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Business & Personal Financial Planning

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Investment Update for the week of March 16th, 2020

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Investment Update for the week of March 16th, 2020

- **Global Markets: Another week of historic and extreme volatility leads global stocks into bear market territory and beyond**

  - **U.S. Equities** ended last week with substantial losses, despite a big rally on Friday. The declines pushed major U.S. equity indices into bear market territory representing a fall of 20% or more from recent peaks. With many markets setting new all-time highs as recently as mid-February, this was the fastest onset of a bear market ever. Volatility was extreme, and the CBOE Volatility Index or VIX, reached its highest levels since the 2008 financial crisis. The triggering of circuit breakers designed to halt markets under extreme volatility was also notable, as they were used twice last week (Monday and Thursday) for the first time since the late 90s. All S&P 500 sectors fell sharply, with the worst performing energy sector suffering nearly a 25% loss. Healthcare, IT and communication services were the best faring sectors, as their business models appear more resilient to current circumstances on the surface. Small-caps and value lagged large-caps and growth, respectively, as measured by the relevant Russell indices.

  - **International Equities** also suffered large declines and ended the week mostly in bear-market territory. Developed, non-U.S. equities were hit particularly hard with the MSCI EAFE Index losing nearly 20% in U.S. Dollar terms. Both European and Japanese equities priced in an expected halt in economic activity over the coming weeks and potentially months. Emerging market equities have generally held up a bit better possibly due to greater visibility on containment efforts in large constituent nations including China and South Korea.

  - **Credit Markets** largely held up better versus equities, but by no means were immune to volatility. Treasuries initially performed well as yields precipitously fell. Notably, the 10-year U.S. treasury yield fell as low as 0.35% following an extreme flight to safety. Since hitting these lows, yields made a comeback following unusual trading activity when investors sold Treasuries during a period when equities and other risk assets also fell. The Fed responded by injecting $1.5 trillion of liquidity into the short-term lending market. Things continue to evolve quickly as the Fed cut rates to near 0% over the weekend.

    Credit sensitive markets generally performed much worse than treasuries. The high yield market was hit particularly hard given its exposure to the energy, industrial and retail sectors. High yield credit spreads over treasuries had one of their largest widening moves last Monday, following news of the Saudi oil price cuts and production increases. Even municipal bonds suffered losses, after a record long streak of fund inflows was reversed and thin liquidity caused volatile price moves.

- **Economic Data/News: Further spread of the COVID-19 coronavirus and a price war in the oil market bring on stark recessionary concerns; the Fed cut rates to near zero levels**

  - **U.S.**: The number of COVID-19 cases continued to climb globally as the virus was officially declared a pandemic by the World Health Organization. The fastest growth in cases was outside of its origin in China, in countries like Italy and the U.S. The U.S. has so far responded by more intensely limiting travel from many countries in Europe and Asia. In many cases, greater action has been taken at the state and municipal level in efforts of containing the spread and 'flattening the curve' of the outbreak. Legislators are simultaneously working to alleviate the economic burden from a dramatic drop in business activity and consumer spending. Last Friday, President Trump declared a national emergency and additional stimulus measures helped markets give a temporary reprieve to investors. Most recently over the weekend, the Federal Reserve slashed its benchmark rate to near zero as it sought to have the greatest impact with what's left of its monetary policy reserves.

- **International:** Oil prices fell by the largest percentage since the Gulf War last week, after Saudi Arabia decided to dramatically ramp production and drive down prices after Russia refused to agree to production limits. This volatility added additional stress on the corporate energy market across the globe and WTI crude oil prices are now below the $30/barrel mark. In Europe, the ECB in conjunction with individual nations implemented a fresh stimulus to help the region cope with the effects of the virus. Many European nations have also enacted travel bans and restrictions on any form of large gatherings. Asian governments have also enacted intensive limitations in mobility in conjunction with economic stimulus. In Japan, the Bank of Japan doubled its purchases of equity ETFs and appears willing and ready to step their actions up further. In China, many expect additional policy easing, although their progress on COVID-19 containment appears well ahead of other nations, despite being the origin for the virus.

- **Odds and Ends: Schools close for 30 million U.S. children, Boeing taps its line of credit, and the refinance market is booming**

  - In what can only be described as unprecedented times, more than half of the country's schoolchildren (or about 30 million kids) will be learning from home for the foreseeable future. The shutdown includes many of the country's largest districts including Los Angeles, Chicago, Boston, and most recently – New York City. The shutdown will have a variety of implications on the economy (not to mention on parents' sanity). Many districts have rushed to implement online learning techniques to help bridge the gap for the remaining time in the school year.

  - **Boeing** went from having a bad year to a terrible one. The company took steps to preserve cash and draw down additional borrowing facilities in efforts to recertify its 737 MAX plane. The aviation giant also announced a hiring freeze and limitations on nonessential travel and overtime. Unsurprisingly, Boeing's (BA) stock has tumbled, falling from a 52-week high of $400 per share to roughly $150 per share today. Successfully navigating the next several months will be critical for Boeing's long-term success.

  - Amidst tough times for many industries right now, the refinance one is currently booming. Record low mortgage rates are leaving some lenders struggling to keep up with demand. According to the Mortgage Bankers Association, weekly refinance applications have hit their highest level in over a decade. The average rate of a 30-year fixed rate mortgage is near its lowest level in about half a century. While falling rates generally boost the housing market, its yet to be seen how potential buyers and sellers handle the all-important spring selling season.

- **Resource of the week**: We imagine everyone has enough coronavirus news in their lives. For a change of pace, this week's resource tells the inspiring story of Casey Neistat. He had the odds stacked against him after he dropped out of high school and was a father by the age of 17. He eventually followed his passion for short-form, blog-like filmmaking which developed a cult-following on social platforms like YouTube. You might have even seen his viral video for the 'Make it Count' Nike campaign (link below). As always, please feel free to submit suggested resources to smelnick@sfr1.com.

  - **Link:** https://www.npr.org/2020/02/28/810412631/video-artist-casey-neistat
  - **Nike commercial link:** https://www.youtube.com/watch?v=WxfZkMm3wcg&t=108s

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update

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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Wilshire 5000 Total Market Index measures the performance of all U.S.-headquartered equity securities with readily available price data. The Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market. The Russell 2000 Index is a market-cap weighted index comprised of the smallest 2,000 companies within the Russell 3000 Index, a larger market-cap index made up of the largest 3,000 publicly traded companies in the U.S., nearly 98% of the investable U.S. stock market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI Europe Index captures large- and mid-cap representation across 15 Developed Markets countries in Europe, covering approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI Emerging Markets (EM) Index captures large- and mid-cap representation across 26 Emerging Markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Japan Index captures large- and mid-cap representation of the Japanese market, covering approximately 85% of the free float-adjusted market capitalization in Japan. The Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S. The Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-denominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timelines or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss.