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A REGISTERED INVESTMENT ADVISOR

Investment Review & Outlook
2020 First Quarter Investment Market Report

You have managed to live through the worst first quarter on record in the U.S. investment markets. To put it mildly, the decade is not starting off well. You also endured the fastest, longest, hardest roller coaster ride in market history, as measured by the VIX volatility index. Basically, that means that one day the markets were down at record or near-record levels, and then as we thought perhaps the bear market would continue, we experienced near-record one-day gains.

The previous record for instability in the stock market was an eight day stretch in November of 2008, when the markets seemed to be gyrating up and down uncontrollably after traders realized the full implications of the collapse of Lehman Brothers. At the end of this recent first quarter, the CBOE Volatility Index (VIX), presented us with a record 10-day run with the index above 60. (The long-term average for marketing volatility, as measured by the VIX index, is 20.)

Just about every investment saw declines in 2020's disastrous first quarter. The S&P 500 Index of large company stocks was down 20.00% for the first quarter, with 12.52% of that drop coming in the month of March. Meanwhile, the Russell Midcap Index suffered a 25.66% decline in the first three months of 2020. The Russell 2000 Small-Cap Index was down 30.61% during the year's first three months. The technology-heavy Nasdaq Composite Index was down 13.10% for the year.

International investors are basically in the same boat. The broad-based EAFE Index of companies in developed foreign economies lost 23.43% in the first quarter. In aggregate, European stocks were down 24.81% for the quarter, while EAFE's Far East Index lost 18.15%. Emerging market stocks of less developed countries, as represented by the EAFE EM Index, fell 23.87% in dollar terms in the first quarter.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT Index, posted a 25.63% decline during the year's first quarter. The S&P GSCI Index, which measures commodities returns, fell 42.34% in the first quarter, largely due to a 37.67% drop in petroleum returns and a 17.11% drop in gold investments.

In the bond markets, the inversion in the yield curve has righted itself, though rates are at historic lows. Coupon rates on 10-year Treasury Notes have dropped to 1.50%, while 3 month, 6-month and 12 month T-Bills are now sporting coupon rates slightly above 0%. Five-year municipal bonds are yielding, on average, 1.17% a year, while 30-year munis are yielding 2.08% on average.

You don't have to ask why Wall Street traders abandoned stocks in near panic mode. The coronavirus epidemic, social distancing and the closure of home offices, malls, theaters and anywhere else where people once gathered to work has raised uncertainty about the extent of business disruption in the U.S. and world economies. A record-shattering 3.3 million people applied for unemployment benefits in a single week at the end of the quarter. With so much of our economy shut down until further notice, it is hard to imagine that we will avoid a recession in the first half of 2020.

All is not lost though. There is every reason to believe that U.S. jobs will be back and unemployment rates will fall considerably as the states reopen businesses. To staunch the bleeding, America's central bank is pouring more trillions of dollars in loans and asset purchases into the U.S. financial system—an unprecedented commitment. The newly-passed CARES aid package is worth an aggregate $2.2 trillion more, $377 billion of which will be used for loans to businesses that are having trouble meeting their payrolls while they sit on the economic sidelines, $560 billion for individuals and families, $500 billion in outright grants to large corporations, and $340 billion set aside for state and local governments with more possibly to come.

There are times when we all face challenges more important than the ups and downs of the markets, and this time certainly qualifies. Staying safe, staying well, staying alive and keeping our loved ones out of harm's way takes priority in this global pandemic. We are, of course, monitoring the markets. Just like in 2007-2009, we have to believe in the resilience of capitalism to weather yet another "once in a century" storm, and in the value of persistence while many investors are making decisions out of panic.

We all have much to be grateful for. We look forward to a time after this pandemic has swept across the world when we have more to be grateful for, including the safety of our loved ones, and a return of value to our portfolios and to our country's economic well-being.

The FAM Team