April 2020: Market Review

In spite of increasingly grim economic data, major equity indexes rebounded from March's lows on optimism that significant emergency relief measures from global governments and central banks would be enough to mitigate the impacts of a major contraction in the global economy. Initial jobless claims skyrocketed in the month of April while crude oil futures plunged to negative territory for the first time in history. The first reading of first quarter U.S. real GDP indicated a contraction of -4.8% annualized, however much bleaker results are expected in second quarter results. On the other hand, market sentiment was lifted on news that daily new infection rates of COVID-19 began to decline in some countries, leading to announcements of plans to gradually reopen economies. The S&P 500 Index rebounded +12.8% and the Dow Jones Industrial Average increased +11.2%. Boosted by relative strength in technology stocks, the NASDAQ Composite surged +15.5%.

In U.S. economic news, the impact of closing approximately 20% of the nation's economy to stop the spread of the virus remained the primary focus. The Federal Reserve continued to broaden emergency relief measures, expanding the Paycheck Protection Program lending facility ("PPP"), introducing the Main Street Lending program to purchase small- and medium-sized business loans, and announcing its intent to purchase up to $500 billion of municipal bond securities. The Fed held interest rates constant during its April meeting and indicated they remain near zero percent for the foreseeable future. The federal government signed additional legislation into law in April, appropriating almost $500 billion to replenish the PPP and Emergency Injury Disaster Loan program, while providing additional funding for hospitals and COVID-19 testing. Among commodities, WTI crude oil ended April at $19 a barrel but reached a price of almost -$37 mid-month on weak demand and lack of storage capacity, implying a steep price for traders to roll their oil futures contracts forward from May to June. Gold ended the month at $1,684, increasing from its price of $1,583 at the end of March.

Within domestic equities, growth outperformed relative to value across all capitalization sizes. Within large cap stocks, the Russell 1000 Growth Index added +14.8% versus an +11.2% gain for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index increased +15.7% for the month while the Russell Midcap Value Index gained +13.4%. In small cap stocks, the Russell 2000 Growth Index climbed +14.9% during the month while the Russell 2000 Value added +12.3%.

Major international indexes also posted gains for the month as some countries showed glimpses of having the virus under control. The MSCI EAFE Index gained +6.5% while the MSCI Europe Index added +5.9% for the month. The MSCI Pacific Index increased +7.3% in April. The MSCI Emerging Markets Index posted the strongest results outside of the U.S. as Wuhan lifted the lockdown and reopened its economy. Emerging market monthly returns were positively impacted by strength in India (+16.1%), Taiwan (+14.1%), and South Africa (+11.8%) as those countries made significant recoveries from March lows.

U.S. fixed income markets rallied as news of central bank intervention led to the narrowing of credit spreads. The Fed announced its intent to purchase both investment-grade corporate and high yield bonds (assuming investment grade status prior to March 22), leading to their outperformance relative to Treasuries. The yield on the 10-year Treasury closed at 0.64%, down from last month's close of 0.70%. The Bloomberg Barclays U.S. Aggregate Bond Index added +1.8% for the month. Long-dated bonds posted strong results as the Bloomberg Barclays Treasury 20+ Year Index increased +2.0%. The Bloomberg Barclays U.S. Treasury Index added +0.6%. The Bloomberg Barclays Corporate High Yield Bond Index was the strongest performer, adding +4.5% on news of central bank stimulus.

U.S. equity indexes recovered some of their year-to-date declines in April as investors focused on the potential reopening of the economy rather than the increasingly negative current economic data. It is assumed that this crisis has resulted in a recession and it is unknown how long and severe it will become. The extraordinary response from central banks and federal governments has provided some relief but more stimulus may be needed to carry unemployed workers and inactive businesses to the other side of this pandemic. Furthermore, the long-term impact of these measures remains to be seen as the U.S. national debt level continues to skyrocket.