financing of small and large companies alike and policies have been contrived that purchase a range of investment assets. Central bank backstops in investment markets are indirectly producing cash liquidity for owners of equities and bonds.

Indicators of global economic activity, such as the overall stock market, turn negative prior to an economic slowdown. Expectations baked into market prices and interest rates foreshadow economic activity, and this will continue to occur which may help identify the shape of a recovery and future growth. Since near-term growth is presently sapped by the Coronavirus, short-term index returns on global equities still remain negative across the board. These losses will begin to average out into the longer-term gain history once the recovery is well underway.

The countermeasures to keep a lot of businesses out of bankruptcy has so far been successful. One of the most important measures was to ensure corporations and financial institutions had ample supply of financial capital. Capital has come mostly in the form of new debt borrowings as of late. As a result, the raising of cash by new bond offerings is higher today than in prior years. The fact that credit markets are functioning is an encouraging sign for a quicker recovery. Another optimistic scenario is corporate interest rates have already fallen from their peak.

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Keeping companies capitalized when their sales are declining is a first step to save the future of specific industries. Before the crisis, company capital was internally generated by earnings. But now that earnings power has temporarily diminished, companies have turned to debt markets and may eventually be required to sell new equity. As companies move to raise and preserve capital, the downside effects include cuts to prior dividend and share buyback policies. Additionally, future debt service and payback must come from future earnings and new equity issuance will dilute existing shareholder positions. The downside effects may weigh on equity performance for some time.

Immediate bad news about dividends and capital structure, however, can actually be seen as good news for the long-term prospects of a public company. For companies that have already cut the dividend or issued new equity shares, credit rating agencies are viewing this as a positive credit event. Being able to maintain a credit rating in this crisis is beneficial for investor sentiment and it may even be able to indirectly support the equity prices for such companies.

The Coronavirus pandemic has already produced erratic movements in investment prices. There is no perfect indication of how long this level of uncertainty will go on and what effect it has on economic growth in the next 5 to 10 years. In a crisis, it is sometimes better to view investments like ownership in a house. There is only a reason to sell after the asset is no longer needed for use. In other words, being patient can usually result in a buyer willing to pay a higher price, once an investor outgrows the need of financial investments.

Asset Categories	US STOCKS	FOREIGN STOCKS	US BONDS	FOREIGN BONDS	HARD ASSETS	HYBRIDS
Monthly	12.93%	9.22%	3.10%	2.80%	3.18%	10.33%
Year to Date	-17.29%	-18.79%	-2.26%	-7.21%	-23.00%	-6.59%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING APRIL 30, 2020.

US STOCKS

US Stocks recovered strongly in the month April. The broad categories of stocks nearly retraced half of the current year's cumulative losses in a single month. Small-cap ownership led in April with total returns of 13.5%. The large-cap stock category advanced almost 12.0%. Small-caps however still have year-to-date losses close to -23.4%. Similar losses in large-caps come in around -11.5%.

FOREIGN STOCKS

Foreign Stocks also recaptured earlier losses of the year. The generalized average return in April was 9.2% for the category. Similarly to US stocks, small-caps experienced the best return in April, but also possess deeper recovery losses since the beginning of the year. Developed category stocks rose 7.1% last month, which narrowed their year-to-date losses to -17.9%. The emerging-market category produced a return of 9.6% and now holds full-year performance of -18.0%.

US BONDS

US Bonds experienced a month of gains in April. That has helped narrow or eliminate prior losses held on the year. Investment rated corporate bonds returned almost 5.0% and made performance essentially flat for the year. High-yield bonds did well in April and returned 3.4%. That category average, however, remains down -9.6% for the year. Performance in bank loans has tracked closely to high-yield returns.

FOREIGN BONDS

Foreign Bonds also rose with the tides in April. The world bond category average produced a monthly return of 2.6%. Year-to-date, the same category is down only -2.6%. Emerging-market bonds, however, are another story. That category average made a return of 3.0% in April, but the full year performance of -11.8 significantly lags behind the performances of many other types of bond investments.

HARD ASSETS

Hard Assets were able to overcome deep losses in energy to etch out a small gain on average. Precious metal and US real-estate earned respective monthly returns of 8.0% and 10.3%. Energy prices fell on more hard times on oversupplies and diminishing demand of the commodity. The energy category loss -13.1% last month, which deepened the full-year losses to -55.7%.

HYBRIDS

Hybrids rocketed back in April. The full category average returned 10.3% last month. Performance in convertible bonds and preferred stock shared in almost equally in terms of performance last month. The full-year performance of convertible bonds, however, is better relative to preferred stock. Convertible bond is down -3.1% for the year while preferred stock retreated -9.6%.

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