Investment Update for the week of April 6th, 2020

- **Global Markets: Stocks closed out their worst quarter since 2008**

  - **U.S. Equities** ended the week lower and finished the worst quarter in over a decade, with the S&P 500 Index off roughly 20% over Q1. Within the S&P, more cyclical sectors proved more vulnerable. Energy was a standout, shedding about half its value relative to the end of 2019, with the pain only exacerbated by a oil price war. Other notable year-to-date laggards include financials (-36%) and industrials (-31%). Both sectors are facing severe headwinds, whether it be lower rates for financials or lower manufacturing activity and capex for industrials. On a more positive note, more demand defensive sectors such as consumer staples (-11%) and healthcare (-15%) generally fared the best. The IT sector (-16%) also performed relatively well given increased demand for a variety of products that enable remote work. Elsewhere in markets, large-caps outpaced small-caps while growth continued to lead value by a sizeable margin.

  - **International Equities** followed suit, closing one of the worst quarters in recent record. Most non-U.S. indices underperformed domestic counterparts as U.S. dollar strength proved to be an additional headwind. While emerging markets outperformed developed, non-U.S. counterparts last week, both the MSCI EM Index and developed, MSCI EAFE Index were both down roughly 25% so far this year.

  - **Credit Markets** were mixed as yields fell but spreads widened. The benchmark U.S. Treasury 10-year yield fell back to its lowest level in over a month of just under 60 basis points (0.60%). The municipal market continued to struggle, extending its underperformance relative to treasuries. This reflects technical headwinds including liquidity strains, although these challenges are starting to show signs of normalization. In the corporate credit market, investment grade insurance was heavy as firms sought to shore up capital reserves to weather the current shutdown. High yield also saw some renewed issuance after a three-week period of little-to-no activity.

- **Economic Data/News: Containment struggles contributed to the largest U.S. weekly unemployment claim ever**

  - **U.S.**: Recently released jobs data continues to demonstrate the coronavirus' profound impact on the employment market. The last weekly initial jobless claims set a new all-time record of over 6.6 million claims. Nonfarm payrolls also came in many multiples below consensus. Both of these events put an end to an historic streak of job growth and raised the unemployment rate to 4.4%, up from prior 50-year lows. On a more positive note, ISM's non-manufacturing index showed continued expansion in March, against expectations for a larger contraction. In terms of the coronavirus, areas of the country, like the northeast, are likely getting closer to their peak point of infections. This presents the possibility that the biggest strain on the healthcare sector could be behind us – at least for this wave. Outside of the northeast, the lockdown continues to expand bringing more of the domestic economy offline for the time being.

  - **International:** In Europe, deaths from the coronavirus accelerated in a variety of harder hit countries including Italy, France, Spain, Germany and the U.K. While the pace of mortality is seeing new heights, the number of new cases and admissions to ICUs is showing signs of slowing. Similar to in the U.S., we're only starting to understand the full economic implications on the coronavirus in Europe. Early signs suggest that there will be a dramatic rise in unemployment and decline in GDP. Asia is also digesting the full economic ramifications of the coronavirus, although a number of key nations appear to be further along in their containment efforts. Importantly, China's PMIs rebounded in March as the country is among the first to come back online after being the origin of the virus. Hopefully, a quick recovery in China offers a parallel for other countries coming partially back online in the future as different levels of containment are reached.

- **Odds and Ends: Large restaurant and hotel chains could be eligible for SBA loans, CVS starts drive-thru testing, and the Bill and Melinda Gates Foundation offers billions in funding to accelerate vaccine development**

    - The Paycheck Protection Program within the CARES Act was aimed at businesses with 500 or less employees. That said, it's possible that larger companies will also be eligible. For example, Shake Shack employs nearly 8,000 employees and had about half a billion in revenue last year. Despite its size, it plans to apply for government guaranteed small-business loan as its sales collapsed during the current crisis. The company has been particularly hard hit as many of its locations are in high traffic urban areas, such as NYC. Notably, larger businesses throwing their hat in the ring for relief is creating controversy for smaller-sized businesses with limited lifelines during this challenging period.

    - In the race to figure out testing logistics, **CVS** is starting to offer drive-thru testing in two centers early this week. CVS will be using an Abbott Labs developed test that can detect the virus in a patient in as little as 5 to 13 minutes, depending on the diagnosis. The tests will be offered for free and will only be offered outside of the stores. So far, early 'test' test centers will be in Georgia and Rhode Island with the intention to rollout additional facilities throughout the country.

    - On a recent interview with Trevor Noah from the Daily Show, **Bill Gates** revealed his foundation's intent of investing billions of dollars in developing and facilitating production of seven of the most promising current vaccine candidates. While he acknowledges that much of the money could go to waste as potential vaccines fail trials, it could help accelerate the speed to which a vaccine could be distributed to the world and life could more fully return to normal. He has also been a strong proponent of social distancing since the earlier days of the virus to prevent a 'nightmare scenario' where a more rapid spread would more fully overwhelm the healthcare system and result in more deaths.

- **Resource of the week:** Recent steep declines and extreme volatility within equity markets likely have many of us scratching our heads as to how to take advantage of this distressed market environment. The recent episode of *Invest Like the Best* features a conversation with Gavin Baker who is the CIO of Atreides Management. The conversation focuses on how the investing landscape has evolved and its potential future iterations. As Winston Churchill said, "never waste a good crisis." Please feel free to submit suggested resources to smelnick@sfr1.com.

    - **Link**: http://investorfieldguide.com/baker2/
    - **Spotify link:** https://open.spotify.com/episode/1dOBHDNiEZ4JIawpmO7ISd

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update

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