

MARKET UPDATE

Coronavirus Market Impact

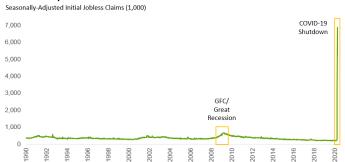
CAPITAL MARKETS LOOK PAST TERRIBLE JOBS DATA

Global stock markets shrugged off historically bad employment data this week, with the MSCI ACWI rising 2.2%. Bond markets were relatively stable versus previous weeks: the Bloomberg Barclays Global Aggregate Bond Index (US\$ Hedged) returned 0.6%. Interest rates declined, with the US 10-year Treasury yield falling to 0.64% and the two-year down to 0.22%. Gold prices topped \$1,700—levels not seen since the 2012 time frame—before declining late in the week.

US INITIAL UNEMPLOYMENT CLAIMS SOAR

Based on initial jobless claims, the US economy lost 22 million jobs in a month. It's a grim statistic, highlighting the severity of the recession for both the US and global economy, and it makes the experience of the global financial crisis look miniscule by comparison. However, many of the claims are from workers furloughed by employers; if the lockdowns don't last too long, they may have jobs to return to.

A Historic Spike in US Jobless Claims



Source: Refinitiv/Datastream; Through 16 April 2020. Analysis provided for illustrative purposes only and is subject to revision.

PROGRESS ON THREE FRONTS AGAINST COVID-19

To win the battle against the intertwined human, economic and market crisis caused by the spread of COVID-19, public health, monetary and fiscal policy must work in concert. We're seeing progress on all three fronts:

 Promising epidemiological developments. In the virus hotspots of Europe and the US, we're seeing a flattening of the infection curve. In Germany, for example, the carrier

- transmission rate dropped below one, meaning that the spread of the virus is slowing. Hospitalizations have been falling and lockdowns have worked, with governments making plans to ease containment measures. Promising new treatments, a global vaccine effort and wider use of better tests all mark progress on the public-health front—a prerequisite to a sustainable restart of economic activity.
- 2. **Broad central bank responses:** Monetary policymakers have provided a broad wave of support, highlighted by unprecedented action from the US Federal Reserve. The central bank has bought over \$2 trillion in government bonds and agency mortgage securities and is prepared to buy investment-grade corporate bonds—even "fallen angels" downgraded to junk ratings during the crisis. These efforts have restored liquidity and confidence to global money markets and many types of credit. They've also helped reduce equity risk premiums and backstopped valuations as earnings are sharply reduced.
- 3. Unprecedented fiscal stimulus: Governments around the world have passed historic fiscal measures to help companies stave off bankruptcy and keep workers on payroll. One-time payments to citizens are helping tide them over during lockdowns. The speed of the stimulus impact may vary but should cushion the blow from unemployment rates of up to 20%, preventing a 1929-style collapse. The International Monetary Fund is offering aid to emerging governments that lack resources, but its speed and effectiveness remain to be seen.

ARE MARKETS ASSUMING A RECOVERY TOO SOON?

This crisis has seen the fastest bear market in history: the S&P 500 fell 20% from its peak in only 23 days. But we've seen an even faster bull market. Equity and credit markets, buoyed by monetary and fiscal support and plans for phased economic restarts re-openings of their economies, responded with a gigantic relief rally of 20% in only 15 days from March 23.

But as developed-market policymakers breathe a sigh of relief and prepare to lift lockdowns, there are still signs that caution is needed. Not all of Asia, the first region to feel the impact of COVID-19, is reopening. Japan and Singapore, praised in the early days for their response, have intensified lockdowns as they battle second-wave infection spikes. Lifting lockdowns that have flattened the curve could allow it to rise again once lifted.

Without a synchronized global containment plan, we could see emerging infection clusters that require renewed closures—as Hong Kong has already experienced. In the absence of proven new treatments or a widely deployable vaccine, there's a plausible scenario of protracted lockdowns and relaxations with enforced social distancing—a "new normal." We don't think markets have fully discounted that outcome, which could drive more volatility if it comes to pass.

HOPE FOR THE BEST, PREPARE FOR THE WORST

Our base case for the global economy remains a sharp contraction in the first half of the year, followed by a second-half recovery that regains the previous growth trend of gross domestic product but at a lower level, because some activities will not be recovered. But it would be premature to assume the virus is comprehensively defeated, so investors should be ready for a wide range of outcomes.

History has shown that trying to time markets hurts long-term returns. We believe investors that stay the course and take a long-term view will ultimately be rewarded. Given negligible government bond returns, investors must take risk to get any sort of return. But they should be appropriately cautious, deciding which risks they're comfortable taking and ensuring that their portfolios reflect that risk tolerance and the appropriate time horizon.

WHAT ARE WE DOING IN OUR PORTFOLIOS?

In equities, strong balance sheets are paramount. We continue to monitor the financial health of our holdings across portfolios, including leverage and cash-flow generation. We also stress test them to understand how they would fare over different periods of economic shutdown. We gauge their business activity through reported results but also with a growing set of alternative data sources. We also review and engage with

companies on their ESG and employee policies at this difficult time, including the monitoring of employee Glassdoor ratings.

In our fixed-income portfolios, diversified credit exposure has benefited from improved performance across sectors, driven by better liquidity conditions and stronger buyer appetite. We took part selectively in the corporate-bond new-issue market, as record supply was met with significant demand following the Fed's expansion of the Secondary Market Corporate Credit Facility and Primary Market Corporate Credit Facility.

In our multi-asset strategies, we've narrowed the scale of the underweight to risk assets as several key indicators have shown improvement. But, because we expect continued high levels of volatility, we remain defensive with the degree of the underweight depending on the strategy objective. Should our view of the situation change, we will use the flexibility within our mandates to modify positioning appropriately: either to mitigate downside or to participate in upside.

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 17 APRIL 2020)

Index	Last Week	1-Month	YTD
	(%)	(%)	(%)
MSCI ACWI	2.2	13.5	-14.6
MSCI World	2.3	14.0	-14.0
MSCI EAFE	0.8	13.3	-19.7
MSCI EM	1.5	9.3	-18.8
S&P 500	3.1	13.8	-10.5
Russell 2000	-1.4	11.2	-26.0
Global Agg*	0.54	1.72	2.51
US Agg*	0.70	2.93	4.74
Global HY*	2.21	4.47	-10.1
EM Debt**	0.72	0.97	-11.4

Past Performance does not quarantee future results

- * Bloomberg Barclays Indices (USD hedged)
- **JPM EMBI Global Diversified TR USD

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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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, forwards or swaps can be risker 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. 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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