MONTHLY CAPITAL MARKETS REVIEW

News from Asset Management Services Institutional Research

FEBRUARY HIGHLIGHTS

- Following a sustained period largely characterized by tranquility for risk-on investors, much of their optimism dissipated in the month of February. It was a rude reminder of the perils inherent to investing, as a seemingly random event can precipitate sharp losses to even the savviest participants. This particular phenomenon happened to be the proliferation of coronavirus, otherwise known as COVID-19. While it began to gather press in January, investors held tight – even through much of February, as early business surveys remained largely impervious to sullen news, Q4 earnings surpassed expectations, and hope prevailed that the virus would remain benign and localized. This latter point fell by the wayside, however, as soon as fears of a global pandemic were promulgated by a flurry of cases around the world. In effect, a disease whose primary concern is not its mortality rate, but rather the economic impact associated with its disturbance, created massive fissures within equity and commodities markets by the end of February. In the month’s waning moments, central banks around the world pledged to do what they could to protect their respective economies, but – by this point – the damage had already been done.

- Among equity indices, whose draconian performances cast them into an undesirable spotlight, there became a contest of what performed the least badly, rather than the best. The answer here seemed to be those within emerging markets, as the MSCI EM index returned -5.27%. Conversely, the S&P 500, which tracks US large cap companies, and the MSCI EAFE index, which measures internationally developed large cap companies, generated returns of -8.23% and -9.04%, respectively. Perhaps one can justify this by introducing the perception that the virus would peak sooner in Asia than it would in the rest of the world.

- Fixed income products rallied in the face of sputtering economic trials, as early business surveys remained largely impervious to sullen news, Q4 earnings surpassed expectations, and hope prevailed that the virus would remain benign and localized. This latter point fell by the wayside, however, as soon as fears of a global pandemic were promulgated by a flurry of cases around the world. In effect, a disease whose primary concern is not its mortality rate, but rather the economic impact associated with its disturbance, created massive fissures within equity and commodities markets by the end of February. In the month’s waning moments, central banks around the world pledged to do what they could to protect their respective economies, but – by this point – the damage had already been done.

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BBgBarc U.S. High Yield 2% Issuer Cap index: Issuer-constrained version of the flagship US High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value on a pro rata basis.

BBgBarc U.S. Municipal Bond Index: Covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BBgBarc U.S. Securitized: This index is a composite of asset-backed securities, collateralized mortgage-backed securities (ERISA-eligible) and fixed rate mortgage-backed securities.

BBgBarc U.S. Treasury: A component of the U.S. Government Index. Must be publicly issued, dollar-denominated and non-convertible, fixed rate (although it may carry a coupon that steps up or changes according to a predetermined schedule) U.S. Treasury security. Must be rated investment-grade (Ba1/BBB- or higher) by at least two of the following rating agencies: Moody’s, S&P, Fitch; regardless of call features, have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

Bloomberg Commodities Index: Provides a diversified representation of commodity markets as an asset class. The index is comprised of traded exchanges futures on physical commodities; representing 20 commodities which are weighted for economic significance and market liquidity. To promote diversification, weighting restrictions are placed on individual commodities and commodity groups.

MSCI EAFE (Europe, Australasia, Far East): A free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth: Represents approximately 50% of the free float-adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small Cap: Offers an exhaustive representation of this size segment by targeting companies that are in the Investable Market Index but not in the Standard Index in a particular developed market. The indices include Value and Growth style indices and industry indices based on the Global Industry Classification Standard (GICS).

MSCI EAFE Value: Represents approximately 50% of the free float-adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets: A free float-adjusted market capitalization index that is designed to measure equity market performance, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Russell 2000: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 10% of the total market capitalization of the Russell 3000 Index.

Russell Mid-cap: Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 31% of the total market capitalization of the Russell 1000 Index.

Russell 1000: Measures changes in the performance of publicly traded real estate securities. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. This index represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally.

DEFINITIONS:

Small-Cap Stocks refers to a company’s capitalization as determined by the total market value of its publicly traded shares. Large-Cap Stocks are generally defined as those with market capitalizations of more than $10 billion.

Energy Sector is a category of stocks that relate to producing or supplying energy.

Commodity is a basic good used in commerce that is interchangeable with other commodities of the same type.

Commodities are most often used as inputs in the production of other goods or services.

Fixed Income is a type of investment in which real return rates or periodic income is received at regular intervals and at reasonably predictable levels.

High-Yield Bond is a high paying bond with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

Excess market value index wide on a pro rata basis.