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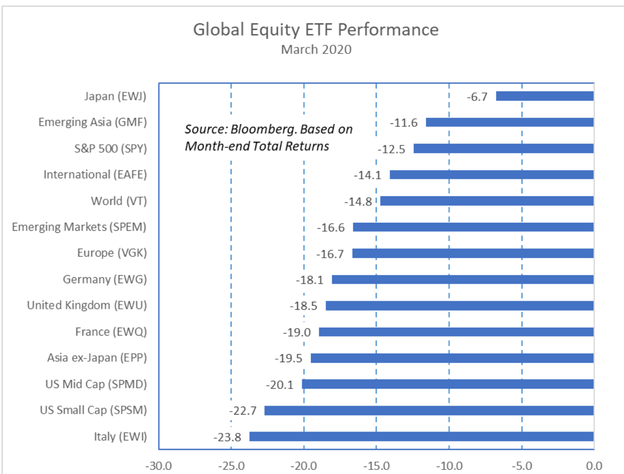
# MARCH 2020 CAPITAL MARKET REVIEW

The flight to safety in the world's capital markets continued in March as the spread of the COVID-19 virus gained momentum in Europe and America. Longer duration U.S. Treasuries proved to be the only safe haven among global asset classes.




## Equity Markets*

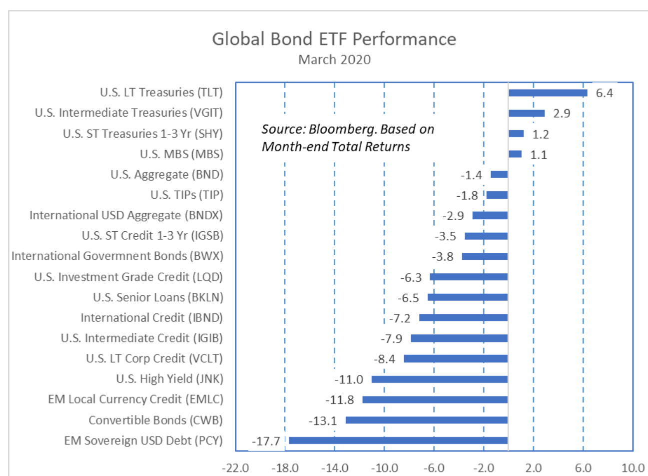
Global stocks fell another 14.8% in the month leading to first quarter losses of 22.2%. Japanese, Emerging Asian and U.S. Large Cap stocks outperformed, but still, all suffered double digit losses in March.

Italian equities in U.S. dollar terms fell nearly 24%, undoubtedly responding to the tragic toll the virus is taking on their population. Other key European bourses, Germany, the U.K. and France, suffered deep losses as well.

## Bond Markets*

The yield on the 10-year U.S. Treasury fell to a historic low of 0.54% on March 9th, settling at 0.67% by month end. Yields fell from 1.15% on February 28th, some 48 basis points, pushing prices of intermediate and long-term Treasuries higher. Long-term U.S. Treasuries specifically rallied another 6.4% bringing the year-to-date gain to 21.7%, an astounding gain for a single quarter. Many credit markets across the globe suffered losses in the flight to quality.

The U.S. dollar gained another 3.1% in March, bringing the advance to 5.2% in the first quarter according to the Bloomberg Dollar Spot Index.




**The returns cited reflect total return performance of exchange traded funds listed in the corresponding bar charts*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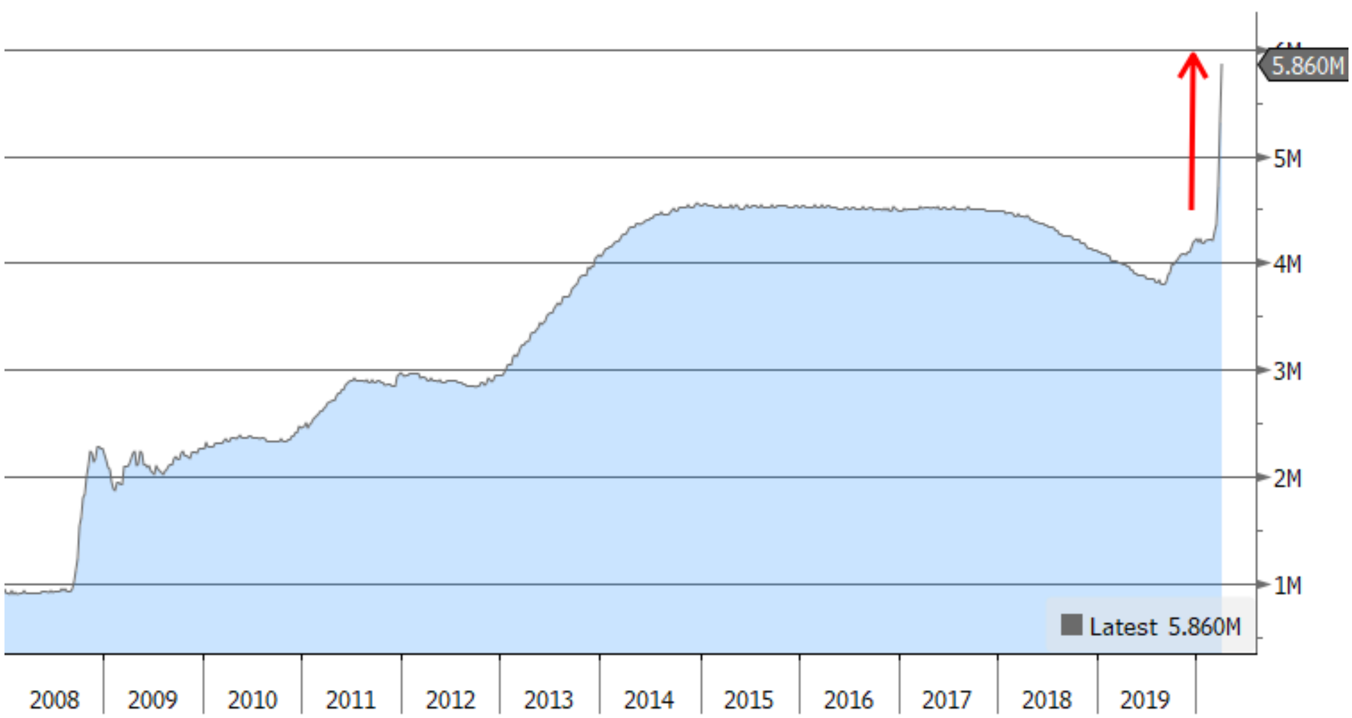
## U.S. Federal Reserve Balance Sheet Growth Accelerating

The US Federal Reserve has taken several powerful steps in recent weeks ranging from lowering policy interest rates, intervening in credit markets to provide stability and re-engaging in asset purchases, also known as QE. The amount of monetary stimulus is unprecedented and staggering in magnitude. Since March 4, the Fed's balance sheet has expanded nearly $1.6 trillion through their asset purchase plan, accumulating Mortgage Backed Securities, Treasuries and Corporate Credit. That is an incredible amount of expansion in such a short period of time considering that it took some 15 months during the financial crisis from when the QE program began to reach an equivalent level of assets. Some are concerned that the Fed has expended all of its monetary tools and that is a real concern given policy rates are at or near zero. The balance sheet now stands near $5.9 trillion, a level that just a few years ago would have seemed unimaginable. But it could become even larger. The Fed's balance sheet represents nearly 27% of US GDP. By contrast the European Central Bank's balance sheet stands at over 42% of European Union GDP. The Bank of Japan stands at over 100% of GDP. The Fed's asset purchase program could even become more active and remain manageable, especially considering the relative vibrancy of our economy compared to Europe and Japan. [chart courtesy Bloomberg LP © 2020]

**U.S. Federal Reserve Balance Sheet**




*See the WCM website for more market commentary or contact us with any questions.*

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## PORTFOLIO POSITIONING

In terms of overall positioning, we concluded the quarter moving towards our benchmark weight in equities while remaining underweight fixed income and generally overweight cash, this after progressively stepping away from risk since February. Within global equities, we are overweight the United States and solidly underweight all other regions. Within fixed income, we are also overweight in the U.S. with a preference for mortgages. Depending on the portfolio series, we have no exposure to non-U.S. fixed income, or limited exposure primarily through Green Bonds. Our portfolios maintain lower duration than the benchmark.

## RISK OUTLOOK

- The spread of the COVID-19 virus from the Chinese city of Wuhan is causing governments around the globe to undertake drastic containment measures ranging from closing schools and universities to bars, restaurants, places of worship, entertainment venues, shopping centers, public parklands and other spaces where large groups gather. The impact on economies and markets throughout the world has been and will continue to be severe for the foreseeable future, even with aggressive supportive action by governments and central banks.
- The U.S. economic fallout is in the early stages of recession or worse. In the last two weeks of March, the U.S. Labor Department announced initial jobless claims climbed to nearly 10 million, approximately equivalent to all the jobs lost during the Financial Crisis. Reports are likely to be even more painful in coming weeks.
- The U.S Federal Reserve balance sheet has expanded $1.6 trillion since March 4$^{th}$, an astounding amount and rate of increase. The government's fiscal stimulus plan stands at $2.3 trillion. Nearly $4 trillion overall is being injected into the economy thus far, a staggering amount of liquidity that is aimed at slowing or even arresting the damage to the American economy. The talk in Washington DC is already about another wave of legislation to clean up the gaps from the rushed emergency bill and to address additional areas of vulnerability in the American economy and infrastructure.
- Permanent changes to consumer behavior and global supply chains are likely to evolve over coming months and years which could create further disruption but also opportunity as more sustainable, safe and resilient sources of goods and services emerge.

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# KEY EVENTS IN MARCH

**Week 1**

- 4/1 Eurozone: Markit Composite PMI
- 4/1 U.S.: Markit Composite PMI
- 4/1 U.S.: ISM Surveys
- 4/2 China: Caixin Composite PMI
- 4/2 U.S.: Factory and Durable Goods
- 4/2 Japan: PMIs
- 4/3 U.K.: Markit/CIPS Composite PMI
- 4/3 U.S.: Labor Market Statistics

**Week 2**

- 4/6 Japan: Household Spending
- 4/9 China: PPI & CPI
- 4/9 U.S.: Initial Jobless Claims
- 4/9 U.K.: GDP & Industrial Production
- 4/9 U.S.: U of Michigan Sentiment Reports
- 4/9 Japan: PPIs
- 4/10 U.S.: CPIs
- 4/16 Eurozone: Industrial Production

**Week 3**

- 4/14 U.S.: Industrial Production
- 4/15 U.S.: Fed Beige Book Release
- 4/16 China: Industrial Production & GDP
- 4/16 China: Retail Sales
- 4/16 U.S.: Initial Jobless Claims
- 4/17 Japan: Industrial Production YoY

**Week 4**

- 4/22 U.K. CPI, PPI & Retail Prices
- 4/22 Eurozone: Consumer Confidence
- 4/23 U.S.: Markit Composite PMI
- 4/23 Japan: National CPI
- 4/23 Eurozone: PMIs
- 4/23 U.S.: Initial Jobless Claims

**Week 5**

- 4/28 U.S.: Consumer Confidence
- 4/29 U.S.: PCE Core Deflator
- 4/29 China: Industrial Profits
- 4/29 China: PMIs
- 4/29 Eurozone Confidence Surveys

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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in U.S. and longer-established non-U.S. markets.

An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

Portfolios that invest in real estate investment trusts (REITs) are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions.
Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

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ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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