

Equity Market Summary

U.S. Equity Markets	Feb 19-Mar 12	YTD	Top/Bottom Sectors	Feb 19-Mar 12	YTD	Non-US Equity Markets (in USD)	Feb 19-Mar 12	YTD	Non-US Regions (in USD)	Feb 19-Mar 12	YTD
S&P 500	-26.6%	-22.9%	Utilities	-22.3%	-15.6%	MSCI AC World Ex U.S.	-24.7%	-25.2%	Developed Americas	-33.4%	-31.2%
Russell 1000 Growth	-25.3%	-18.4%	Real Estate	-21.4%	-16.1%	MSCI EAFE (Developed)	-26.1%	-26.5%	Developed Asia	-18.4%	-20.5%
Russell 1000 Value	-29.3%	-28.4%	Cons. Staples	-18.8%	-16.7%	MSCI Emerging Markets	-19.9%	-20.6%	Developed Europe	-30.1%	-29.9%
Russell 2000	-33.6%	-32.5%	Materials	-28.1%	-29.2%	MSCI China	-11.9%	-9.9%	Emerging Americas	-39.2%	-42.0%
Russell 2000 Growth	-32.5%	-29.0%	Financials	-34.6%	-33.8%	MSCI Japan	-16.0%	-19.4%	Emerging Asia	-15.1%	-14.9%
Russell 2000 Value	-34.8%	-36.2%	Energy	-46.0%	-50.8%	MSCI Italy	-39.7%	-37.6%	Emerging EMEA	-29.4%	-32.1%

What's changed since our last report:

- As many health experts forecasted, the Coronavirus (CV-19) has spread rapidly around the globe. Governments have begun to close borders and constrain social interaction. Financial markets have experienced significant upheaval as the last three weeks have been among the most volatile in modern history.

Where are we now:

- CV-19: 135,000 cases, 5,000 deaths. Reported cases in more than 125 countries. China's quarantine program has proven effective as new cases in the country have dropped to less than 10 per day.

Economy:

- Most reported economic data covers a period prior to the impacts of the virus outbreak. We have yet to see solid hard data that reflects the current environment but of course that will change over the coming weeks and we will provide updates as they are available.
- Oil markets are being tested by a slump in demand and an unfortunately timed dispute between OPEC and Russia that has caused a 40+% drop in oil prices.
- The risk of a synchronized global recession have clearly risen and stocks, commodities and bond markets are reflecting that possibility.

Financial Markets:

- Global equity markets are down more than 25% from their recent highs with the U.S. getting hit particularly hard. Year-to-date the average large cap U.S. stock is down 29% and the average small cap U.S. stock has fallen 36%.
- Small capitalization companies as well as value stocks are experiencing fiercer drawdowns. China has been surprisingly resilient despite being at the epicenter of the outbreak.
- Signs of credit market distress are emerging however it appears central banks are ready and willing to take decisive action. Time is of the essence for monetary and fiscal authorities and waiting for more data is not a good option. A positive is that U.S. 10-yr Treasury Yields are almost 25 basis points above their Mar. 9 lows.

Earnings:

- Earnings expectations have been slow to react to what will most likely be a strong and synchronized downward trend in earnings for companies across the globe. This is common in periods of high uncertainty as forecasters take a wait and see approach when a lack of hard data and clarity exists.
- There are encouraging sign posts in recent positive earnings reports and/or guidance from companies with significant Asian and European exposure such as Marvell Technology, Adobe Systems and Fortinet which beat expectations and raised guidance, even with CV-19 impacts considered.
- We would expect to see cyclical companies (Industrials/Discretionary/Financials) experience more significant reductions in earnings expectations than non-cyclicals (Staples/Utilities) but earnings across all geographies and economic sectors are likely to come under pressure for at least the next two quarters.

Lessons from 2008:

- The speed and structure of the current market sell-off is very similar to the 20 trading day period of Sep. 26, 2008 - Oct. 24, 2008. Both periods saw greater than 25% market declines and the returns at a sector level are very similar, with the exception of Energy stocks which had sold off in advance of Oct. 2008.

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- Markets remained volatile before marking a crisis low on Mar. 9, 2009. Markets then snapped back and recovered greater than 70% thru year-end 2009.
- Financial stocks fell the most during the Global Financial Crisis, dropping more than 75%, but they also recovered the most during 2009, rising more than 120% from the Mar. 9 low thru year-end 2009. Selling what is hurting the most at the moment is seldom the right choice as market rebounds can be as swift as the sell-off.

Summary:

CV-19 is having a devastating impact on the global population and the loss of economic output is just now beginning to be measured. Previous estimates of a more than 1% impact to global GDP now appear low. Global monetary authorities are taking aggressive steps to supply liquidity to markets, but more decisive action is needed. Fiscal authorities are just now putting formal plans in place to combat the supply and demand shocks being felt. Encouraging news can be found in new virus cases falling to single digits in China, recent company guidance from technology companies with significant overseas exposure and Apple's reopening of all stores in China. While there is positive news, clearly communicated action plans from health care, monetary and fiscal authorities around the globe are necessary to combat the human and economic impact of CV-19. We'll continue to watch earnings revisions and company guidance as the most timely indicators of just where the ultimate impact will rest.

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