



## MARKET UPDATE

# Coronavirus Market Impact

### MARKETS REBOUND AFTER SHARP LOSSES

Markets remained extremely volatile last week, as the world struggled to contain the coronavirus (officially COVID-19) pandemic and policymakers worked to cushion the economic blow. However, stocks posted big gains for the week and debt markets showed signs of normalization.

It was welcome relief for global equity markets coming off of their worst loss since 2008 the previous week and having dropped more than 30% in just over a month. Despite last week's advance, equities are still down more than 20% the year, and bond markets continue to show signs of stress.

### HUGE STIMULUS MEASURES ROLLED OUT

Even as we began to see signs of just how deep the economic blow from COVID-19 will likely be, investors were encouraged by massive fiscal and monetary stimulus efforts around the world.

In the US, Congress approved a massive \$2 trillion fiscal relief bill on Friday, and the Federal Reserve announced unlimited quantitative easing and new facilities to support corporate credit. In Europe, the German government approved a major rescue package, which included a fund that directly injects equity into companies. Meanwhile, the European Central Bank (ECB) began purchases under its Pandemic Emergency Purchase Program (PEPP) and announced that debt-issuer limits wouldn't apply. This move was viewed as a major game-changer in the central bank's policy framework.

Together, these efforts helped to soften the impact of weak macro data, including a sharp contraction in European Purchasing Managers Indices (PMIs) and a weekly unemployment claims spike to 3.3 million in the US. That's nearly five times the previous record high. Companies continued to close stores and production, withdraw earnings guidance, suspend capital returns and tap credit lines.

### THE CONTAINMENT BATTLE CONTINUES

As policymakers work furiously, confirmed COVID-19 cases continue to rise globally, with the US surpassing Italy and China, led by a continued surge of infections in New York and new hotspots across the country. Europe continues struggling to contain the virus: Spain became the second-worst affected country after Italy, and UK Prime Minister Boris Johnson announced that he had tested positive.

That said, there were some signs that the growth rate in Italy's new infections was slowing. China, meanwhile, announced the closing of its borders to foreigners—an attempt to stop re-importing cases after a seemingly successful effort to stem the spread within the country.

### TOO EARLY TO CALL A MARKET BOTTOM

The rapid policy response should make it easier for the economy to rebound once the coronavirus crisis eases, but until the public health situation stabilizes, macro data is likely to continue deteriorating and it will be impossible to restart the economy.

First-quarter earnings results will provide a clearer window into the depth of the economic impact on industries and companies. Analysts have already cut their earnings expectations sharply—they now expect just 2.8% earnings-per-share (EPS) growth this year for the MSCI All Country World Index (ACWI), down from 9.6% at the start of the year. And downward revisions of estimates may continue.

That said, valuations have also dropped to more reasonable levels, which should provide some downside support. Weighing all of this, we believe it's too soon to call a bottom in markets. Yes, stocks have already discounted much of the likely impact of the virus, but will probably need to see signs of stabilization in new COVID-19 cases before investors can confidently envision the eventual economic rebound.

## LOOKING TOWARD AN EVENTUAL RECOVERY

As the public health situation eventually improves, the world economy can begin to restart. This could happen in the second half of the year, though the timing is uncertain.

We can look to China for some indication of what to expect elsewhere. The country was the first to confront COVID-19, and efforts to stem the spread within its borders appear to have been successful, allowing China to begin reopening its economy. Financial markets have responded accordingly, with China now the best-performing country in the MSCI ACWI this year.

While there's no doubt that the virus will have a heavy impact on the economy and corporate profits, over time stocks are valued on long-term earnings and cash flow. History makes it clear that this relationship will eventually return—no matter how long and deep the dislocation may be.

History has also shown that trying to time markets hurts long-term returns. Investors should be appropriately cautious and ensure their portfolios reflect their risk tolerance and time horizon. However, we believe investors that stay the course and take a long-term view will ultimately be rewarded.

## WHAT ARE WE DOING IN OUR PORTFOLIOS?

In our equity portfolios, we're being cautious and deliberate, with our investment teams rigorously assessing the companies in our portfolios. In some cases, we've sold stocks that are most exposed to potential demand destruction and those that may not have the financial strength to weather the storm. In other cases, we've identified new opportunities that have become more attractive given the major reduction in valuations.

In fixed-income portfolios, while fundamentals were negatively impacted, the added pressure of tighter funding markets in previous weeks led to notable dislocations. We see these as longer-term opportunities, and we've started increasing our exposure in high-yield and investment-grade corporate bonds, emerging markets and securitized assets.

The value of an investment can go down as well as up and investors may not get back the full amount they invested. Past performance does not guarantee future results.

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In our multi-asset strategies, we're maintaining significant underweights to risk assets because we expect continued high levels of volatility, with the degree of the underweight depending on the strategy objective. This past week, we moderated this defensive positioning slightly, as the unprecedented scale and scope of monetary and fiscal policy actions became clearer.

As always, our investment teams are closely monitoring this rapidly evolving situation and will continue to work to strike the right balance between near-term risk and long-term opportunity in client portfolios.

## SUMMARY OF INDEX RETURNS (AS OF 27 MARCH 2020)

Index	Last Week (%)	MTD (%)	YTD (%)
MSCI ACWI	10.0	-14.7	-22.5
MSCI World	10.7	-14.5	-22.2
MSCI EAFE	11.2	-14.2	-23.5
MSCI EM	4.9	-16.1	-24.2
S&P 500	10.3	-13.8	-21.0
Russell 2000	11.7	-23.2	-31.9
Global Agg*	3.2	-2.2	-0.2
US Agg*	2.7	-1.0	2.7
Global HY*	5.2	-14.1	-15.6
EM Debt**	4.4	-14.0	-13.5

### Past Performance does not guarantee future results

\* Bloomberg Barclays Indices

\*\*JPM EMBI Global Diversified TR US

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#### A WORD ABOUT RISK

**Market Risk:** The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. **Interest-Rate Risk:** As interest rates rise, bond prices fall and vice versa—long-term securities tend to rise and fall more than short-term securities. The values of mortgage-related and asset-backed securities are particularly sensitive to changes in interest rates due to prepayment risk. **Credit Risk:** A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered and the bond's value may decline. **Allocation Risk:** Allocating to different types of assets may have a large impact on returns if one of these asset classes significantly underperforms the others. **Foreign (Non-US) Risk:** Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets. **Derivatives Risk:** Investments in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market. **Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools may magnify both gains and losses, resulting in greater volatility. **Below-Investment-Grade Securities Risk:** Investments in fixed-income securities with lower ratings (commonly known as "junk bonds") tend to have a higher probability that an issuer will default or fail to meet its payment obligations.

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