



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

MARCH 2020  
Capital Markets Update

# Market commentary

## U.S. ECONOMICS

- Roughly 17 million people, or around 10% of the U.S. labor force filed for unemployment in the final three weeks of March, indicating the historic impact the social distancing controls have had on the U.S. labor market. Claims are expected to remain high, and many analysts believe the recent claims data have been understated due to the sheer volume of claims perhaps overwhelming processing capacity.
- The broad U-3 unemployment rate rose from 3.5% to 4.4% in the March household survey. The number of unemployed people on temporary layoff more than doubled to 1.8 million, while the number of permanent job losers increased by 177,000 to reach 1.5 million.
- The NFIB Small Business Optimism Index registered its largest ever monthly decline in March, falling from 104.5 to 96.4. Surveys showed that most employers have been negatively impacted by COVID-19 and half can survive no longer than two months under current conditions.

## U.S. EQUITIES

- The S&P 500 Index declined 12.4% over the period, marking its 15<sup>th</sup> worst monthly return since 1871. Before making a partial recovery in late March, the S&P 500 Price Index hit intra-month lows of 2237 on March 23rd and was down 24.3% over the month-to-date.
- The VIX Index of implied volatility reached levels not seen since the Global Financial Crisis and reached a closing high of 82.7 on March 16<sup>th</sup>. During the Global Financial Crisis, the VIX briefly eclipsed 100.0 intra-day but never closed at a higher level than 80.9.
- The month-end forward P/E ratio of the S&P 500 Index was 15.9x, below the 5-year average (16.7) and above the 10-year average (15.0).

## U.S. FIXED INCOME

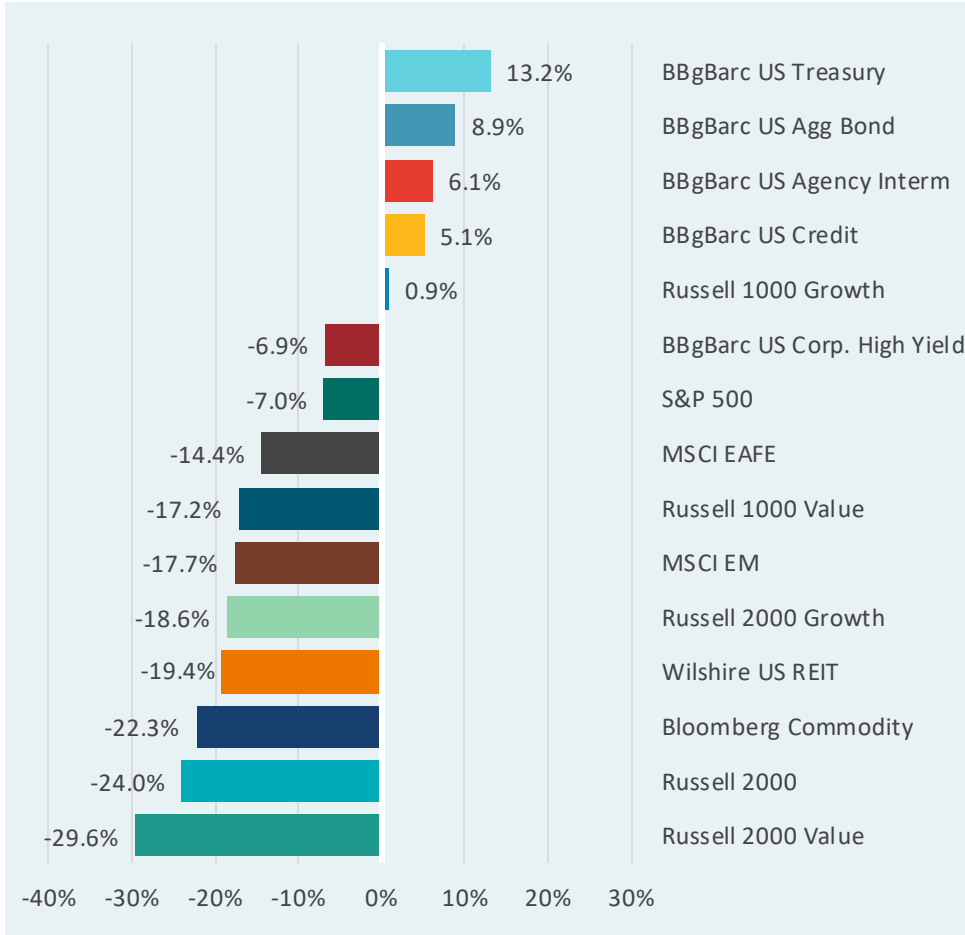
- The Federal Reserve responded quickly and forcefully to ensure the flow of credit to U.S. households and businesses. Over the course of the month, the Fed cut the range for federal funds from 1.50-1.75% to 0.00-0.25% and reintroduced several crisis-era liquidity programs from its arsenal of monetary policy tools.
- On March 15<sup>th</sup>, the Fed announced it would be buying \$700B in Treasuries and agency mortgage-backed securities. Later in the month, the Fed expanded its guidance on purchases, and pledged to buy securities “in the amounts needed to support smooth market functioning and effective transmission of monetary policy.”
- U.S. Treasuries provided downside protection as yields pushed lower across the curve, and the 10-year Treasury yield fell from 1.15% to 0.67%. The Treasury curve steepened slightly as shorter-term yields fell further than yields on longer-dated Treasuries.

## INTERNATIONAL MARKETS

- COVID-19 news flow gripped global markets as the epicenter of the pandemic moved from Wuhan to Italy and Spain, and then to the Eastern seaboard of the United States. The confirmed global death toll swelled from just under 3,000 to 42,107.
- Global governments raced to provide fiscal support to cushion the economic impacts of COVID-19 related disruptions. Japanese officials pledged support equal to roughly 20% of GDP, and U.S. officials passed a \$2.2 trillion package worth about 10% of GDP.
- Services purchasing managers’ indices, which are less cyclical and normally stickier, plunged around the world. The J.P. Morgan Global Services PMI fell from 47.1 to 37.0 in March.

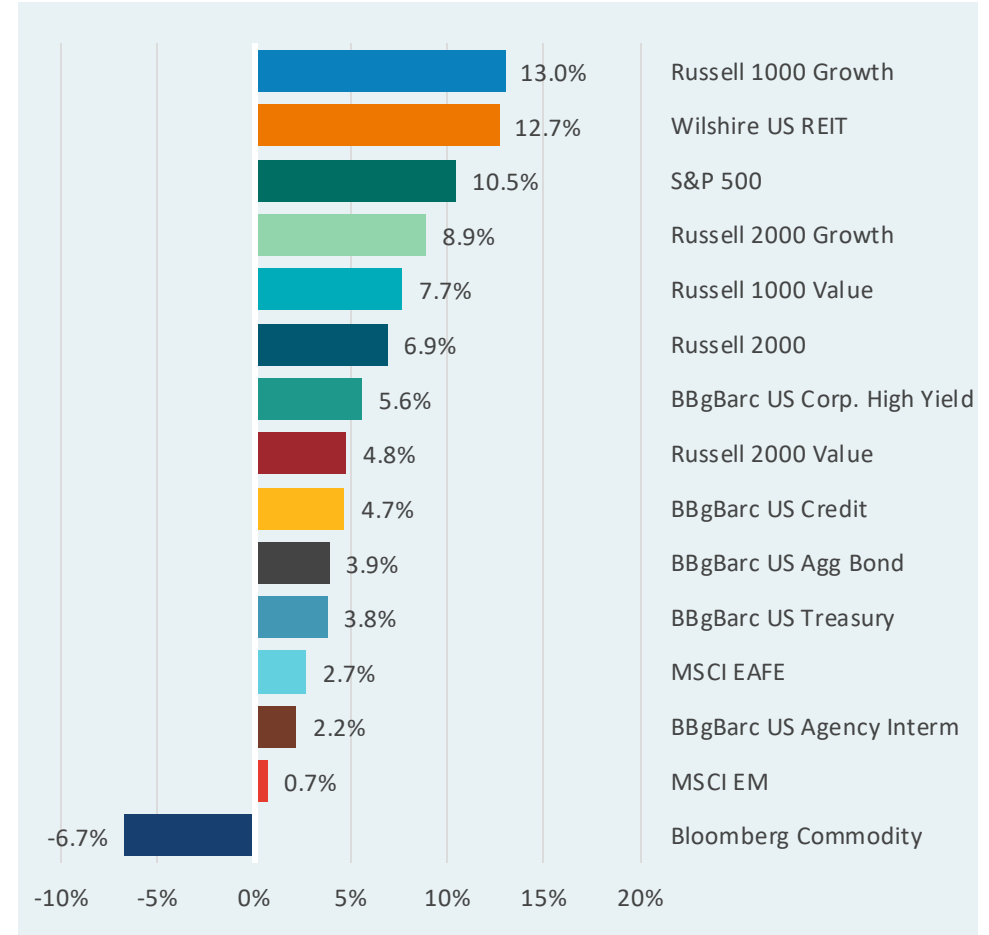
# Major asset class returns

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/20

TEN YEARS ENDING MARCH



Source: Morningstar, as of 3/31/20

# U.S. large cap equities

- The S&P 500 Index experienced a sharp decline in March and fell 12.4% over the month. Weakness was broad, and all eleven GICS sectors posted declines.
- Volatility reached historic levels over the month. The 10-day trailing annualized volatility of the S&P 500 Index rose from 27.8% to 73.5% and reached intra-month peaks of 127.3% on March 24<sup>th</sup>. Over 22 trading sessions, the average absolute value percentage move of the S&P 500 was 5.0%, and the index moved up or down by more than 7% on five separate occasions.
- The severe decline in the S&P 500 Index was exacerbated by the extraordinary demand and supply pressures faced by the Energy (-34.8%) sector. Poor performance from Financials (-21.3%) presented additional headwinds.
- According to FactSet, S&P 500 earnings are expected to decline -10.0% from the prior year in Q1 2020. Revenues are expected to grow +1.0% from the prior year, though revenue growth projections have fallen by 3.8% since the end of last year.

**S&P 500 PRICE INDEX**



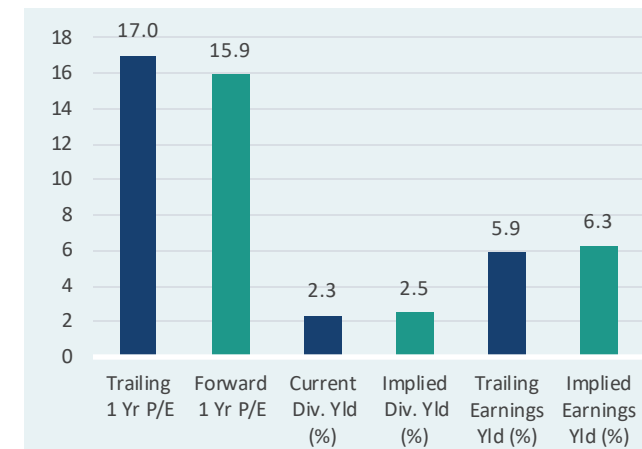
Source: Bloomberg, as of 3/31/20

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 3/31/20

**S&P 500 VALUATION SNAPSHOT**

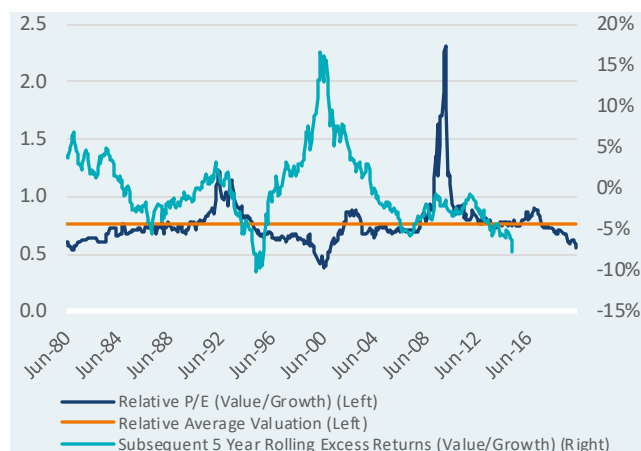


Source: Bloomberg, as of 3/31/20

# Domestic equity size and style

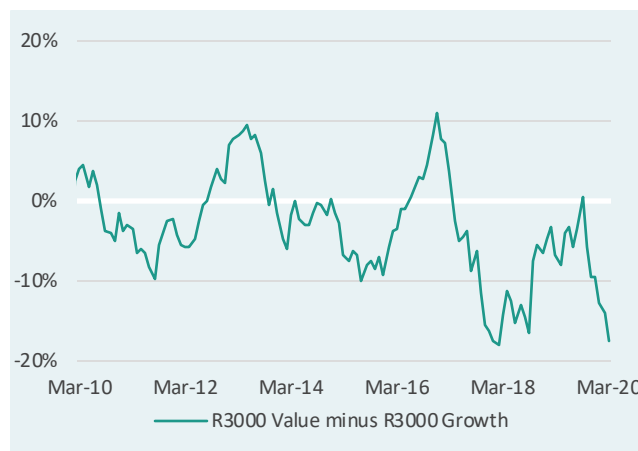
- The value factor dramatically underperformed the growth factor in March. The Russell 3000 Value Index (-17.6%) underperformed the Russell 3000 Growth Index (-10.4%) by 7.2%. Over the year-to-date, the Russell 3000 Value Index has underperformed its growth counterpart by 12.5%.
- Large-cap equities proved significantly more insulated (relative to small-cap equities) from the spike in economic uncertainty generated by the COVID-19 outbreak. The Russell 1000 Index declined only -13.2% while the Russell 2000 Index lost -21.7%.
- Much of the underperformance of the value factor relative to the growth factor in March was explained by differences in sector composition across indices. Energy stocks in the S&P 500 fell -34.8% and drove the underperformance of value. Information Technology stocks in the index declined only -8.6% and helped to buoy declines in growth factor indices.
- Exposure to the momentum factor paid investors in March. The Bloomberg U.S. Pure Momentum Factor Index registered a +1.2% return for the month.

**VALUE VS. GROWTH RELATIVE VALUATIONS**



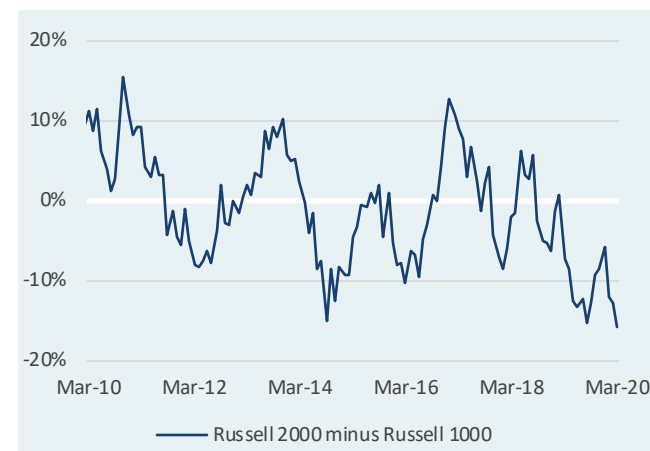
Source: Russell, Bloomberg, as of 3/31/20

**VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, Bloomberg, as of 3/31/20

**SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE**

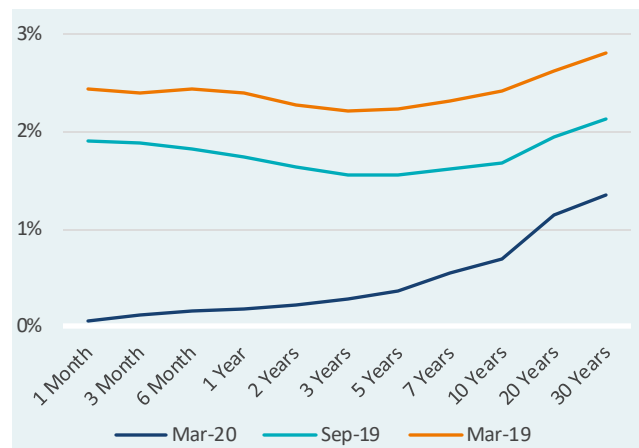


Source: FTSE, Bloomberg, as of 3/31/20

# Fixed income

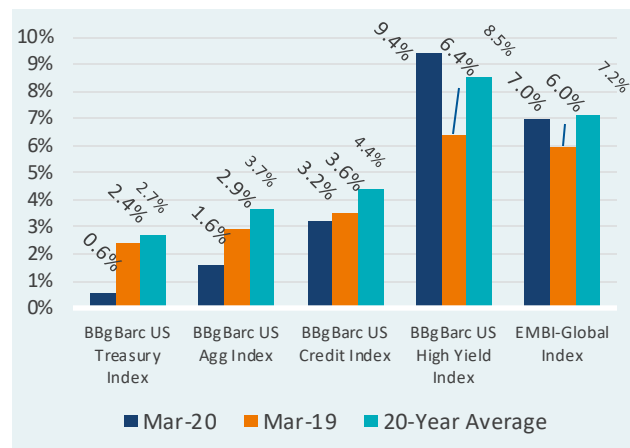
- To allay concerns over dollar liquidity in global dollar funding markets, the Federal Reserve opened dollar liquidity swap lines with foreign central banks, and rolled out a FIMA repo facility, allowing foreign central banks and monetary authorities to enter repurchase agreements with the Federal Reserve.
- Hard-currency denominated emerging market debt was the worst performer within fixed income (J.P. Morgan EMBI Global Diversified -13.8%). Several countries, including Mexico and South Africa, experienced sovereign debt rating downgrades.
- Breakeven inflation rates, which are calculated by subtracting TIPS yields from equivalent-maturity nominal Treasury yields, fell materially over the period. However, declines in breakeven inflation rates can also capture the effects of temporary liquidity imbalances. Treasury liquidity exceeded TIPS liquidity in March and drove some of the decline in breakeven inflation rates.
- U.S. investment grade credit spreads surged from 1.22% to 2.72% and reached intra-month highs of 3.73%. High-yield credit spreads spiked from 5.00% to as high as 11.00% and finished the month at 8.80%.

**U.S. TREASURY YIELD CURVE**



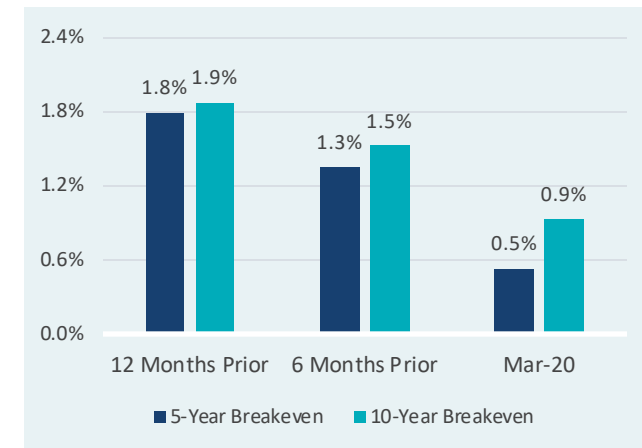
Source: Bloomberg, as of 3/31/20

**NOMINAL YIELDS**



Source: Morningstar, as of 3/31/20

**BREAKEVEN INFLATION RATES**

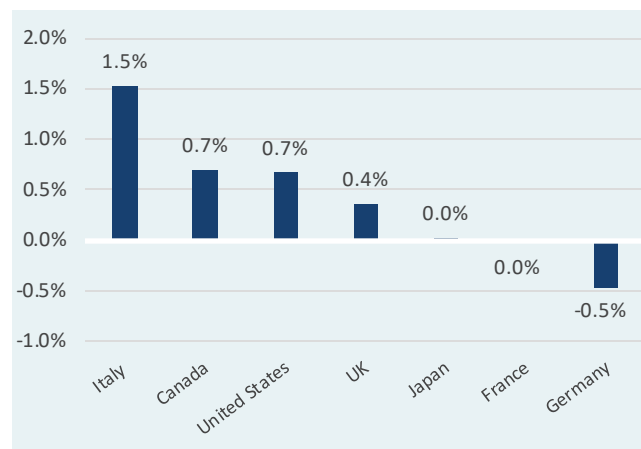


Source: Bloomberg, as of 3/31/20

# Global markets

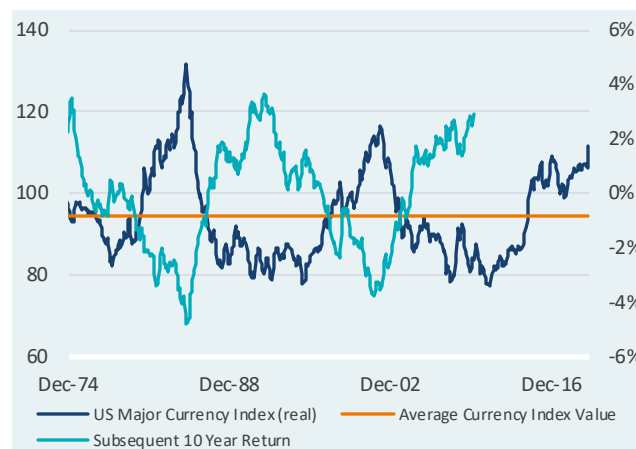
- Global equities (MSCI ACWI) fell -13.5% and emerging market equities (-15.4%) underperformed. Within emerging market equity, the Latin American segment (-34.5%) significantly underperformed the Asian component (-11.7%) in U.S. dollar terms. Weakness in Latin American currencies, specifically the Mexican peso, versus the U.S. dollar, exacerbated weakness.
- International developed equities (MSCI EAFE) returned -13.3%, in line with the global benchmark. Eurozone equities (-17.2%) lagged Japanese equities (-7.1%) in dollar terms, and currency impacts were negligible.
- The Bloomberg Dollar Spot Index, which measures the strength of the U.S. dollar relative to both developed and emerging market currency pairs, advanced 3.1%. Between March 9<sup>th</sup> and March 23<sup>rd</sup>, the index gained 8.9% as dollar liquidity became constrained. The index gave back some of those gains by month-end as Fed intervention in dollar funding markets eased strains.
- On March 31<sup>st</sup>, the blended forward 12-month P/E ratio of the MSCI ACWI Index was 14.3, below the 5-year monthly average (15.3). If expected earnings were to fall by 20%, the current forward P/E would be 17.8x.

GLOBAL SOVEREIGN 10-YEAR YIELDS



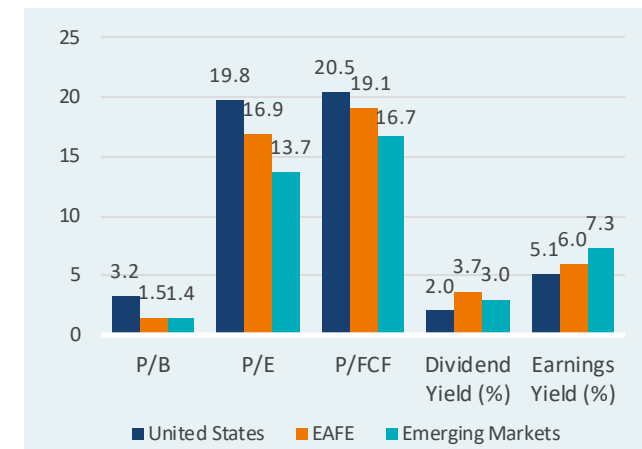
Source: Bloomberg, as of 3/31/20

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 3/31/20

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 3/31/20

# Commodities

- The Bloomberg Commodity Index declined -12.8% for the month, bringing year-to-date performance to -23.3%. While the entire commodity complex performed poorly, the decline in the overall index was driven primarily by a rout in the crude oil markets resulting in a -46.8% decline in the Petroleum component.
- A dearth in global oil demand driven by COVID-19 related economic disruptions and the concurrent emergence of a supply shock in the form of a price war between Saudi Arabia and Russia led the price of a barrel of West Texas Intermediate crude oil to fall from \$44.94 to \$20.48.

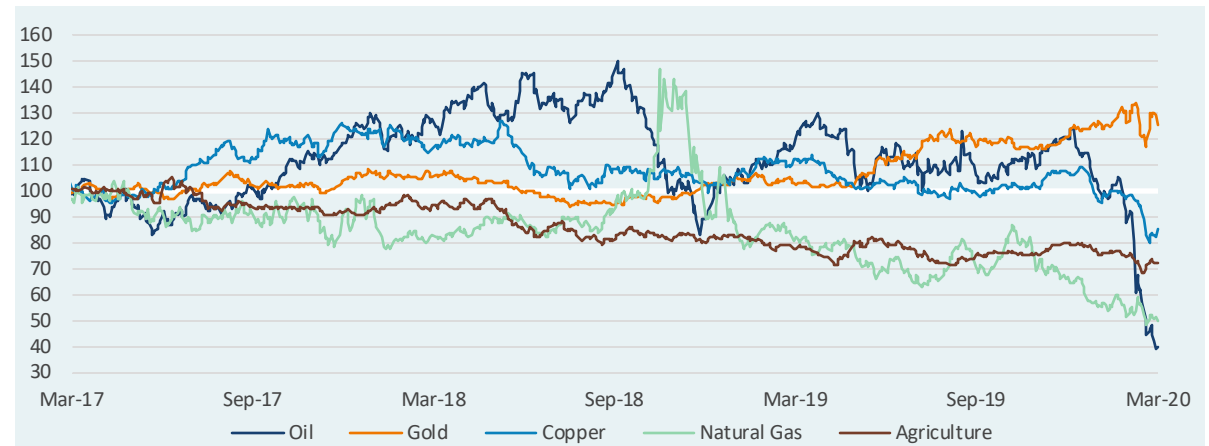
- At its March 6<sup>th</sup> meeting, OPEC elected not to extend the production cuts it had kept in place since December 2016. With the production cuts expiring at the end of March, the U.S. Energy Information Administration increased its forecast for OPEC liquid fuels production by 150,000 and 200,000 barrels per day in 2020 and 2021, respectively.
- The Bloomberg Precious Metals Sub-Index outperformed the overall index but still posted a return of -1.4%. Spot gold prices fell 0.5% to \$1,577 per ounce, faced with the dual pressures of rebalancing activity following strong relative performance, as well as a stronger U.S. dollar.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(12.8)	(23.3)	(23.3)	(22.3)	(8.6)	(7.8)	(6.7)
Bloomberg Agriculture	(3.3)	(9.9)	(9.9)	(5.3)	(9.1)	(7.2)	(3.5)
Bloomberg Energy	(35.1)	(51.1)	(51.1)	(52.9)	(19.8)	(18.8)	(17.1)
Bloomberg Grains	(0.6)	(7.2)	(7.2)	(2.6)	(7.9)	(8.7)	(3.6)
Bloomberg Industrial Metals	(9.7)	(18.5)	(18.5)	(22.7)	(5.5)	(3.4)	(6.1)
Bloomberg Livestock	(13.5)	(28.1)	(28.1)	(35.5)	(11.0)	(9.7)	(5.6)
Bloomberg Petroleum	(46.8)	(60.1)	(60.1)	(57.6)	(19.6)	(18.2)	(14.5)
Bloomberg Precious Metals	(1.4)	(1.1)	(1.1)	15.7	3.7	3.2	1.7
Bloomberg Softs	(12.4)	(16.8)	(16.8)	(13.7)	(15.5)	(7.5)	(6.1)

Source: Morningstar, as of 3/31/20

## COMMODITY PERFORMANCE

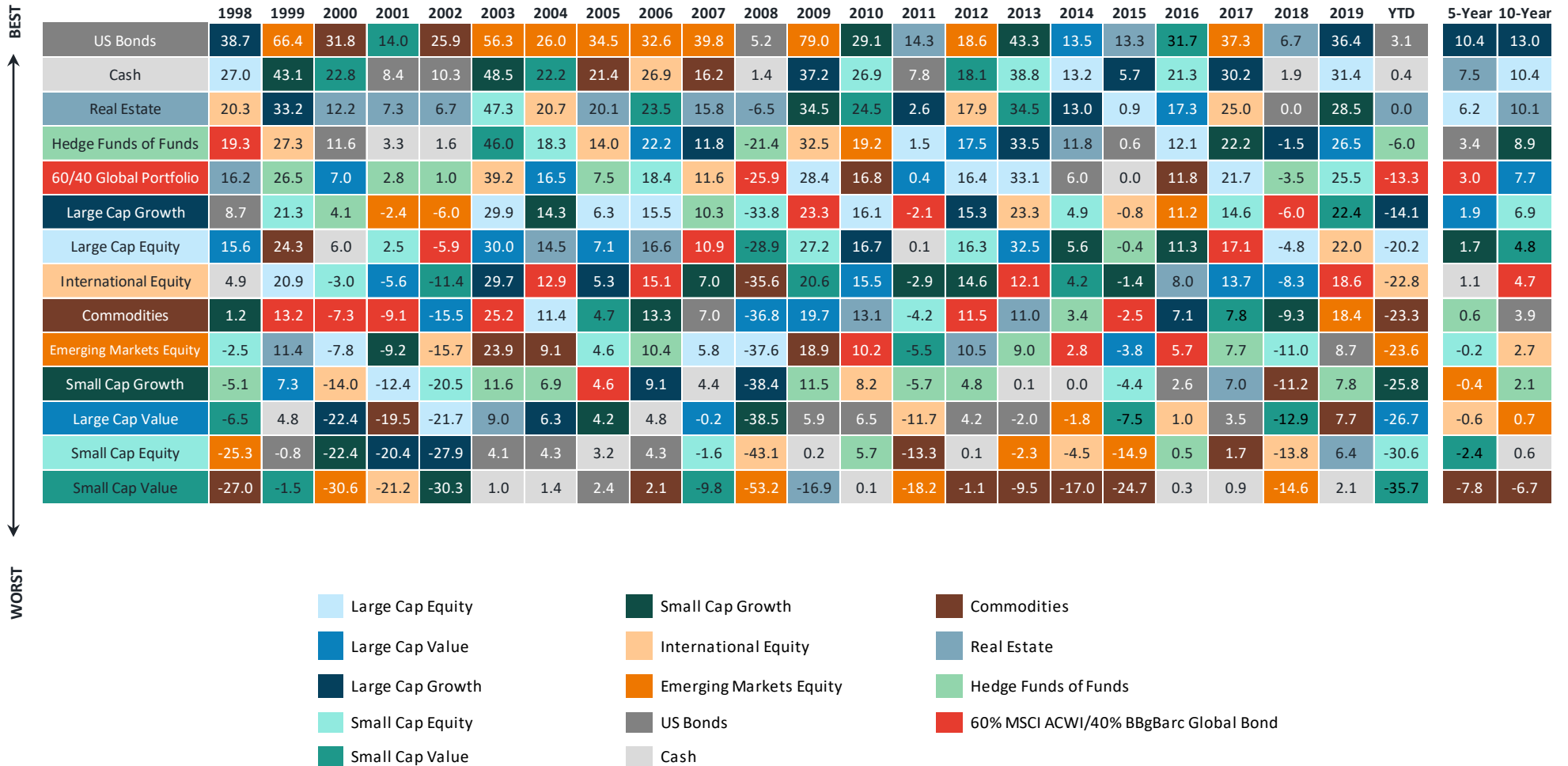


Source: Bloomberg, as of 3/31/20



# Appendix

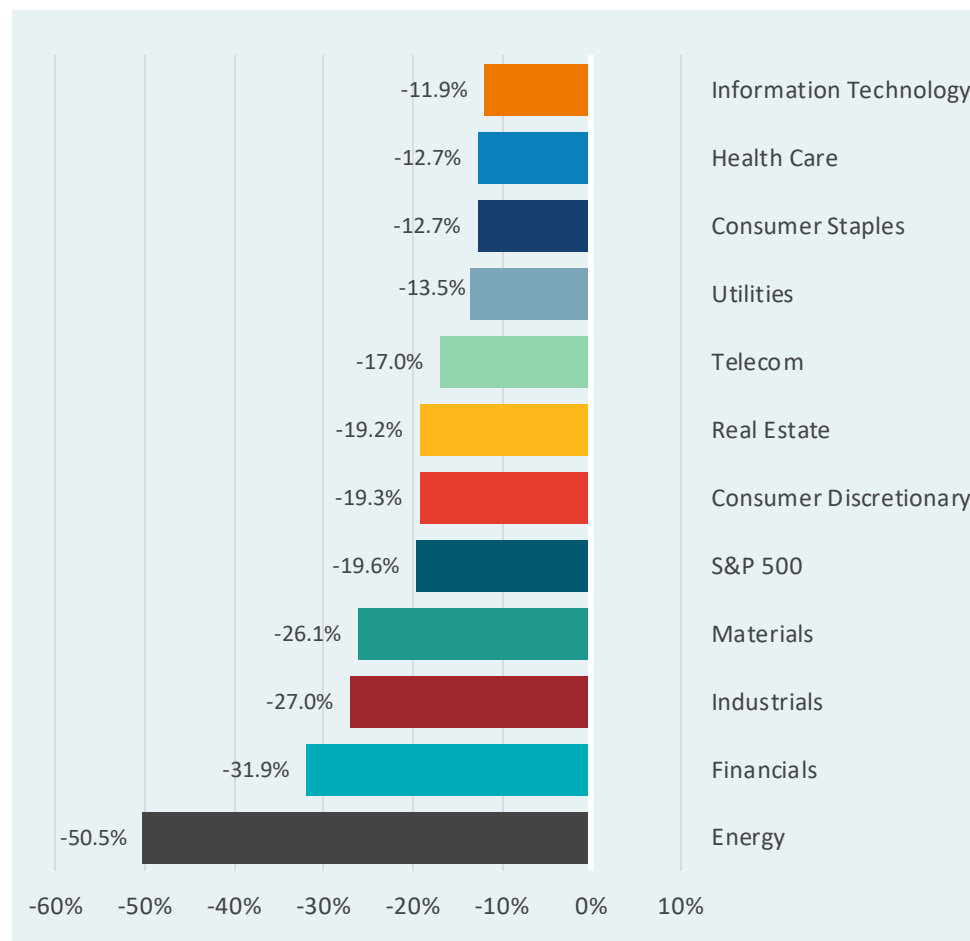
# Periodic table of returns



Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 12/31/19.

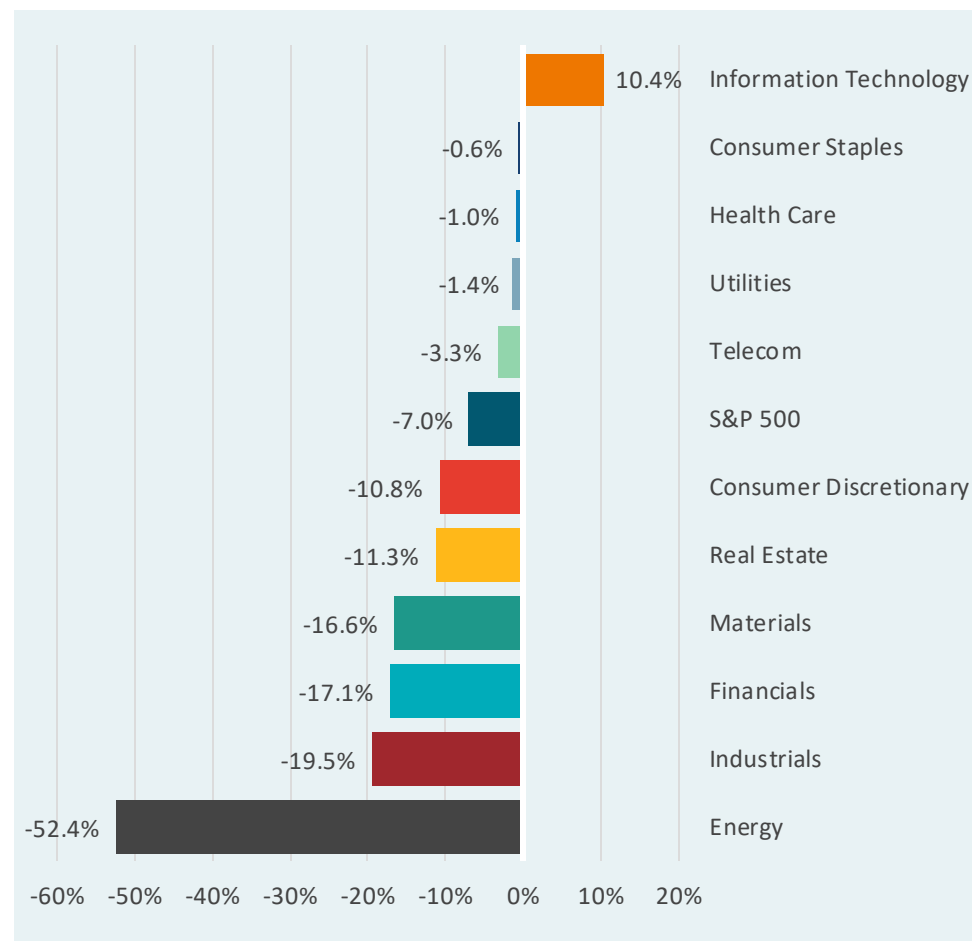
# S&P 500 sector returns

Q1 2020



Source: Morningstar, as of 3/31/20

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/20

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	(12.4)	(19.6)	(19.6)	(7.0)	5.1	6.7	10.5
S&P 500 Equal Weighted	(18.0)	(26.7)	(26.7)	(17.6)	(0.4)	2.8	9.2
DJ Industrial Average	(13.6)	(22.7)	(22.7)	(13.4)	4.4	6.9	10.0
Russell Top 200	(11.0)	(17.7)	(17.7)	(4.1)	6.7	7.9	11.0
Russell 1000	(13.2)	(20.2)	(20.2)	(8.0)	4.6	6.2	10.4
Russell 2000	(21.7)	(30.6)	(30.6)	(24.0)	(4.6)	(0.2)	6.9
Russell 3000	(13.8)	(20.9)	(20.9)	(9.1)	4.0	5.8	10.1
Russell Mid Cap	(19.5)	(27.1)	(27.1)	(18.3)	(0.8)	1.8	8.8
<b>Style Index</b>							
Russell 1000 Growth	(9.8)	(14.1)	(14.1)	0.9	11.3	10.4	13.0
Russell 1000 Value	(17.1)	(26.7)	(26.7)	(17.2)	(2.2)	1.9	7.7
Russell 2000 Growth	(19.1)	(25.8)	(25.8)	(18.6)	0.1	1.7	8.9
Russell 2000 Value	(24.7)	(35.7)	(35.7)	(29.6)	(9.5)	(2.4)	4.8

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	(13.5)	(21.4)	(21.4)	(11.3)	1.5	2.8	5.9
MSCI ACWI ex US	(14.5)	(23.4)	(23.4)	(15.6)	(2.0)	(0.6)	2.1
MSCI EAFE	(13.3)	(22.8)	(22.8)	(14.4)	(1.8)	(0.6)	2.7
MSCI EM	(15.4)	(23.6)	(23.6)	(17.7)	(1.6)	(0.4)	0.7
MSCI EAFE Small Cap	(17.2)	(27.5)	(27.5)	(18.1)	(2.9)	1.0	4.8
<b>Style Index</b>							
MSCI EAFE Growth	(9.2)	(17.5)	(17.5)	(5.8)	3.0	2.5	4.7
MSCI EAFE Value	(17.7)	(28.2)	(28.2)	(22.8)	(6.7)	(3.8)	0.6
<b>Regional Index</b>							
MSCI UK	(16.0)	(28.8)	(28.8)	(23.0)	(4.9)	(3.3)	1.6
MSCI Japan	(7.1)	(16.8)	(16.8)	(6.7)	1.0	1.8	3.8
MSCI Euro	(17.2)	(27.0)	(27.0)	(18.3)	(4.4)	(2.3)	1.1
MSCI EM Asia	(11.7)	(18.1)	(18.1)	(12.1)	1.3	1.4	3.5
MSCI EM Latin American	(34.5)	(45.6)	(45.6)	(40.8)	(13.0)	(5.9)	(6.7)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	(1.8)	1.7	1.7	6.8	3.5	2.7	3.5
BBgBarc US Treasury Bills	0.3	0.6	0.6	2.4	1.8	1.2	0.7
BBgBarc US Agg Bond	(0.6)	3.1	3.1	8.9	4.8	3.4	3.9
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	1.3	2.8	2.8	5.4	2.7	1.8	1.4
BBgBarc US Treasury Long	6.1	20.9	20.9	32.6	13.4	7.3	9.0
BBgBarc US Treasury	2.9	8.2	8.2	13.2	5.8	3.6	3.8
<b>Issuer</b>							
BBgBarc US MBS	1.1	2.8	2.8	7.0	4.0	2.9	3.3
BBgBarc US Corp. High Yield	(11.5)	(12.7)	(12.7)	(6.9)	0.8	2.8	5.6
BBgBarc US Agency Interm	0.9	2.9	2.9	6.1	3.2	2.3	2.2
BBgBarc US Credit	(6.6)	(3.1)	(3.1)	5.1	4.2	3.3	4.7

## OTHER

<b>Index</b>							
Bloomberg Commodity	(12.8)	(23.3)	(23.3)	(22.3)	(8.6)	(7.8)	(6.7)
Wilshire US REIT	(20.0)	(25.6)	(25.6)	(19.4)	(2.5)	5.7	12.7
CS Leveraged Loans	(12.5)	(13.2)	(13.2)	(9.5)	(0.7)	4.6	5.0
Alerian MLP	(48.1)	(58.1)	(58.1)	(61.9)	(29.9)	(21.1)	(4.7)
<b>Regional Index</b>							
JPM EMBI Global Div	(13.8)	(13.4)	(13.4)	(6.8)	0.4	2.8	4.9
JPM GBI-EM Global Div	(11.1)	(15.2)	(15.2)	(6.5)	(0.8)	0.3	0.5
<b>Hedge Funds</b>							
HFRI Composite	(5.9)	(8.3)	(8.3)	(4.0)	0.7	1.3	2.9
HFRI FOF Composite	(4.9)	(6.0)	(6.0)	(2.6)	1.0	0.6	2.1
<b>Currency (Spot)</b>							
Euro	(0.1)	(2.3)	(2.3)	(2.3)	0.9	0.4	(2.1)
Pound	(2.9)	(6.4)	(6.4)	(4.8)	(0.3)	(3.5)	(2.0)
Yen	(0.1)	0.7	0.7	2.5	1.1	2.1	(1.4)

Source: Morningstar, HFR, as of 3/31/20

# Notices & disclosures

***Past performance is no guarantee of future results.** This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

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