Kalorama Wealth Strategies, LLC

2136 12th Place, N.W.
Washington, D.C. 20009-7507

Phone: 202.550.7262

www.kaloramawealth.com

First-Quarter 2020 Market Review

COVID the Barbarian - Swift & Furious

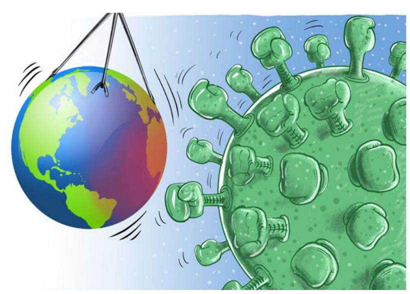
April 2020

The coronavirus has caused tremendous financial markets volatility and wealth destruction. When the pandemic is defeated, volatility will hopefully cease and with that, the return of economic growth. However, the losses from this event, be it life, employment, or business, may not be so easily recovered. Your health and safety is of utmost importance.

Superlatives Abound: Worst, Best, Biggest, Swiftest.

- March was the worst month for stock indexes since 2008.
- The first quarter of 2020 was the worst in history for the Dow Jones.
- It was the worst quarter for the Dow Jones since 1987 and the S&P 500 since 2008.
- It was the worst quarter ever for oil.
- In the midst of the volatility, the S&P posted its best one-day gain in 12 years, while the Dow Jones had its best daily point gain and biggest one-day loss ever.
- It was the swiftest move in history from an all-time stock market high to a bear market.

COVID the Barbarian - Swift and Furious. Like a B-rated Hollywood sci-fi flick, the novel coronavirus is swiftly sweeping the world leaving behind death and unknown consequences in its wake. It will take some time to determine the long-term health and economic implications of the pandemic, but with much of the economy shut down, a global economic shock and recession is all but certain. Fortunately, policymakers appear to have learned the lessons from the Great Recession and Depression and have quickly implemented vast fiscal and monetary programs.



After a widespread rally in 2019, stocks continued their ascent in 2020 until mid February when significant uncertainty about the effects of the coronavirus began to take hold. Investors were whipsawed with "unprecedented" market volatility more severe than the 2008 financial crisis and not seen since the 1930s Great Depression. Stock market circuit breakers were triggered four times in March, a move of at least 7% in the Standard & Poor's 500-stock index that requires a 15-minute trading "time out." As stocks tumbled, bonds rallied, sending yields to record lows. By the end of February, stocks were in correction territory, a loss of 10% or greater from a recent high.

To add insult to injury, March began with an oil price war between Russia and Saudi Arabia when they were unable to reach an agreement on reducing production. With growing supply and shrinking demand, prices plunged and oil had its worst quarter in history. The commodities sector plummeted 27.7% for the quarter.

On March 11, the World Health Organization officially declared a pandemic, leading to an end of the longest bull market run for stocks (11 years from 2009 to 2020). The next day, the Dow Jones Industrial average sank 2,357.60, or 9.99%, its then (see below) biggest point drop ever and worst percentage loss since the 1987 Black Monday crash. All major market barometers were in a bear market, off 20% or more from recent highs. It was the swiftest move in history for the Dow Jones Industrial average to a bear market (the recent high was February 12).

The following day, a national emergency was declared and stocks rebounded by more than 9%. But the damage was done, as stocks had their worst day and week since the 1987 Black Monday crash.

But wait, there's more… after a mid-March weekend emergency Federal Reserve interest rate cut to near zero percent, stocks plunged the following day, the worst percentage drop since 1987. It was the largest point loss ever for the Dow Jones (2,997.10 or 12.93%).

With much of the economy at a standstill due to business closures and consumer retreat, lawmakers and the Federal Reserve undertook quick and aggressive steps to address the looming health and economic crisis. Three phases of relief totaling in excess of $2 trillion (to date!) have been enacted to provide funds for healthcare providers, companies and their employees, and individuals. In two emergency rate cuts, the Federal Reserve lowered short-term rates to near zero percent. The first was a half-point move to a range of 1.0% to 1.25%, followed by the weekend cut to a range of zero to 0.25%.

As stocks tumbled into bear market territory, the Fed also announced a new series of "Quantitative Easing" to include the purchase of treasury and mortgage backed securities to push down interest rates and keep markets flowing. The central bank also lowered its discount rate, the rate charged to banks for overnight lending, from 1.75% to 0.25%, and extended the borrowing period up to 90 days. To stabilize bond markets, the Fed intervened with a myriad of programs for money markets, municipal bonds, commercial paper, corporate debt, and international swaps and repurchase agreements.

With the economy in a medically induced coma and the ultimate impact on corporate profits unknown, stocks bottomed during the third week of March. From the outset of 2020 through Friday, March 20, the Dow Jones had surrendered 32.8%, the S&P 500 unloaded 28.7%, and the NASDAQ Composite index relinquished 23.3%.

After a three-day rally at the end of March not seen since the 1930s, the carnage for the first quarter of 2020 saw the Dow Jones slide 23.2%, the S&P 500 give up 20.0%, and the NASDAQ shed 14.2%. International stocks didn't fare much better, with developed large caps lagging 22.7%, developed small caps tanking 27.5%, and emerging markets slumping up 23.6%.

In a sign of what may unfold, in the last week of March, there was a record of nearly 3.3 million initial claims for unemployment benefits. Subsequent to quarter end, initial claims during first week of April surged to 6.6 million, while the Labor Department reported that March jobs had declined by 701,000 and the unemployment rate had risen to 4.4% from 3.5% in February (based on a survey prior to the record initial claims statistics). It was the end of the longest, continuous monthly expansion of jobs in history at nine years and five months.

As stock and oil prices were bludgeoned, and the Fed initiated actions, interest rates sank to record lows. Both the 10-year U.S. Treasury note and 30-year U.S. Treasury bond dropped below 1.0% for the first time ever. On Monday, March 9, as virus concerns heightened and oil prices collapsed by 24%, the 10-year note and 30-year bond slipped to intra-day lows of 0.32% and 0.70%, respectively, and closed the day at 0.58% and 1.05%, respectively. (Coincidentally, Monday, March 9, 2009 marked the bottom of the stock market during the Great Recession.)

At quarter end, the yield on the three-month Treasury bill had plummeted 143 basis points to 0.13%. The 10-year U.S. Treasury note closed at 0.70%, sinking 122 basis points, while the 30-year Treasury bond finished at 1.36%, shedding 104 basis points for the quarter.

Below are rates of return for selected market indices for the first quarter of 2020, full-year 2019, and the three, five, and 10-year compound annual returns as of December 31, 2019.

Equity (Stock) Indices	**1Q:2020**	**2019**	**3-Year**	**5-Year**	**10-Year**
Domestic					
Russell 1000 - Large Cap	-20.22%	31.43%	15.05%	11.48%	13.54%
Russell Midcap	-27.07%	30.54%	12.06%	9.33%	13.19%
Russell 2000 - Small Cap	-30.61%	25.52%	8.59%	8.23%	11.83%
Real Estate (FTSE NAREIT Equity REITs)	-27.30%	26.00%	8.14%	7.21%	11.94%
Commodity (Dow Jones Commodity Index)	-27.69%	10.12%	1.54%	-2.40%	-2.88%
International					
MSCI EAFE Developed Large Cap	22.72%	22.66%	10.11%	6.18%	6.00%
MSCI EAFE Developed Small Cap	-27.45%	25.47%	11.35%	9.25%	9.12%
MSCI Emerging Markets	-23.57%	18.88%	11.99%	6.01%	4.04%
Global - MSCI All Country IMI	-22.33%	27.04%	12.68%	8.92%	9.47%
Fixed-Income (Bond) Indices					
Bloomberg Barclays					
Global Aggregate - Unhedged	-0.33%	6.84%	4.27%	2.31%	2.73%
Global Aggregate - Hedged	1.45%	8.22%	4.30%	3.57%	NA
U.S. Aggregate	3.15%	8.72%	4.03%	3.05%	3.75%
U.S. Treasury TIPs	1.69%	8.43%	3.32%	2.62%	4.09%
U.S. Corporate High Yield	-12.68%	14.32%	6.37%	6.13%	7.18%
Municipal	-0.63%	7.54%	4.72%	3.53%	4.65%
International Emerging Markets	-9.48%	13.11%	6.07%	5.84%	7.20%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloomberg.com