Investment Update for the week of May 11th, 2020

- **Global Markets: Another strong week for equity markets brought indices closer to pre-pandemic levels**

  - An impressive rebound for **U.S. Equities** contributed in large-cap indices only being down single-digits so far in 2020. Resilience in technology and healthcare stocks have even contributed to the NASDAQ being ***up*** 2.1% year-to-date through the close of last week. The more broad-based S&P 500 Index rose 3.6% last week. Top performing sectors included energy (8.3%) and information technology (6.7%). The energy sector was helped by a slowing rise in domestic crude oil inventories while the technology sector was aided by a steady gain in Apple's share price, a large constituent. The utilities (0.6%) and consumer staples (0.9%) sectors lagged stemming from a risk-on stance by the market. Small-caps (5.5%) also outpaced large-caps (3.9%) for a similar reason, based on the respective Russell indices (Russell 2000 and Russell 1000, respectively).

  - **International Equities** generally rose last week but underperformed domestic counterparts. The developed, non-U.S. - MSCI EAFE Index rose 0.9% for the week. Emerging Market equities lagged and produced a negative return (-0.5%). Latin America equities continued to fare poorly through this crisis and the MSCI EM LatAm index remains down over 40% year-to-date.

  - **Credit Markets** were again mixed against a backdrop of slightly rising U.S. Treasury yields. The Treasury Department's intent of ramping up the issuance of long-term debt to finance the deficit kept some upward pressure on bonds with longer maturities. While Treasury yields have risen modestly since historic lows reached earlier in the year, Fed Funds Futures are implying that rates will remain low, and potentially negative, for the next year. The broad municipal market had positive performance last week as higher yields were enough to attract back some buyers. The investment grade market fell based on reduced demand from international buyers, while the high-yield market was positive based on better than expected corporate earnings from participants with key sectors (mainly energy).

- **Economic Data/News: Recently released data demonstrates the extent of the current pandemic on the economy**

  - **U.S.:** Economic data released last week continued to show an unprecedented contraction in the economy. Both ISM indices for servicing and manufacturing fell more than expected in April. Perhaps the most prominent news was an additional 3.2 million Americans filing for unemployment, translating to a 14.7% unemployment rate – the highest level since the Great Depression. Despite the poor data, investors appeared hopeful that things were starting to bottom. Additionally, there are expectations that many of the recently unemployed could be rehired within the next six-months. Despite a fair level of optimism, the possibility of another escalation of the trade war between the U.S. and China added another layer of complexity to the situation.

- **International:** The European Commission expects that the coronavirus would contribute to a record contraction of nearly 8% in the Eurozone economy over 2020. Like the in U.S., the silver lining is that many expect things to bounce back in 2021 as conditions normalize. Many European nations continue to work through or announce exit plans from coronavirus lockdowns. In Japan, the yen's status as one of the core global reserve currencies has contributed to its strength over a general flight-to-quality. The Bank of Japan continues to expand its balance sheet as it sought to help its economy from experiencing a severe recession. In China, reports of confirmed coronavirus cases continue to fade and life is reportedly returning to normal. China's economic data has been mixed so far. Sales activity over the Labor Day holiday was underwhelming while a March exports print was better than expected. Also noteworthy was Chinas' removal of A-share quotas, which should help bolster foreign ownership in Chinese equities.

- **Odds and Ends: Disney tests reopening in China, rethinking the office, and we say goodbye to Frank Constanza (Jerry Stiller)**

  - **Disney** is starting to test the water within the tourism industry as it re-opened its Shanghai Disneyland location. As you might expect, all guests streamed in with face masks and social distancing was practiced as patrons waited in line. The park is also limiting the number of visitors as it seeks to adapt its business model to the 'new normal.' The company is early in a large-scale effort of companies seeking to adapt their business models for the current landscape.

  - Many of us at home are wondering what a return to the office might look like. Employers and consultants are also pondering the same question and early indications suggest there will be many changes. Cafeterias will be closed, coffee makers will be absent and desks will be separated by at least 6-feet and include partitions. This stands in stark contrast to recent open floorplan office trends and a focus on communal spaces.

  - Jerry Stiller, famously known for playing George's Dad on Seinfeld, passed away from natural causes over the weekend. Stiller was 92 and is also known for being the father of comedian Ben Stiller. Stiller had an impressive career spanning more than 50 years. Early on, Stiller and his wife, Meara made multiple appearances on a variety of stages including the Ed Sullivan Show. After a bit of a lull, Stiller prominently returned to the world stage as the unforgettable Frank Constanza, who brought us many of Seinfeld's greatest moments. He also played Kevin James' father on *King of Queens*. He will be greatly missed by many, including countless Seinfeld fans.

- **Resource of the week:** Nearly no market has been immune from the effects of the coronavirus. While it is easier to get a pulse on public markets, private markets can be harder to gauge. This *Invest Like the Best* episode features on a conversation with Coventure's Ali Hamed, who discusses what's happened so far, what parts of the market are frozen, and where opportunities may lie. The conversation also discusses about how the world has shifted digitally since the beginning of the COVID pandemic. Please feel free to submit suggested resources to smelnick@sfr1.com.
  - **Podcast link**: http://investorfieldguide.com/ali-hamed-an-update-on-private-credit-invest-like-the-best-ep-172/
  - **Spotify link**: https://open.spotify.com/episode/0qK6jn48pX2H7auQklqRrv

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

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