Parkside Financial
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Monthly Market Update - April 2020

Global Economy

Relative to the historic second half of March, markets appeared comparatively calm throughout April. Alongside that reduction in volatility was a very strong comeback in markets across the risk spectrum, with US equities generally leading the way. The tidal wave of COVID-19 infections that started in China continues to roll through the US and other countries while an undercurrent of optimism is helping to buoy the markets. Hopes of a "V-shaped" economic recovery have mostly vanished, but unprecedented fiscal and monetary support help to mitigate the devastating impact of contractions in both supply and demand resulting from self-imposed lockdowns. Uncertainties around re-starting economic engines and rising geopolitical concerns leave investors feeling more cautious as valuations have advanced.

The Federal Open Market Committee (FOMC) met in April but did not make any change to policy rates. Chairman Powell reiterated the commitment to supporting the stability of the economy in whatever ways possible. He indicated the FOMC would be in no hurry to withdraw the asset purchase program or increase interest rates that remain at the effective lower bound (0.00% to 0.25%). The balance sheet of the Fed grew by $1.4 trillion in April to $6.7 trillion.

The first estimate of 1Q-20 real GDP indicated a contraction of -4.8% annualized, due primarily to a -7.6% drop in personal consumption. Analysts expect a more dramatic drop for the second quarter, with estimates ranging from -10% to -40% annualized. Global GDP forecasts for 2020 are now generally in negative territory, with growth of equal or greater magnitude expected to materialize in 2021.

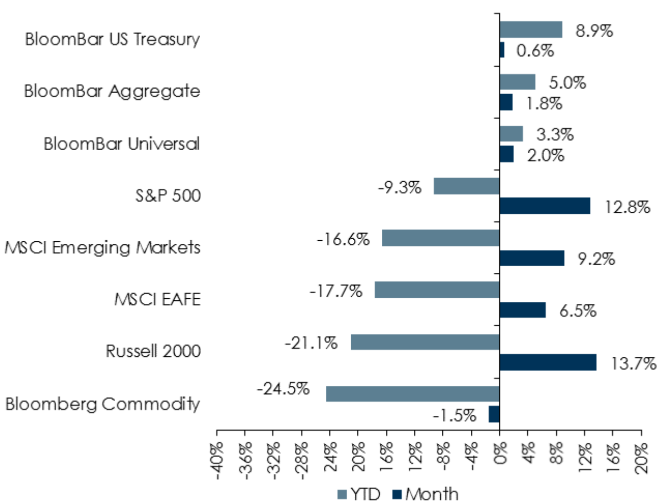
More than 32 million US workers have filed initial unemployment claims since mid-March. Accordingly, the government's surveys indicate that 20.5 million jobs were lost in April, and the official unemployment rate more than tripled to 14.7%. The 2.5% decline in the labor participation rate kept the unemployment rate from moving even higher. A key factor for consumption will be understanding how many of these losses are temporary as opposed to jobs that will not soon come back. Inflation expectations were relatively stable during the month but rose slightly across the curve. Core CPI is up 2.1% year-over-year, while the FOMC's preferred measure, Core PCE, edged down to 1.7% year-over-year through March.

	Current	Dec-19
US GDP (%)	-4.80	2.10
US Unemployment (%)	14.70	3.50
CPI (Core) (%)	2.10	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.64	1.92
S&P 500 Div Yld (%)	2.08	1.82
S&P 500 P/E (Trailing)	19.87	21.60
Gold/oz.	$1,694.20	$1,523.10
Oil (Crude)	$18.84	$61.06
Gasoline (Natl Avg)	$1.87	$2.66
USD/Euro	$1.10	$1.12
USD/GBP	$1.26	$1.33
Yen/USD	¥107.18	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indices came roaring back in April amid optimism that the worst of COVID-19 had passed. The S&P 500, which represents large US-based entities, started to recover from March's drop with a +12.8% return. Energy (+29.7%) and Consumer Discretionary (+20.5%) led the way with Materials (+15.3%), IT (+13.7%), Communication Services (+13.5%), and Health Care (+12.5%) also posting double-digit gains. Utilities (+3.2%) and Consumer Staples (+6.6%) were the relative laggards. Small cap stocks, as represented by the Russell 2000, came back strongly, at +13.7%, also a good start to recovering from the March dive. Among the sectors, Energy (+37.6%) and Consumer Discretionary (+27.0%) led the way after cratering the month before. Utilities were the only negative performer, just slightly in the red at -0.1%. Across the market capitalization spectrum, Value underperformed Growth.

In the broad international developed markets, the MSCI EAFE index rose +6.5% as nearly every sector and country participated in the rally. Led by Materials (+9.6%), IT (+9.2%), Health Care (+8.8%), and Consumer Discretionary (+8.6%), there was broad support for the markets, with Energy (-0.9%) remaining a notable laggard. Australia (+15.3%) and Germany (+9.8%) did very well during the month, with most other countries in the 5% to 8% range. Spain (+1.5%) and Italy (+1.9%) were relative underperformers.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their developed market counterparts at +9.2%. India was up +16.1%, and many others were in double-digits as well. Brazil continued to lag at +5.4%, although this represented a notable turnaround story after dropping nearly 40% last month.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, recovered somewhat in April with a return of +7.1% despite structural headwinds. The energy-related Alerian MLP index improved more significantly and rocketed upward by +49.6%. That said, the near-month NYMEX oil contract was down again in April at -8.0% and is now off by -69.2% year-to-date. Gold extended its 2020 rally, adding +7.0% for the month. The diversified Bloomberg Commodity index was down slightly at -1.5% for the month as broad-based demand for most commodities is still uncertain.

Global Markets (continued)

US Treasury (UST) yields held relatively steady across the board in April, failing to confirm the optimism that boosted risk assets. The effect of the Fed's expanded asset purchase capabilities cannot be ignored, as approximately $1.5 trillion worth of outstanding UST supply has been brought onto the balance sheet since mid-March. Given this backdrop, the overall UST complex continued to perform and pushed year-to-date returns to an impressive +8.9%. The government yield curve steepened modestly, with the benchmark 10-year UST yield settling at a new month-end low of 0.64%. As sovereign yields outside of the US trended lower, the global stock of negative yielding debt expanded back to $12.0 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads recovered materially. With a gain of 1.8% in April, the benchmark's trailing 12-month performance of +10.8% has been astonishing given prevailing yield levels. Despite record-setting new issuance, IG corporates have been well supported by the Fed's announced intent to embark on both primary and secondary market purchases. Corporate spreads improved by 70 bps for the month, with BBB-rated issues recovering most dramatically. As tighter spreads across categories combined with stable UST yields, the benchmark's yield-to-worst tumbled to just 1.31%.

The BloomBar 1-15-Year Municipal index struggled again in April, with the return of -0.7% trailing anything of similar quality. Despite the Fed's new Municipal Liquidity Facility, tax-exempt yields moved higher given uncertainly about fiscal policy support. Lower-rated and longer-dated issues underperformed as Municipal/UST ratios remain at historically cheap levels.

The BloomBar US Corporate High Yield index returned +4.5% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 136 bps tighter on average, although the credit curve remains steep. All-in yields have fallen back to 8.1%, even as default rates pushed ahead of the long-term average. Bank loans had their best monthly return since July 2009, and emerging market bonds produced solid returns as investors sought enhanced income.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	-0.04	-0.02
Germany	-0.59	-0.19
France	-0.11	0.12
United Kingdom	0.23	0.82
Spain	0.72	0.46
United States	0.64	1.92
Italy	1.76	1.41
Mexico	6.57	6.89
Brazil	7.19	6.79

Source: Bloomberg

Indices Report (Periods Ending April 30, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	12.82	-9.29	0.86	9.04	9.12	11.69	8.59
Russell 1000	13.21	-9.68	0.09	8.68	8.74	11.57	8.66
Russell 1000 Growth	14.80	-1.39	10.84	15.69	13.34	14.41	10.85
Russell 1000 Value	11.24	-18.49	-11.01	1.42	3.90	8.54	6.29
Russell 2500	14.55	-19.50	-14.20	1.13	3.62	8.70	7.78
Russell 2000	13.74	-21.08	-16.39	-0.82	2.88	7.69	7.04
Russell 2000 Growth	14.89	-14.71	-9.22	4.21	5.19	9.96	8.64
Russell 2000 Value	12.34	-27.72	-23.84	-6.06	0.30	5.30	5.29
Wilshire 5000 Cap Wtd	13.26	-10.18	-0.85	8.12	8.55	11.34	8.65
MSCI ACWI	10.76	-12.78	-4.43	5.03	4.94	7.52	6.66
MSCI ACWI ex US	7.64	-17.40	-11.07	0.24	0.31	3.37	4.55
MSCI EAFE	6.54	-17.66	-10.89	-0.09	0.32	4.04	4.14
MSCI EAFE Local Currency	5.51	-16.05	-10.39	-0.02	1.18	5.54	5.02
MSCI EAFE Growth	7.49	-11.23	-1.69	4.84	3.59	6.02	5.57
MSCI EAFE Value	5.44	-24.17	-19.96	-5.09	-3.09	1.93	2.60
MSCI Emerging Markets	9.18	-16.55	-11.65	0.94	0.28	1.80	6.61
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.04	2.85	5.25	2.67	1.85	1.41	2.32
BloomBar US Aggregate	1.78	4.98	10.84	5.17	3.80	3.96	4.43
BloomBar Gov't Bond	0.63	8.76	14.10	5.76	3.87	3.68	4.14
BloomBar US Credit	4.58	1.29	9.37	5.40	4.33	5.04	5.17
BloomBar 10 Yr Municipal	-1.02	-1.41	2.67	3.51	3.25	4.21	4.44
BloomBar US Corp High Yield	4.51	-8.75	-4.11	1.87	3.44	5.86	6.73
FTSE World Govt Bond	1.19	3.22	7.97	4.24	2.98	2.35	3.02
BloomBar Global Aggregate	1.96	1.63	6.56	3.84	2.82	2.67	3.33
BloomBar Multiverse	2.04	0.91	5.84	3.67	2.84	2.78	3.45
Real Assets							
NCREIF Property	0.00	0.71	5.28	6.41	7.65	10.17	8.14
NFI ODCE Net	0.00	0.75	3.93	5.85	7.48	10.42	6.49
FTSE NAREIT US Real Estate	8.30	-21.27	-14.53	-0.57	2.41	7.53	6.38
Bloomberg Commodity	-1.54	-24.47	-23.18	-8.62	-9.07	-7.07	-4.70
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.58	2.07	1.81	1.19	0.64	1.38

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