

Equity Market Summary

U.S. Equity Markets	Feb 19-Apr 30	YTD	Top/Bottom Sectors	Feb 19-Apr 30	YTD	Non-US Equity Markets (in USD)	Feb 19-Apr 30	YTD	Non-US Regions (in USD)	Feb 19-Apr 30	YTD
S&P 500	-13.7%	-9.3%	Technology	-10.6%	0.2%	MSCI AC World Ex U.S.	-17.7%	-18.2%	Developed Americas	-20.4%	-17.8%
Russell 1000 Growth	-9.7%	-1.4%	Health Care	-3.7%	-1.7%	MSCI EAFE (Developed)	-17.9%	-18.6%	Developed Asia	-9.7%	-12.0%
Russell 1000 Value	-19.5%	-18.5%	Cons. Discretionary	-8.5%	-2.6%	MSCI Emerging Markets	-16.2%	-17.0%	Developed Europe	-19.7%	-19.5%
Russell 2000	-22.3%	-21.1%	Industrials	-23.4%	-20.9%	MSCI China	-6.6%	-4.5%	Emerging Americas	-39.3%	-42.1%
Russell 2000 Growth	-18.8%	-14.7%	Financials	-26.3%	-25.4%	MSCI Japan	-8.6%	-12.3%	Emerging Asia	-10.8%	-10.5%
Russell 2000 Value	-26.2%	-27.7%	Energy	-29.2%	-35.5%	MSCI Italy	-30.3%	-27.9%	Emerging EMEA	-23.3%	-26.2%

What's changed since our last report (on Apr. 20, 2020):

- Coronavirus (CV-19) continues to spread but the rate of infection is slowing, if only modestly. The number of cases doubled from 1 million to 2 million in just 13 days, yet over the next 13 days cases increased by just over 50%. International borders remain closed but some portions of the U.S. and Europe are taking tentative steps to reopen. The CARES Act (H.R. 748) was signed into law on Mar. 27 and it took less than 3 weeks from signing (2 weeks from implementation) to distribute \$350 billion in funding from the Paycheck Protection Program ("PPP"). A \$310 billion second round of funding was approved on April 24th and will likely run out of funds as quickly as the first round.

Where are we now:

- CV-19: more than 3.3 million cases and 230,000 deaths worldwide. U.S. accounts for 1/3rd of global cases and 1/4th of deaths. In the U.S., daily new cases peaked on Apr. 24th at 39,000 and has averaged 28,000 per day since; daily deaths peaked on Apr. 21st at 2,683 and has averaged 2,000 per day since. Europe has 27% more cases than the U.S. but 115% more deaths.

Economy:

- The list of "worst ever" economic data continues to mount around the globe. If there is an upside, it is that data appears to be finding a bottom. Of course with most of the world in some form of quarantine it is difficult for economic activity to slow much more.
- U.S. GDP fell at a 4.8% annual rate in the first quarter, the first decline since 2014, and the worst quarterly contraction since 2008. Net exports contributed 1.3% to headline growth, as imports fell at twice the rate of exports.
- U.S. jobless claims have risen by 30 million over the past 6 weeks, but the 4-week average clicked down for the first time this past week. Continuing jobless claims, a more important barometer of the economic re-start, now stand at 18 million, rising 2.2 million from the prior week and a 44% drop from the prior week's increase. It appears the Government stimulus programs, namely the PPP are successfully slowing the rate of job losses.
- According to debit and credit card transaction data reported by Bank of America¹, consumer spending is finding a bottom at down 18% Y/Y. The change within industries is staggering with Airlines, Lodging and Entertainment all seeing drops of more than 90%, Restaurants and Gas are down 45%. In contrast Grocery is up 34%, Online Electronics up 117% and Total Online Retail up 77%. Online retail spending now accounts for more than 25% of all card spending, up from 15% at the beginning of the year.
- Seasonally adjusted GDP decreased by 3.8% in the Eurozone during the first quarter of 2020, compared with the previous quarter. The French and Spanish economies shrank by 5.8% and 5.2%, respectively. Germany's economic minister predicted that Germany's GDP was set to decline by 6.3% in 2020.

Earnings:

- To date, 278 (55%) S&P 500 companies have reported first quarter earnings and Y/Y earnings growth is down 11.7% and revenues are down 0.8%. Communication Services and Technology sectors have seen earnings growth rates of more than 10% while Consumer Discretionary, Industrials and Financials earnings have fallen by a 30% or more.

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- 34% of Russell 2000 companies have reported with earnings that are down 15.6% Y/Y and revenues are up 1.7%. However, the final tally for the Russell 2000 is likely to show a Y/Y earnings decline of more than 25%.
- For the second quarter, the median S&P 500 company is expected to see a 20% drop in earnings, equating to a Y/Y drop of almost \$100 billion, with a 5.6% decline in sales. Of the 24 industry groups, only Food & Staples Retailing and Utilities are forecast to grow earnings in the second quarter. Current consensus expectations for aggregate earnings are for 3 years of earnings growth to be lost in the recession, in-line with the “normal” recessionary retracement. A more likely outcome is for 4-6 years of earnings to be lost taking 2020 earnings back to 2014 levels of \$110, a Y/Y decline of 33%².

Financial Markets:

- U.S. equity markets have rallied significantly off the lows of Mar. 23rd with the S&P 500 now up 33% from the lows and 14% below the intra-day highs of Feb. 19. Growth stocks continue to outpace value stocks by a wide margin. The Russell 1000 Growth index is now 17.1% ahead of the Russell 1000 Value index, year-to-date.
- Consumer Discretionary is now the third best performing S&P 500 sector year-to-date with a -2.6% return. However, the average stock on the sector is down 26.8% year-to-date. Amazon, which now accounts for 41% of the sector weight, has returned 33.9%, which is 2.6 times greater than the return of Dollar General, the second best performing stock in the sector. Only 6 of the 64 stocks in Consumer Discretionary have positive returns year-to-date.
- European equity markets now trail U.S. markets by more than 10% year-to-date, a trend that is likely to continue until investors are confident that a global economic upturn is underway. European markets have greater exposure to cyclical sectors such as financials and energy and the European monetary and fiscal response to the crisis has not been as large or as swift as the U.S. response.

Summary:

In January how many of us were familiar with the terms “social distancing” or “ R_0 ”? Yet, now we are regularly calculating the herd immunity required for a given R_0 for CV-19. In case you haven’t done the calculation, the current estimates of R_0 of 2-2.5 for CV-19 imply a necessary immunity of 50-60%⁴ of the population. What we know though is that we need to maintain an R_0 below 1 in order re-open the economy without a vaccine or therapy for CV-19. It is likely that regional lockdowns will become part of day-to-day life as populations see spikes in their localized cases. As we’ve stated previously, there is no debate about whether or not we have entered a global recession, just the depth and length are in question. It also appears clear that the monetary and fiscal relief efforts of the U.S. are starting to have a positive impact. We do not believe a “V-shaped” recovery is necessarily in place, but a path forward is starting to materialize. Europe looks to be approximately 2 weeks ahead of the U.S. on the path to recovery from CV-19 cases and deaths, and the EU is taking steps to re-open schools and factories. States and municipalities across the U.S. are re-opening as well and it is likely these modest steps forward will begin to be reflected in economic data over the coming month(s). The market seems to be priced for a successful reopening but with so much monetary stimulus in the pipeline it becomes difficult to distinguish whether the market rise is based on an improvement in the outlook or a reflection of overwhelming capital flows. Testing and treatment developments will likely continue to be the primary driver of day-to-day swings in the markets and over the past few weeks the news has been more positive than negative, paving a way forward for the global economy to begin to re-open.

¹: Bank of America Data Analytics, April 30, 2020;

²: Strategas Securities, LLC, May 1, 2020, All rights reserved;

³: R_0 is the basic reproduction number of a disease and indicates the average number of people an infected person goes on to infect, assuming that everyone in the population is susceptible to the disease;

⁴: Herd Immunity estimate = $1 - (1/R_0)$, herd immunity is the concept that in a population where many people are immune a disease can’t take hold and grow into an epidemic.

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