CERITY PARTNERS®

Outlook for April 2020

First Quarter Recap

First Quarter 2020: The Worst Equity Performance in 12 Years

The global spread of the COVID-19 virus, which originated in China at the end of 2019, was the catalyst for an unprecedented global economic decline and the worst quarter of equity performance since the great financial crisis of 2008. To further emphasize the magnitude, it was the fifth-worst quarter in the last 75 years. Small and mid-capitalization U.S. equities and international equities fared even worse as quarantines and mobility restrictions led to closures and dramatically reduced demand in many industries, especially leisure, hospitality and travel. By no means was the carnage limited to those sectors, eventually the closures and restrictions were imposed on all non-essential manufacturing facilities. The immediate impact of these mobility policies was the end of the longest economic expansion and the longest bull market in U.S. history. Asset price declines were not limited to the equity markets. Both investment-grade and high-yield corporate bonds saw substantial price declines in March as investors adjusted to the oncoming recession.

Besides Treasury notes, there were very few safe havens amidst the market storm. The dollar outperformed most other currencies despite the aggressive Fed ease. Investors tend to repatriate their assets in a crisis, and dollar-based investors dominate the roster of market participants. Gold, another beneficiary of Fed easing, generated a positive return for the quarter. This commodity tends to benefit when central banks flood the market with newly printed currency.

Focus now shifts to second quarter as investors and analysts alike brace themselves for weak economic reports and continued volatility.

Key Market Drivers

Coronavirus Brings Economic Growth to a Standstill

The coronavirus pandemic has brought global economies to their knees over the past month. All eyes are focused on the Asian economies, especially China, as they begin reopening their societies and resuming production. Not surprisingly, these countries are expected to report a sharp decline in first-quarter GDP growth later this month. Any notable rebound in emerging market economies isn't likely to occur until fourth quarter at the earliest now that the virus has taken hold in developed countries. Exports to developed markets are a key component of many emerging market economies. Here in the U.S., mobility restrictions didn't begin in earnest until mid-March. So, first-quarter GDP growth is expected to hover around 0%, followed by a much steeper decline in the second quarter. We are currently forecasting a "U-shaped" recovery, which would imply continued economic weakness in the third quarter before a notable rebound in the fourth quarter. As European economies were already teetering on the brink of recession before the virus, their recessions may be deeper and longer-lasting, especially in Italy and Spain. Aggressive fiscal and monetary policy responses are especially important in these countries to support individuals and businesses.

U.S. Fiscal Policy Eases Some Concerns

While monetary policy is essential for providing liquidity to the financial system, fiscal policy is key for supporting displaced workers and preventing mass business closures and bankruptcies in our current environment. After two relatively small stopgap initiatives, Congress passed a $2.2 trillion relief package targeted to individuals, hospitals, small businesses, and corporations. A fourth fiscal relief package will probably only happen if it becomes apparent more government assistance is needed.

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Our Perspective

Equity Markets

- Analysts are waiting for guidance from corporations as to how far revenues, margins, and earnings will fall due to the mobility restrictions. We're anticipating a roughly 25% decline in S&P 500 operating earnings. If this holds true, the market may be close to bottoming as equity prices have already fallen by a similar amount. That said, finding the true bottom will likely entail a testing of recent lows and continued volatility until there's a meaningful slowdown in the spread of the virus.
- European and Japanese equities may be even more volatile, given the weaker economic state of these regions and their reliance on exports.
- Emerging Asian markets appear better positioned than other emerging countries now that the virus has begun to subside, and the economies are slowly reopening. This could be a distinct buying opportunity within these markets. However, we will continue to monitor the pandemic's lasting impact on globalization and China's longer-term growth rate.

Bond Markets

- The sharp and sudden recession has driven bond yields down across the curve. The Fed's actions did resolve the yield curve inversion, which could be a potential economic light at the end of this dark, virus-driven tunnel. While the Fed would prefer not to reduce rates below zero, the demand for longer-term maturities could drive bond yields lower as the economy weakens through the second quarter. The massive supply of Treasurys that will be issued to finance fiscal policy initiatives may help offset these lower yields.
- The municipal bond market came under great stress in March as creditworthiness was questioned across the quality spectrum. Monetary and fiscal policies appear to have reduced some of this pressure. Still, tax-exempt issues continue to trade at an unusual yield ratio to taxable Treasurys. More direct federal support to state and local governments under another fiscal package could be a catalyst for unlocking the inherent value in this asset class.
- Spreads between high-yield bonds and like-maturity Treasurys have widened dramatically. The oil price war between Russia and Saudi Arabia is placing further pressure on this asset class. With oil trading in the low $20s, there is heightened default risk in the energy sector of high-yield portfolios.
- Emerging market bonds have experienced sharp declines due to the direct impact of the virus plus a decrease in exports to developed markets, a key component of emerging market economies.

Monetary Policies/ Currencies

- The Federal Reserve is all-in on providing liquidity to the markets. In addition to resurrecting quantitative easing through the purchase of Treasury and mortgage-backed securities (MBS), the bank dusted off some of the programs used in the 2008-2009 financial crisis to combat recent spread widening in the commercial paper, MBS, and asset-backed securities markets. The Fed also targeted relief to money market funds and the short-term municipal bond market. While there may still be unforeseen pressure points, this aggressive and proactive monetary policy is having a near term calming effect.
- The central banks of other developed markets have less room to cut rates because many of their rates are already negative. Even so, they are providing similar liquidity programs to keep their respective markets from freezing.
- The Peoples Bank of China possesses much more policy rate flexibility. It is decreasing rates to help offset the economic impact of the various quarantines and mobility restrictions. The Chinese banking system is not nearly as well-capitalized as the U.S. system, which could impede the money creation process if Chinese banks become hesitant to lend.

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What This Means for Investors

Over the coming months, the spread of the virus and the duration of the resulting mobility restrictions will be the most significant drivers of market sentiment. China's experience in reopening its economy, and hopefully, not seeing a recurrence of the virus may help inform the timing of a return to some sense of normalcy in developed markets.

For more market insights, contact a Cerity Partners advisor or visit ceritypartners.com.

Index Performance Data

	1Q 2020	1 Year	3-Year Annualized
Equity Index Returns			
Dow Jones	-22.73%	-13.38%	4.42%
S&P 500	-19.60%	-6.98%	5.10%
Russell 2500	-29.72%	-22.47%	-3.10%
MSCI ACWI	-21.37%	-11.26%	1.50%
MSCI EAFE	-22.83%	-14.38%	-1.82%
MSCI Emerging Markets	-23.60%	-17.69%	-1.62%
Other Index Returns			
MSCI U.S. REIT	-26.99%	-20.99%	-3.02%
Bloomberg Commodity Index	-23.29%	-22.31%	-8.61%
HFRI FoF Index	-1.30%	3.22%	2.78%

	1Q 2020	1 Year	3-Year Annualized
Fixed Income Returns			
Barclays Aggregate Bond Index	3.15%	8.93%	4.82%
Barclays 1-10 Year Municipal Bond	-0.56%	2.77%	2.85%
Merrill Lynch High Yield Master II	-13.12%	-7.45%	0.55%
Citi World Government Bond Index	3.97%	8.89%	5.44%
JPM Emerging Markets Bond Index Global	-11.76%	-5.28%	0.44%
Barclays TIPS	1.69%	6.85%	3.46%
Citi U.S. 3-Month T-Bill	0.39%	2.04%	1.74%

Source: FactSet
*HFRI FoF Index Performance as of 2/29/2020
**Returns are total returns except for the Dow Jones & MSCI US REIT (price returns)
***Citi World Government Bond Index is the hedged index

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First Quarter Market Summary

							Annualized			
		2Q19	3Q19	4Q19	1Q20	YTD	1-Year	3-Year	5-Year	10-Year
U.S. Equity Benchmarks	**Price**									
Dow Jones Industrial	21,917	3.21	1.83	6.67	(22.73)	(22.73)	(13.38)	4.42	6.86	10.00
NASDAQ Index Composite	7,700	3.87	0.18	12.47	(13.95)	(13.95)	0.70	10.39	10.70	13.67
S&P 500	2,585	4.30	1.70	9.07	(19.60)	(19.60)	(6.98)	5.10	6.73	10.53
Russell 1000 (Large Cap)	1,416	4.25	1.42	9.04	(20.22)	(20.22)	(8.03)	4.64	6.22	10.39
Russell 1000 Growth	1,516	4.64	1.49	10.62	(14.10)	(14.10)	0.91	11.32	10.36	12.97
Russell 1000 Value	981	3.84	1.36	7.41	(26.73)	(26.73)	(17.17)	(2.18)	1.90	7.67
Russell Mid Cap	1,729	4.13	0.48	7.06	(27.07)	(27.07)	(18.31)	(0.81)	1.85	8.77
Russell Mid Cap Growth	981	5.40	(0.67)	8.17	(20.04)	(20.04)	(9.45)	6.53	5.61	10.89
Russell Mid Cap Value	1,481	3.19	1.22	6.36	(31.71)	(31.71)	(24.13)	(5.97)	(0.76)	7.22
Russell 2000 (Small Cap)	1,153	2.10	(2.40)	9.94	(30.61)	(30.61)	(23.99)	(4.64)	(0.25)	6.90
Russell 2000 Growth	806	2.75	(4.17)	11.39	(25.76)	(25.76)	(18.58)	0.10	1.70	8.89
Russell 2000 Value	1,232	1.38	(0.57)	8.49	(35.66)	(35.66)	(29.64)	(9.51)	(2.42)	4.79
S&P GICS Sectors	**Weight**									
Consumer Discretionary	9.8%	5.28	0.51	4.47	(19.29)	(19.29)	(10.77)	5.69	7.36	13.56
Consumer Staples	7.8%	3.72	6.11	3.51	(12.74)	(12.74)	(0.59)	2.87	5.19	9.99
Energy Sector	2.7%	(2.83)	(6.30)	5.49	(50.45)	(50.45)	(52.42)	(21.63)	(14.22)	(3.75)
Financials	10.9%	8.00	2.01	10.47	(31.92)	(31.92)	(17.15)	(2.31)	3.37	6.89
Health Care	15.4%	1.38	(2.25)	14.37	(12.67)	(12.67)	(1.01)	8.16	6.01	12.83
Industrials	8.2%	3.57	0.99	5.53	(27.05)	(27.05)	(19.47)	(1.79)	2.97	8.58
Information Technology	25.5%	6.06	3.34	14.40	(11.93)	(11.93)	10.43	17.63	17.05	15.79
Materials	2.4%	6.31	(0.12)	6.38	(26.14)	(26.14)	(16.57)	(2.80)	0.57	5.57
Communication Services	10.7%	4.49	2.22	9.00	(16.95)	(16.95)	(3.32)	(0.30)	3.66	8.11
Utilities	3.6%	3.48	9.33	0.75	(13.50)	(13.50)	(1.40)	6.23	8.28	10.59
Real Estate	3.0%	2.46	7.71	(0.54)	(19.21)	(19.21)	(11.32)	2.95	3.38	9.96

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								Annualized		
		2Q19	3Q19	4Q19	1Q20	YTD	1-Year	3-Year	5-Year	10-Year
Global Equity Benchmarks	**Price**									
MSCI ACWI	1,853	3.61	(0.03)	8.95	(21.37)	(21.37)	(11.26)	1.50	2.85	5.88
MSCI AC World x-USA	230	2.98	(1.80)	8.92	(23.36)	(23.36)	(15.57)	(1.96)	(0.64)	2.05
MSCI EAFE	1,560	3.68	(1.07)	8.17	(22.83)	(22.83)	(14.38)	(1.82)	(0.62)	2.72
MSCI EAFE Growth	1,471	5.73	(0.45)	8.45	(17.51)	(17.51)	(5.84)	2.98	2.47	4.71
MSCI EAFE Value	1,996	1.54	(1.74)	7.82	(28.20)	(28.20)	(22.76)	(6.65)	(3.83)	0.62
MSCI Emerging Markets	849	0.61	(4.25)	11.84	(23.60)	(23.60)	(17.69)	(1.62)	(0.37)	0.68
MSCI BRIC	268	(0.22)	(4.56)	13.13	(20.93)	(20.93)	(14.81)	2.22	2.23	0.38
MSCI Japan	2,830	1.02	3.13	7.64	(16.79)	(16.79)	(6.69)	0.95	1.82	3.83
Interest Rates	**Yield**									
Prime Rate	3.25	1.34	1.31	1.20	1.09	1.09	5.03	4.82	4.27	3.76
3m Treasury Bill	0.10	0.58	0.50	0.40	0.28	0.28	1.77	1.71	1.12	0.59
U.S. LIBOR 3m	1.45	0.62	0.55	0.48	0.38	0.38	2.05	2.01	1.45	0.89
U.S. Treasury 3m	0.27	0.52	0.41	0.40	0.28	0.28	1.61	2.01	1.64	1.17
U.S. Treasury 10yr	0.68	0.58	0.45	0.45	0.34	0.34	1.83	2.37	2.24	2.34
U.S. Treasury 30yr	1.32	0.69	0.57	0.56	0.47	0.47	2.31	2.77	2.77	3.12
Fixed Income	**Price**									
Citi 3-month T-bill	658	0.61	0.56	0.46	0.39	0.39	2.04	1.74	1.12	0.60
BC U.S. Gov't & Related 5-7	103	3.19	2.15	0.17	1.65	1.65	7.33	4.79	3.41	4.19
BC Municipal Bond 1-10 Year	111	1.64	0.81	0.86	(0.56)	(0.56)	2.77	2.85	2.32	3.00
BC TIPS	106	2.86	1.35	0.79	1.69	1.69	6.85	3.46	2.67	3.48
BC Aggregate	108	3.08	2.27	0.18	3.15	3.15	8.93	4.82	3.36	3.88
ML High Yield Master II	86	2.57	1.22	2.61	(13.12)	(13.12)	(7.45)	0.55	2.67	5.50
Citi World Gov't Bond Index	960	3.09	3.08	(1.44)	3.97	3.97	8.89	5.44	3.84	4.19
JPMorgan EMBI Global	778	3.76	1.34	2.09	(11.76)	(11.76)	(5.28)	0.44	2.85	4.82

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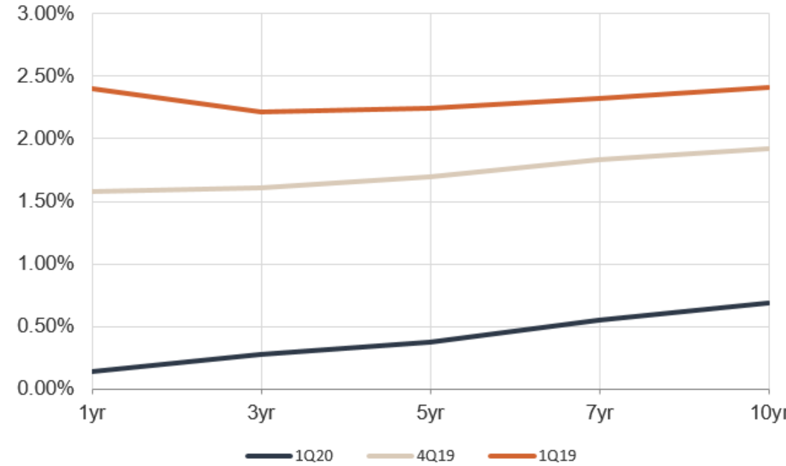
							Annualized			
		2Q19	3Q19	4Q19	1Q20	YTD	1-Year	3-Year	5-Year	10-Year
Real Estate	**Price**									
MSCI U.S. REIT	923	1.29	7.69	(0.78)	(26.99)	(26.99)	(20.99)	(3.02)	(0.42)	7.43
FTSE EPRA/NAREIT Europe	1,504	(2.50)	4.16	12.22	(27.43)	(27.43)	(17.30)	0.46	(0.66)	5.01
Commodities										
Bloomberg Commodity Index	62	(1.19)	(1.84)	4.42	(23.29)	(23.29)	(22.31)	(8.61)	(7.76)	(6.74)
Energy	17	(4.56)	(4.53)	5.82	(51.10)	(51.10)	(52.85)	(19.82)	(18.78)	(17.07)
Agriculturals	37	4.50	(6.15)	7.11	(9.86)	(9.86)	(5.31)	(9.15)	(7.22)	(3.54)
Livestock	19	(11.01)	0.77	0.15	(28.14)	(28.14)	(35.47)	(10.99)	(9.72)	(5.55)
Softs	27	(0.29)	(8.61)	13.94	(16.84)	(16.84)	(13.65)	(15.49)	(7.45)	(6.06)
Industrial Metals	93	(7.23)	2.44	(0.25)	(18.46)	(18.46)	(22.70)	(5.49)	(3.39)	(6.06)
Precious Metals	184	7.15	5.28	3.72	(1.11)	(1.11)	15.70	3.73	3.24	1.74
Private Equity / Hedge Funds	**Price**									
Red Rocks Global Listed PE Index	8	5.62	0.71	10.98	(33.77)	(33.77)	(21.82)	(3.87)	0.07	5.00
HFRI FOF Index	6,402	1.49	(0.95)	3.10	(1.30)	(1.30)	3.22	2.78	1.73	2.72
Currencies	**Price**									
ICE Dollar Index	99	(1.19)	3.38	(3.01)	2.76	2.76	1.81	(0.50)	0.14	2.02
Euro / U.S. Dollar	1	1.42	(4.27)	2.96	(2.25)	(2.25)	(2.28)	0.86	0.43	(2.07)
Pound / U.S. Dollar	1	(2.33)	(3.17)	7.50	(6.40)	(6.40)	(4.84)	(0.28)	(3.54)	(2.00)
U.S. Dollar / Yen	108	(2.66)	0.31	0.56	(0.66)	(0.66)	(2.47)	(1.05)	(2.08)	1.45

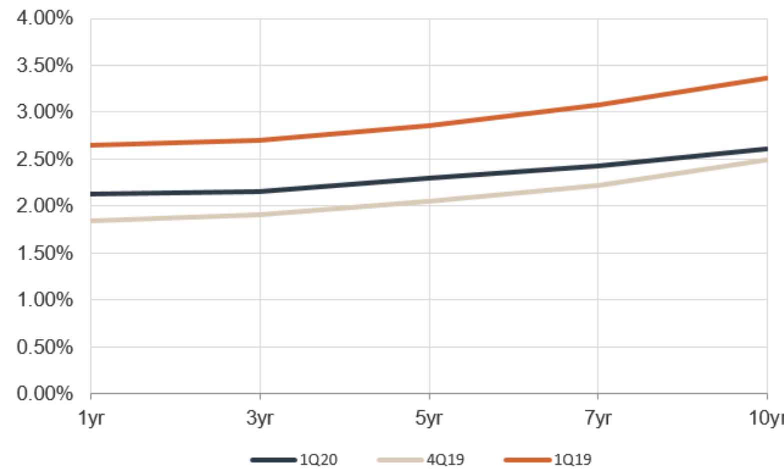
Source: Factset, Morningstar Direct, iShares website
Note: HFRI FOF Index returns as of 2/29/2020

Global Equity Valuation Summary	4Q19	1Q20	QoQ
S&P 500			
Price	3,230.78	2,584.59	(646.19)
Trailing P/E	21.18	16.83	(4.34)
Est P/E	18.22	15.52	(2.70)
Trailing 12m Earnings	149.53	150.49	0.96
Est Forward 12m Earnings	177.33	167.06	(10.28)
Implied 1yr Earnings Growth	18.59%	11.01%	-7.6%
Russell Mid Cap			
Price	59.62	43.17	(16.45)
Trailing P/E	20.67	14.66	(6.01)
Est P/E	18.16	14.76	(3.40)
Trailing 12m Earnings	2.39	2.49	0.10
Est Forward 12m Earnings	3.28	2.99	(0.29)
Implied 1yr Earnings Growth	37.19%	20.17%	-17.0%
Russell 2000			
Price	165.67	114.46	(51.21)
Trailing P/E	18.58	12.52	(6.06)
Est P/E	23.38	19.55	(3.83)
Trailing 12m Earnings	3.21	3.51	0.30
Est Forward 12m Earnings	7.09	5.94	(1.15)
Implied 1yr Earnings Growth	121.08%	69.34%	-51.7%
MSCI EAFE			
Price	69.44	53.46	(15.98)
Trailing P/E	15.85	12.38	(3.47)
Est P/E	14.77	12.66	(2.10)
Trailing 12m Earnings	4.21	4.13	(0.08)
Est Forward 12m Earnings	4.70	4.27	(0.43)
Implied 1yr Earnings Growth	11.59%	3.29%	-8.3%
MSCI EM			
Price	44.87	34.13	(10.74)
Trailing P/E	14.63	11.17	(3.46)
Est P/E	12.83	10.98	(1.85)
Trailing 12m Earnings	2.91	3.02	0.11
Est Forward 12m Earnings	3.50	3.24	(0.26)
Implied 1yr Earnings Growth	20.23%	7.28%	-12.9%

U.S. Treasurys



Municipal Bonds



Source: FactSet
Notes: Municipal yields tax adjusted, assumes a 37% tax rate
Munis use the Bloomberg Barclays Municipal GO indexes and yield to worst