



Investment Update for the week of April 27th, 2020

- **Global Markets: Stocks fell back as oil prices initially turned negative but then rebounded**
 - **U.S. Equities** declined moderately over the week represented by most major domestic indices. The S&P 500 Index fell by -1.3% while the Wilshire 5000, a broader depiction of domestic equities, fell only -1.1% supported by a very small increase in small-cap stocks. Investors started to react to some disappointing first-quarter earnings reports and oil prices' plunge to negative rates. On Monday April 20th, the May futures contract for crude oil closed at -\$37.63, implying that buyers of these long futures were literally being paid to receive and store each barrel of oil. There are many theories why this plunge to negative prices occurred, but without a doubt the most prevalent concern behind it all is the decline in energy demand and what it means for the broader global economy. On Tuesday oil futures rebounded back into positive territory but left a shocking imprint in the history books. Within sectors of the S&P 500, all of them declined aside from energy (+1.9%) and communication services (+0.6%). The hardest hit areas were real estate (-4.4%) and utilities (-3.8%). As measured by their respective Russell indices, growth exceeded value while small-cap exceeded large-cap stocks.
 - **International Equities** around the world mostly declined circulating around a few similar concerns – individual country efforts to utilize government policies for stimulus packages, the historical crash in oil prices, and the disappointing news of a coronavirus drug treatment trial failure in China. The latter story is based on preliminary reports that Gilead Sciences' potential drug treatment, remdesivir, had failed in early clinical trials that were conducted in China. Ironically, this came about a week after markets rallied following rumors that the same drug was achieving early success in similar trials conducted in the U.S. Within non-U.S. markets, the MSCI EAFE Index declined by -2.0%, which on a relative basis beat the MSCI Emerging Markets Index falling -2.4%.
 - **Credit Markets** fell in some sectors and rose in others. High quality investment grade corporates took a hit when oil futures turned negative but remained flat to a slightly positive over the week. The Bloomberg Barclays U.S. Aggregate Index rose +0.24% and the 10-year Treasury bond yield fell slightly to close at 0.6%. Opposite this, municipal bonds declined based on credit concerns generated on the back of Senate Majority Leader Mitch McConnell's statement. He said that Republicans would be unwilling to bail out underfunded state pensions and instead opt for those states to file bankruptcy. Naturally, this rattled some investors of municipal bonds, an asset class normally considered a safe investment haven in fixed income outside of Treasuries.
- **Economic Data/News: Positive sentiment is supported by the passage of a new stimulus bill and decline in weekly jobless claims**
 - **U.S.:** Despite the numerous negative earnings releases from the first quarter, there were a few positive surprises from companies who have been able to weather the social distancing measures like Netflix (NFLX) and Intel (INTC). A new swiftly moving stimulus bill worth \$484 billion was put into law moving between government branches throughout the week. It aims to provide additional relief loans to small businesses impacted during this pandemic, and to provide funding for further coronavirus testing and hospitals that need financial help. During last week, a report indicated an additional 4.4 million

Americans filed initial jobless claims during the week ended on April 18th bringing the five-week total to more than 26 million people. However, it also was the third week of claims totals which had declined from the week prior, a positive sign. Not all news is positive though as the National Association of Realtors reported that existing home sales fell to their lowest level in a year in March, before the broad economic shutdown was in full effect. This also means existing home sales may even worsen when April's numbers are released.

- **International:** The European Union agreed that some type of an additional fiscal stimulus is necessary to provide further relief to countries' economies, but they did not agree on the size of the package and in what fashion funds will be distributed. This drama unfolded as the IHS Markit Eurozone PMI composite fell to 13.5 from 29.7, its lower level ever. For reference, a reading below 50 indicates an economic contraction. Elsewhere, the Bank of Japan is considering changing its bond buying program in two sectors – government bonds from ¥80 trillion annually to unlimited purchases and doubling corporate bonds from ¥4.2 trillion annually to more than ¥8 trillion. The hope is that these continued federal reserve actions can defer or reverse the expected downward economic forecasts. China is looking past the coronavirus, believing they have beaten it and is actively pushing forward actions to invigorate the economy. This includes increasing their stimulus package offering and restoring business activities with other nations as quickly and safely as possible. This comes after their economic policy body, Politburo, resorted to ensuring stability and growth measures in essential areas rather than targeting specific figures risking a failure to meet any of them.
- **Odds and Ends: Countries and states varied approaches to reopen, beer everywhere is going stale, and sports fans are excited for any type of organized sports or even documentaries**
 - The overriding question people worldwide are wondering is when and how their life may begin to revert back to normal. This requires individual cities, states, and even countries to begin opening parts of their economy again, when they feel is appropriate based on coronavirus-related measures. Countries like China are very far along in their reopening process since they seem to have the virus under control, while Italy, Spain, Israel, and Iran are opening facets of their economy slower incorporating precautionary methods. In the U.S., individual states are operating on different schedules according to how each of their governors interprets the pandemic is being handled locally. For instance, Georgia and South Carolina have already taken some early steps to reopen small parts of their states, while California, New York, and New Jersey remain in full lockdown effect for the time being, hoping the situation improves further and soon.
 - As bars, restaurants, stadiums, and other gathering venues prepared for celebrations in advance of March Madness and St. Patrick's Day, they stocked up on beverages including beer. Unfortunately, beer is a perishable item which is close to or may have already spoiled sitting unconsumed in containers while those establishments remain closed. Some places who are open for "curbside pick-up" are selling small sizes of this for public consumption, but nowhere near to the extent that was prepared in advance of the large celebrations mentioned earlier. There is no clear answer what will happen with the excess supply beer (some of which is being sent to distilleries to be made into hand sanitizer), but for now enjoy it while you can.
 - With organized sports worldwide cancelling almost all scheduled events to fight the spread of the virus, sports fans are reaching for anything to fill that void. Most of us have succumbed to watching reruns of past "classic" events, which is better than nothing but not comparable to live sports. What started as a mere idea, is developing into more of a possible reality as **Major League Baseball (MLB)** considers playing the 2020 season in empty stadiums without fans, all located in Arizona. There are several

hurdles to overcome but fans are eagerly awaiting to see what happens. In the meantime, the ESPN documentary titled “The Last Dance” offers a deep look at the **Chicago Bulls** championship run in the NBA during the late 1990s. At the very least, this is new programming on live television, and hopes to attract viewers who are greatly missing the NBA playoffs this year.

- **Resource of the week:** Helping many people through difficult situations which require making many important decisions often requires critical thinking with rationale thought behind it. This episode focuses on exactly that – how to make important decisions given either complicated or complex background information. This conversation between Brian Portnoy, Jonathan Novy, and Annie Duke discusses these factors. Oftentimes people misinterpret a situation based on misinformation, but in reality the situation cannot be fully understood since there is information that’s unknown, unpredictable, and even unknowable. It is an interesting episode, so please listen and learn more. Please feel free to submit suggested resources to smelnick@sfr1.com.
 - **Spotify:**
<https://open.spotify.com/episode/0SUqRG69nQHAKXsoEmZoaa?si=SgiKZbUFT5u5pgUcEmGJBA>

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

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