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Independent Investment Consultants

March 2020: Market Review

COVID-19's outbreak into a global health pandemic and the governmental response in many major countries of shutting down significant portions of the global economy resulted in historic declines for most major equity indices in March. Equity markets quickly entered into bear market territory as a massive flight to cash resulted in panic selling of both stocks and non-government bonds. The government-mandated shutdown of a significant portion of the economy almost assuredly has already resulted in recession-like conditions in the U.S. and Europe. The Federal Reserve took substantial action to promote liquidity and stability in financial markets, cutting interest rates to near zero and, most notably, quickly stepping in as a significant buyer of most types of investment grade bonds. Congress passed, and the President signed into law, three separate bills to inject much needed liquidity to businesses, individuals, healthcare providers, and state and local governments in response to the crisis. The most significant of these being a $2 trillion fiscal package that, among other things, provides for direct payments to most Americans and loans to various businesses to keep employees on their payroll. Domestic large cap stocks posted their worst quarter since 2008, declining -19.6% in an abrupt end to the longest bull market in U.S. history. The Dow Jones Industrial Average tumbled -22.7% while the tech-heavy NASDAQ Composite fared somewhat better, sliding -14.0%.

While the economic demand shock of mitigating the COVID-19 pandemic was likely enough to cause a recession, a nearly simultaneous economic supply shock in international crude oil markets added to the disruption. WTI crude oil plummeted to less than $20/barrel, down from $44 at the end of February as Russia refused to go along with Saudi Arabia on oil production cuts with the Saudi's responding by significantly increasing production in the face of tumbling global demand. Gold ended the month at $1,583 at the end of March, unchanged from its price at the end of February.

Within domestic equities, growth stocks fared significantly better than value stocks across all capitalization sizes. Within large cap stocks, the Russell 1000 Growth Index fell -14.1% versus a -26.7% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index declined -20.0% for the month while the Russell Midcap Value Index tumbled -31.7%. In small cap stocks, the Russell 2000 Growth Index dropped -25.8% during the month while the Russell 2000 Value Index plummeted -35.7%.

Major international indexes also posted declines for the month amid the risk-off environment. The MSCI EAFE Index fell -22.8% while the MSCI Europe Index declined -24.3% for the month. The MSCI Pacific Index decreased -20.3% in March. The MSCI Emerging Markets Index also ended in negative territory, returning -23.6% during the month. Emerging market monthly returns were negatively impacted by weakness in Brazil, (-38.3%), Mexico (-29.4%), and India (-25.4%). Results from China (-6.6%) offset some of these declines as official government data indicates that the coronavirus infection rate is slowing in China.

U.S. fixed income markets were mixed as longer-dated Treasury yields reached record lows in March but corporate and high yield bonds sold off. The yield on the 10-year Treasury closed at 0.70%, spiraling sharply downward from last month's close of 1.13%. Mid-month, the yield reached a record low of 0.38% in intraday trading. The yield curve steepened in March as the spread between the 10-year and 2-year yields ended the month at 58 bps, increasing from 27 bps at the end of February. The Bloomberg Barclays U.S. Aggregate Bond Index declined -0.60% for the month. Long-dated bonds were the strongest performers in January as the Bloomberg Barclays Treasury 20+ Year Index surged +6.2%. The Bloomberg Barclays U.S. Treasury Index added +2.9%. The Bloomberg Barclays Corporate High Yield Bond Index declined -11.5% as investors sought higher quality assets.

While much uncertainty remains regarding the full extent of the virus's impact, it is nearly a certainty that this crisis will result in a recession. The big unknown is how long and how severe it will turn out to be. Purchasing Managers' Index (PMI) data continues to show weakness and jobless claims have spiked to record highs. Ultimately, significant risks remain if the coronavirus cannot be contained and if government and central bank interventions are not enough to bridge the unemployed workers and inactive businesses to the other side of this pandemic. For more information on the potential impact of the virus, please see the Insights section of our website.