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Q1 | 2020

Quarterly Market Review

STRATEGIES

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The Economy in Review Q1 2020

Unexpected threats
After a very strong 2019 and a generally optimistic outlook going into 2020 due to the partial resolution of trade tensions with China, the global economy experienced several unexpected shocks in the first quarter of this year. Early in January, tensions flared in the Middle East, and the prospect of a hot war between the U.S. and Iran was a live possibility. Oil rallied and equities dipped temporarily, but de-escalation happened quickly and sentiment rebounded.

Next came a new threat to the global economy, the outbreak of a novel coronavirus in China in mid-January. At first the outbreak was viewed as an isolated case in China, potentially impacting global supply chains but not likely to dampen economic activity in any meaningful way. China's aggressive suppression of the virus validated that thinking, and equity markets continued higher into the middle of February.

COVID-19
It soon became apparent that the impact of the virus was much bigger than just a supply shock confined to China. New cases surged in countries around the globe, with first Europe and then the United States becoming regional epicenters.

As more data around the virus became available, measures were taken to lockdown economic activity to slow the spread and to relieve strain on medical capacity. This sudden stop meant the virus was now both a demand and a supply

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shock, and was no longer confined to China but rather was depressing economic activity across the globe.

Oil shock

As the economy came to a screeching halt around the world, talks over future production cuts within the OPEC+ cartel broke down and Saudi Arabia launched an oil price war, causing crude oil to plunge to its lowest price since 2002. The shockwave reverberated through markets, adding to concerns over credit and forcing liquidation of securities to backstop economic activity and meet margin calls.

Policymakers to the rescue

Into the breach stepped policymakers, both monetary and fiscal. The Federal Reserve cut rates 150 basis points in March in two emergency meetings, taking their rate back to the zero-lower bound. They also rolled out various facilities from the Great Financial Crisis to backstop markets. These actions were matched by central bankers across the globe. On the fiscal side, governments have passed historic stimulus bills to try to cushion the blow of the public health measures taken thus far.

Outlook: Grappling with uncertainty

Looking forward to Q2 and beyond, markets are on a firmer footing than they were in the dire weeks in the middle of March. Equity markets have bounced off the lows, credit spreads are tighter, and government bond markets are functioning much better. Volatility across asset classes has declined, but still remains elevated. With the support provided by fiscal and monetary authorities across the world, the focus shifts to public health considerations, specifically how long the rolling lockdowns are necessary and the shape of the eventual recovery in economic activity.

The quarter ended with grim uncertainty, around both the extent of the human tragedy and the economic impact of lockdown measures. Scientific endeavors are racing against the clock to develop effective testing and treatments, and better data modeling will allow for clarity around the timing and details of societal restart. Understanding these factors will be key to the outlook for the rest of 2020.

	Global Market Indicators	Q1 2020	10 Year Annualized
GROWTH	CPI	**2.30%**	**1.78%**
	World GDP	**2.88%**	**3.74%**
	US GDP	**2.30%**	**2.29%**
	10 Yr Yield	**0.67%**	**2.30%**
	VIX	**53.54**	**17.51**
RETURNS	S&P	**-19.60%**	**10.53%**
	DJIA	**-22.73%**	**10.00%**
	Russell 2000	**-30.61%**	**6.90%**
	ACWI	**-21.26%**	**6.45%**
	EAFE	**-22.72%**	**3.20%**
	Emerging Markets	**-23.57%**	**1.04%**
	Gold	**3.95%**	**3.54%**
	Oil	**-66.46%**	**-13.14%**

Inflation Data as of 2/29/20
Global GDP Data as of 12/31/19
US GDP Data as of 12/31/19
All Other Data as of 3/31/20

10 Yr Yield is yield as of most recent quarter end
VIX Data is index level as of most recent quarter end
10 Year data points for CPI, World GDP, US GDP, 10 Yr Yield, and VIX are averages of last 10 years of data

Source: Bloomberg and World Bank

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