Fourth Street Performance Partners
Independent Investment Consultants

February 2020: Market Review

Global equity indexes posted steep declines in February as fears of potentially long-lasting negative effects from the coronavirus outbreak (COVID-19) rattled markets. Bond yields continued their downward trajectory and the spread between the 10-year and 3-month U.S. Treasury bonds sank deeper into negative territory. Federal Reserve Chairman Jerome Powell communicated that the coronavirus “poses evolving risks” to the U.S. economy and indicated that the central bank would cut interest rates if needed to support the expansion. The S&P 500 Index slid -8.2% for the month. The Dow Jones Industrial Average dropped -9.8% while the tech-heavy NASDAQ Composite fell -6.3%.

In U.S. economic news, fears over the coronavirus outbreak and a potential global recession were the primary focus. While markets shrugged off the virus for the first few weeks of February, worries increased during the latter part of the month over the potential longer-term effects of global supply chain disruption amidst quarantines and factory shutdowns in China. The Fed held the Federal Funds target rate range constant during the February meeting but indicated its willingness to implement further monetary stimulus to combat the virus. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.1% in November, while on a year-over-year basis, prices were +3.8% higher than a year ago. Among commodities, WTI crude oil ended February at $44, down from $52 at the end of January as global demand declined for the first time since 2009. Gold declined from $1,583 per troy ounce at the end of January to $1,564 per troy ounce at the end of February.

Within domestic equities, growth stocks outperformed relative to value stocks in all capitalization sizes. Within large cap stocks, the Russell 1000 Growth Index fell -6.8% versus a -9.7% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index declined -6.9% for the month while the Russell Midcap Value Index slid -9.9%. In small cap stocks, the Russell 2000 Growth Index dropped -7.2% during the month while the Russell 2000 Value Index decreased -9.7%.

Major international indexes also posted declines for the month amid the risk-off environment triggered by the coronavirus and declines in crude oil prices. The MSCI EAFE Index fell -9.0% while the MSCI Europe Index declined -9.3% for the month. The MSCI Pacific Index decreased -8.7% in February. The MSCI Emerging Markets Index also ended in negative territory, returning -5.3% in February. Emerging market monthly returns were negatively impacted by weakness in Russia (-14.5%), Brazil (-13.4%), and India (-7.4%).

U.S. fixed income markets were positive as longer-dated yields tumbled to all-time lows in February. The yield on the 10-year Treasury closed at 1.13%, down sharply from last month’s close of 1.51%. The spread between the 10-year and 2-year yields ended the month at 27 bps, increasing from a spread of 18 bps at the end of January. The spread between the 10-year and the 3-month Treasury yields remained inverted at the end of the month. The Bloomberg Barclays U.S. Aggregate Bond Index added +1.8% for the month. Long-dated bonds were the strongest performers in January as the Bloomberg Barclays Treasury 20+ Year Index increased +6.9%. The Bloomberg Barclays U.S. Treasury Index added +2.7%. The Bloomberg Barclays Corporate High Yield Bond Index declined -1.4% as investors sought safe haven assets.

U.S. equity indexes posted significant declines in February as coronavirus fears spurred a broad selloff in risk assets. While much uncertainty remains regarding the full extent of the virus’s impact, high inventories at the beginning of the year and some movement of portions of supply chains away from China in response to trade tensions may provide some relief. Purchasing Managers’ Index (PMI) data shows that coronavirus fears are beginning to negatively impact business sentiment, however consumers’ balance sheets are healthy and the unemployment rate remains low. Furthermore, central banks are set to maintain their accommodative stance. Ultimately, risks remain with the potential fallout of the coronavirus outbreak if it cannot be contained. To read further thoughts from Fourth Street on the virus, please see the Insights section of our website.