



CLARITY
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QUARTERLY MARKET COMMENTARY

FIRST QUARTER 2020

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Markets Close First Quarter of 2020 by Rewriting the Record Books

The first quarter of 2020 is over and investors are glad that it's in the rear-view mirror. Remember when your parents said, "if you can't say anything nice about so and so, don't say anything at all?" It was that kind of quarter.

Here is a quick snapshot:

- The DJIA lost more than 23% for the quarter, its worst since the fourth quarter of 1987
- It was the worst first quarter for the DJIA in history
- The S&P 500 lost 20% for the first quarter, its worst since the fourth quarter of 2008
- It was the worst first quarter for the S&P 500 in history

<i>Index Returns</i>	<i>Close</i>	<i>1Q2020</i>
DJIA	22,915	-23.2%
S&P 500	2,585	-20.0%
NASDAQ	7,695	- 14.18%
MSCI EAFE	1,560	-23.43%
Bond Index*	2,297.47	3.26%
10-Yr Treasury Yield	0.70%	- 1.18%

*Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results

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From Market Peaks to Bear Markets

While investors are bombarded by negative numbers and negative headlines, it is surreal to consider that six weeks into the first quarter, the major U.S. indices were hitting new all-time highs. What a difference the final six weeks made.

It Seems tone-deaf to even mention, but the fact is that:

- The DJIA hit its all-time high on Wednesday, February 12th when it was within a whisper of cresting the 30,000-point level
- The S&P 500 hit its all-time high on Wednesday, February 19th
- NASDAQ hit its all-time high on Wednesday, February 19th

The Coronavirus Bear Mauled the Fat Bull

The news events that dominated the first quarter can be summed up in one word: Coronavirus.

During the First Quarter, investors saw:

- The coronavirus, which was first identified last year in Wuhan, China, shut down businesses, schools, and governments around the globe, pushing global economies and global markets into bear market territory
- Congress and the White House agreed to a huge \$2 trillion package that includes direct payments to families, including \$1,200 per adult and \$500 per child, support for small businesses and expanded unemployment benefits

- As of the end of the quarter, the Federal government stimulus package exceeded \$6 trillion and more may be on the way within a 12 day-period, the Federal Reserve announced two emergency rate cuts, pushing its target interest rate to near zero
- The price of WTI Crude Oil started the quarter at \$61.68/barrel and ended the quarter at \$20.09/barrel
- The Department of Labor reported that the initial jobless claims came in at 3.3 million the week before the quarter ended – the highest level of initial claims in history
- Volatility, as measured by the CBOE Volatility Index, skyrocketed and the month of March alone saw more volatility than ever recorded in history, as the S&P 500 averaged a daily gain/loss of more than 4.8%, according to Bespoke Investment Group
- The yield on the benchmark 10-year Treasury note fell below 1% for the first time in history and has stayed below 1% since

Sector Performance

Investors know that over every single time period, sector performance will be driven largely by factors one would expect, such as the overall state of the economy, underlying corporate earnings, current and predicted interest rates, and inflation, among other factors. And now investors can add the coronavirus to that list of factors.



Reviewing the sector performance through the end of the first quarter of 2020, two things become very clear:

- First, sectors do not move in lock-step with one another and will often provide very divergent returns for investors – depending on timing and the current economic climate; and
- Second, during the first quarter of 2020, every sector was hammered.

Reviewing the sector returns for a few very short-time periods (1-month, 3-months and YTD through March 31, 2020) and some depressing numbers emerge:

- All 11 sectors were painted red for the month of March;
- All 11 sectors were painted red for the first quarter of 2020;
- The best performing sector was Information Technology, but it still lost 12.22% YTD; and
- The worst performing sector was Energy, and it lost a staggering 51.06% YTD.

Here are the sector returns for shorter time periods through the end of March 31, 2020:

Sectors	1-Month	1Q2020
Healthcare	- 3.98%	- 13.07%
Consumer Discretionary	-13.39%	-19.59%
Industrials	-19.29%	-27.41%
Financials	-21.48%	-32.34%
Information Technology	-8.71%	-12.22%
Materials	-14.35%	- 26.60%
Energy	-34.97%	- 51.06%
Consumer Staples	-5.86%	-13.39%
Communications Services	-12.20%	-17.23%
Utilities	-10.22%	-14.19%
Real Estate	-15.40%	-19.84%
S&P 500 Index	-12.51%	-20.00%

This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results. Source: Standard and Poor's

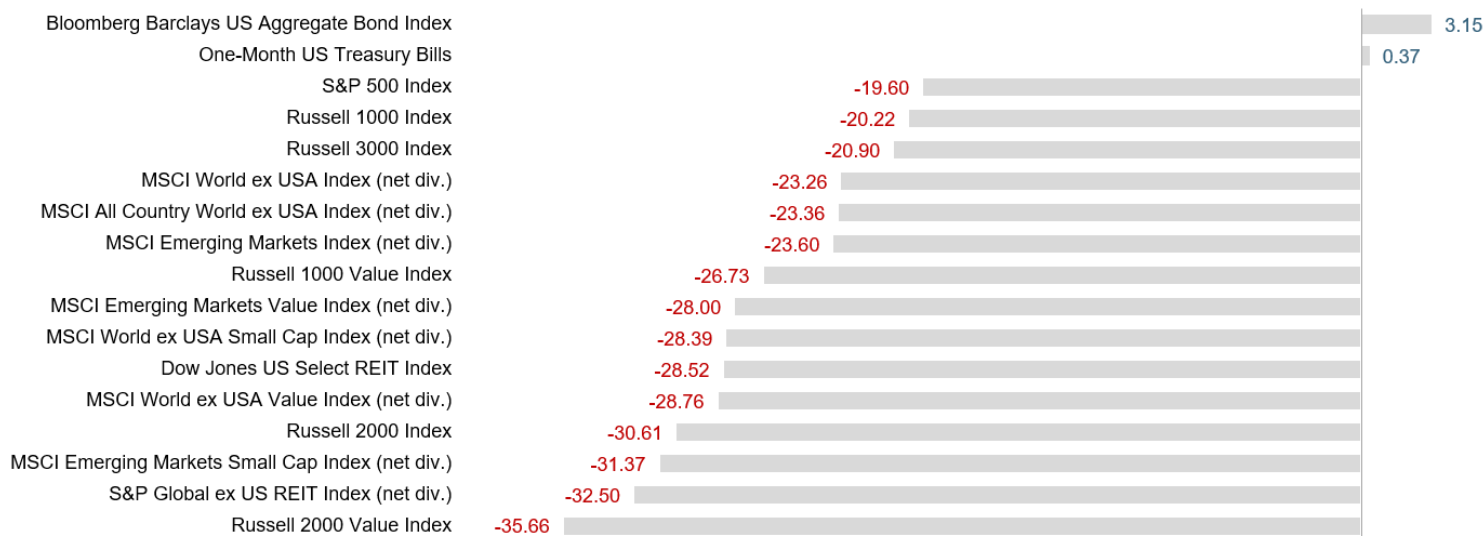


Asset Class & Style Performance

The first quarter of 2020 was difficult for almost all investors, regardless of asset class and style. The first quarter saw everything down as there was a huge change in performance for virtually every asset class, except maybe the bond market. Equity markets around the globe posted negative returns in the first quarter.

Looking at broad market indices, US equities outperformed non-US developed markets and emerging markets. Value stocks underperformed growth stocks in all regions. Small caps also underperformed large caps in all regions. REIT indices underperformed equity market indices in both the US and non-US developed markets.

World Asset Classes - First Quarter 2020 Index Returns (%)



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Oil Prices Plummeted

Contributing to the March 2020 stock sell-off was the tumbling cost of oil. The price of Brent Crude, the international standard, plummeted by almost 25% over the weekend of March 7th and 8th alone, which was on top of a more than 10% drop on the previous day. On Monday, March 9th, the price of oil was about \$34/barrel, its lowest level since 2016. Oil ended the quarter just north of \$20/barrel. Collapsing oil prices helped drive the U.S. dollar higher, making U.S. exports much less competitive in the world market. And this is problematic because approximately 50% of the Standard & Poor's 500 revenues come from international markets. If that was not bad enough, falling oil prices hurt U.S. domestic oil production severely, with the U.S. government stepping in as a buyer of last resort. But faced with lower prices, oil drillers are shutting down operations and laying off workers. Further, falling oil prices helped push the 10-year Treasury rates to new all-times lows, as interest rates are closely tied to inflation/deflation rates. The 10-year note fell below its historical low of less than 1% and ended the quarter at 0.70%. At the beginning of the quarter, the 10-year was yielding 1.86%.

The Federal Reserve Keeps Trying

In dramatic and emergency actions to support the U.S. economy during the coronavirus pandemic, the Federal Reserve announced it would cut its target interest rate to near zero. And it announced its second rate cut on a Sunday no less.

The unexpected and faster-than-expected rate cut was on the heels of the Fed's emergency 50 basis points rate cut just 12 days earlier – and that cut was the first time since October 2008 that our central bank decided to go ahead with a cut in between scheduled policy meetings.

Further, the Fed pledged its support to an aggressive quantitative easing program, suggesting that there was no limit on its purchases of Treasuries and agency mortgage-backed securities as well as purchasing investment-grade corporate bonds. The Fed also announced it would help maintain the flow of credit to municipalities around the country and establish a lending program for small businesses.

On top of all of that, the Fed also brokered a deal with other global central banks to lower their rates on currency swaps to bring normalcy to markets. The other central banks include the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank.

Tying to Remain Hopeful

With all the bad news and red numbers for the first quarter, investors the world over can use some good news. Here is what was reported by MarketWatch the day after the first quarter ended.

"All that said, the prospects over the longer term after such declines leaves cause for hope. After the Dow has produced a quarter as ugly as this one, the blue-chip index returns 11.88% and 8.49% in the following two quarters, according to Dow Jones Market Data. In such a year, the Dow returns 22.75% on average. There are similar positive trends for the other two main benchmarks. Here's how the stock benchmarks perform after a quarter as bad as the one Wall Street is experiencing now:

INDEX	1 Quarter % Change	2-Quarter Period % Change	1-Year Out % Change
DJIA	4.01%	8.40%	22.49%
S&P 500	0.57%	6.88%	26.64%
Nasdaq	4.89%	20.20%	8.62%

Source: : Dow Jones Market Data

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Oil Prices Plummeted

Here's how the indexes fare after a month as bad as the one in March, on average, with the Dow down 12.5% in March so far, the S&P 500 off more than 11% and the Nasdaq down 9.5%, representing the worst monthly drops for the benchmarks since 2008:"

INDEX	1-Month	2-Month	YTD
DJIA	0.05%	1.77%	5.69%
S&P 500	-0.15%	2.14%	8.72%
Nasdaq	-0.47%	2.53%	8.35%

Source: : Dow Jones Market Data

The Coronavirus and Market Declines

The world is watching with concern the spread of the new coronavirus. The uncertainty is being felt around the globe, and it is unsettling on a human level as well as from the perspective of how markets respond.

The market is clearly responding to new information as it becomes known, but the market is pricing in unknowns, too. As risk increases during a time of heightened uncertainty, so do the returns investors demand for bearing that risk, which pushes prices lower. Our investing approach is based on the principle that prices are set to deliver positive future expected returns for holding risky assets.

We can't tell you when things will turn or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns.

That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009. Additionally, history has shown no reliable way to identify a market peak or bottom. These beliefs argue against making market moves based on fear or speculation, even as difficult and traumatic events transpire.

One Final Thought From Warren Buffett

On October 9, 2007, the DJIA closed at 14,164 points. By March 5, 2009, it had dropped more than 50% to 6,594.

In October 2008 – in the middle of the Great Recession of 2008 – Warren Buffett wrote an editorial in The New York Times. Here is what he wrote:

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."



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