Brinker Capital

MARCH 2020

Market review and outlook

The first quarter marked an end to the longest bull market in history with risk assets experiencing a sharp sell-off. Easing global monetary policy conditions and a temporary trade truce between the US and China helped spur a rally across global equities at the beginning of 2020. However, markets quickly reversed course in February due to escalating fears surrounding the impact of COVID-19. Large parts of global economies came to an abrupt halt in order to fight the health crisis. This prompted unprecedented monetary and fiscal responses to serve as a bridge loan until the pandemic subsides. The Federal Reserve pledged to do whatever it takes to promote liquidity and keep markets functioning, and a $2 trillion fiscal stimulus package was passed at the end of March to help individuals and businesses until the economy reopens. Moving forward, the COVID-19 pandemic remains a weight on the economy, financial markets, and confidence. While the crisis is causing a severe economic slowdown globally, it is a health crisis at its core, not a financial crisis, and will ultimately be transitory in nature.

The S&P 500 Index (S&P 500) declined -19.6% in the first quarter. The US stock market experienced the swiftest meltdown ever with the S&P 500 falling -33.9% from February 19 to March 23. All sectors posted negative returns for the first quarter. Information technology (-11.9%) led on a relative basis, followed by healthcare (-12.7%) and consumer staples (-12.7%), while energy (-50.5%) was the worst performing sector. Stalling negotiations between OPEC and Russia on the implementation of oil supply cuts coupled with declining global demand created meaningful challenges for the energy sector. From a style perspective, large cap equities outpaced mid cap and small cap equities. Growth outperformed value on a relative basis.

Developed international equities, as measured by the MSCI EAFE Index, fell -22.7% for the first quarter. Global supply chain disruptions caused from the outbreak of COVID-19 created significant headwinds for many countries. The European Central Bank expanded its asset purchase program and many countries implemented fiscal stimulus measures to help combat the negative effects of the pandemic. Emerging markets, as measured by the MSCI Emerging Markets Index, declined -23.6%. The large negative shock of COVID-19 in China, a key driver of index returns, hindered growth within the region. However, China is further along on the recovery path, and recent economic data has shown beginning signs of improvement.

Investment grade fixed income, as measured by the Bloomberg Barclays US Aggregate Index, gained +3.2% in the first quarter due to the strong performance of US government bonds. The 10-year Treasury yield declined 124 basis points and ended the period at a low of 0.68% as heightened fears of a global recession led to a flight of safety into US Treasuries. Credit spreads sharply widened from their previous muted levels in response to concerns about the impact of COVID-19 on corporate earnings and economic growth. Municipals finished slightly negative for the quarter.

The US equity market has reacted with record levels of volatility and has swiftly priced in a recession and a significant drawdown in earnings. While we believe a majority of the downside is priced in given the severity of the drawdown and the speed at which it occurred, it is likely we retest the March 23 low as the market digests the increases in COVID-19 cases and weaker economic data. The recent market volatility has led us to place a greater weight on the risks over the near term, but we will be vigilant in assessing opportunities and positioning appropriately as typically risk assets move higher in advance of improvement of the economic data.

Brinker Capital Market Barometer

The COVID-19 pandemic remains a weight on the economy, financial markets, and confidence. We continue to view this crisis as more of a temporary disruption to the economy, where a coordinated healthcare response and a powerful policy response—both fiscal and monetary—is needed to bridge the gap. The Federal Reserve (Fed) has swiftly gone all-in on promoting liquidity and market functioning, and we can expect easy monetary policy for the foreseeable future. Congress followed through last week with a $2 trillion fiscal package that provides support to individuals and businesses until we can reopen the economy again.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Markets have bounced off bottom but momentum still weak
Trend		●			Trend remains weak despite recent bounce; likely retest of lows
Investor sentiment				●	Extreme pessimism levels with bears outnumbering bulls; equity fund outflows
Seasonality			●		Seasonality neutral in second quarter

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	→			●	Strong response but unclear on speed of implementation and if more is needed
Monetary policy				●	Fed all-in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment	→		●		Treasury yields remain at low levels; yield curve has normalized
Macroeconomic		●			Significant growth decline in 2Q due to measures taken to prevent the spread
Business sentiment		●			CEO confidence likely to remain weak due to virus and election uncertainty
Consumer sentiment			●		Virus has started to have a negative impact on consumer confidence
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment			●		Credit environment challenging but Fed has implemented support measures

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation				●	Equity valuations attractive relative to long-term averages
Business cycle		●			US recession now the base case given disruptions caused by COVID-19
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Information as of March 30, 2020

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