Parkside Financial
BANK & TRUST

Monthly Market Update - February 2020

Global Economy

Despite risk-on sentiment that drove stocks to record levels in the first half of the month, it was a dramatic "leap" in volatility that ultimately defined the investor experience in February. Though seemingly under control in China, concerns of the expanding global effect of the coronavirus epidemic drove key equity benchmarks into correction territory as the month ended with the worst one-week loss since 2008. Markets reacted to the observed economic impact on supply (constrained) and demand (delayed or even omitted) as well as considerable uncertainty among health experts and business leaders regarding both the magnitude and longevity of these disruptions. Investor concern sustained the flight to quality that drove government bond yields through all-time lows, even as the US dollar retreated from recent highs amid growing expectations for Fed rate cuts.

The Federal Open Market Committee (FOMC) did not officially meet in February, but Chairman Powell acknowledged how "the coronavirus poses evolving risks to economic activity." With the futures market focused on the return of "act as appropriate" messaging, a near-term rate cut is fully priced in with as many as four 25 bps cuts expected by year-end. The US economy continues to show signs of overall strength, which is the counterpoint to any rate-cutting discussions.

The second estimate of 4Q-19 real GDP remained at an annualized rate of 2.1% as upward revision to net exports and inventory investment was offset by a downward revision to personal consumption. The Atlanta Fed's GDPNow estimate for 1Q-20 continues to be robust at 2.7% while the analyst consensus estimate suggests roughly 1.4%.

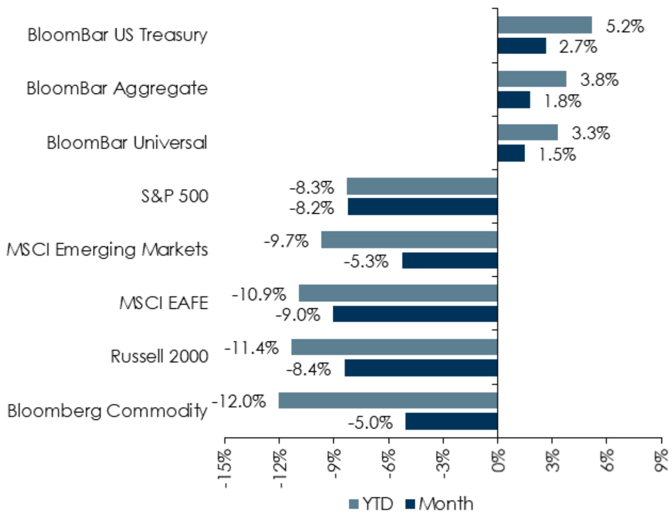
273,000 new jobs were added in February, well above expectations, with December and January adjusted upward by a total of 85,000. The unemployment rate moved down slightly to 3.5%, while the participation rate was stable. Average hourly wage gains remained moderate, continuing its narrow range and advancing at a year-over-year pace of 3.0%. The Core CPI index remained at 2.3% year-over-year, while the FOMC's preferred measure, the Core PCE index, continued to be anchored at 1.6% year-over-year through January.

	Current	Dec-19
US GDP (%)	2.10	2.10
US Unemployment (%)	3.50	3.50
CPI (Core) (%)	2.30	2.30
Fed Funds (%)	1.50 – 1.75	1.50 – 1.75
10 Year UST Yld (%)	1.15	1.92
S&P 500 Div Yld (%)	2.04	1.82
S&P 500 P/E (Trailing)	19.42	21.60
Gold/oz.	$1,566.70	$1,523.10
Oil (Crude)	$44.76	$61.06
Gasoline (Natl Avg)	$2.56	$2.66
USD/Euro	$1.10	$1.12
USD/GBP	$1.28	$1.33
Yen/USD	¥107.89	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indexes were negative in February. The S&P 500, which represents large US-based entities, was down significantly at -8.2%. While there was remarkable consistency across the index, all sectors declined meaningfully, Energy (-15.3%), Financials (-11.4%) and Utilities (-10.4%) were hardest hit. Small cap stocks, as represented by the Russell 2000, were down similarly at -8.4%. Among the sectors, Energy (-17.1%), Materials (-13.0%), Consumer Discretionary (-11.6%) and Utilities (-10.1%) retreated most significantly. Healthcare (-3.5%) was the relative outperformer. Across the market capitalization spectrum, Value declined more than Growth.

In the broad international developed markets, the MSCI EAFE index was down deeply at -9.0% as no single sector or country escaped the sell-off. Among the major sectors, Energy (-15.3%), Materials (-11.4%) and Industrials (-10.2%) led the declines, with Utilities (-3.8%) being a relative outperformer. The Asian region, most notably Hong Kong (-1.4%), was the best performer with most other countries down between -8% and -12%.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down less than their developed market counterparts at -5.3%. Even as closed factories and quarantines drove steep declines in reported PMIs, China's equity benchmark was actually up slightly for the month at +1.0%. Looking past this notable outlier, all other sectors and countries were down with a fair amount of dispersion. Sector returns ranged from Energy (-12.9%) to Real Estate (-1.1%), while individual country returns ranged from Greece (-22.1%) to Taiwan (-1.9%).

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was hard hit at -8.2%. The energy-related Alerian MLP index was impacted more significantly and returned -14.0%. The near-month NYMEX oil contract was down -13.2% for the month and is now off by -26.7% to start the year. Gold lost some of its safe haven luster, but was relatively stable with a loss of -1.0% for the month. The diversified Bloomberg Commodity index was down -5.0% for the month as broad-based demand for most commodities is thought to be declining in the short run.

Global Markets (continued)

US Treasury (UST) yields declined across the board in February, with historic moves taking place in the second half of the month as the expanding global reach of the coronavirus epidemic consumed media and investor attention. In what remained a favorable environment for fixed income, the high-quality government bond complex returned +2.7% for the month. The yield curve steepened modestly, with the 2-year UST yield falling 40 bps while the 10-year UST yield declined 36 bps and settled at its all-time closing low of 1.15%. As yields for developed market sovereign bonds outside of the US followed a similar pattern, the global stock of negative yielding debt expanded back to nearly $14.5 trillion.

The BloomBar US Aggregate Bond index underperformed risk-free US Treasuries on both an absolute and duration-matched basis. That said, with a gain of +1.8% in February, the benchmark's trailing 12-month performance of +11.7% has been astonishing given prevailing yield levels. Spreads for IG corporates were another 20 bps wider for the month as investors continue to distance themselves from credit risk. With the robust decline in UST yields overwhelming spread widening across categories, the benchmark's yield-to-worst moved 34 bps lower overall, and now resides at just 1.68%.

The BloomBar 1-15-Year Municipal index returned a respectable +1.0% in February. Despite continued investor demand, tax-exempt issues underperformed amid the powerful interest rate rally. As the yield curve flattened, maturities beyond seven years all finished the month at all-time lows. Municipal/UST ratios generally cheapened back to fair value levels.

The BloomBar US Corporate High Yield index declined -1.4% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 110 bps wider on average, with CCC's hurt most by a steeper credit curve. All-in yields pushed higher, ending at just over 6.2%. With a stronger US dollar overall, unhedged international bonds underperformed. Emerging market local bonds were particularly weak as commodity-related currencies struggled.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	-0.16	-0.02
Germany	-0.61	-0.19
France	-0.29	0.12
United Kingdom	0.44	0.82
Spain	0.28	0.46
United States	1.15	1.92
Italy	1.10	1.41
Mexico	6.84	6.89
Brazil	6.68	6.79

Source: Bloomberg

Indices Report (Periods Ending February 29, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-8.23	-8.27	8.19	9.87	9.23	12.65	8.40
Russell 1000	-8.17	-8.07	7.82	9.73	9.00	12.64	8.53
Russell 1000 Growth	-6.81	-4.73	15.11	15.67	12.41	14.79	10.32
Russell 1000 Value	-9.68	-11.63	0.54	3.78	5.51	10.40	6.64
Russell 2500	-8.39	-10.25	-1.80	5.10	5.81	11.21	8.09
Russell 2000	-8.42	-11.36	-4.92	3.52	5.12	10.41	7.24
Russell 2000 Growth	-7.22	-8.24	-0.72	7.85	6.48	12.07	8.42
Russell 2000 Value	-9.72	-14.59	-9.29	-0.83	3.61	8.67	5.94
Wilshire 5000 Cap Wtd	-8.20	-8.19	7.00	9.31	8.89	12.50	8.52
MSCI ACWI	-8.04	-9.03	4.45	7.54	6.12	8.68	6.66
MSCI ACWI ex US	-7.89	-10.35	-0.19	4.66	2.67	4.82	4.75
MSCI EAFE	-9.03	-10.92	-0.05	4.44	2.45	5.32	4.36
MSCI EAFE Local Currency	-8.06	-9.18	1.77	4.00	3.32	7.02	5.36
MSCI EAFE Growth	-8.62	-9.14	5.94	7.72	4.65	6.78	5.43
MSCI EAFE Value	-9.44	-12.71	-6.00	1.15	0.18	3.79	3.21
MSCI Emerging Markets	-5.27	-9.68	-1.51	5.28	3.11	3.54	6.50
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.87	1.41	4.63	2.24	1.62	1.27	2.27
BloomBar US Aggregate	1.80	3.76	11.68	5.01	3.58	3.93	4.41
BloomBar Gov't Bond	2.62	5.10	12.04	4.78	3.18	3.35	3.99
BloomBar US Credit	1.36	3.73	15.30	6.54	4.78	5.50	5.35
BloomBar 10 Yr Municipal	1.18	3.14	9.29	5.53	4.14	4.74	4.82
BloomBar US Corp High Yield	-1.41	-1.38	6.10	4.86	5.19	7.27	7.01
FTSE World Govt Bond	0.99	2.63	8.17	4.54	2.86	2.08	2.99
BloomBar Global Aggregate	0.67	1.96	7.92	4.39	2.90	2.63	3.36
BloomBar Multiverse	0.53	1.72	7.70	4.40	3.04	2.80	3.50
Real Assets							
NCREIF Property	0.00	0.00	6.43	6.71	8.25	10.18	8.34
NFI ODCE Net	0.00	0.00	4.41	6.14	7.99	10.39	6.73
FTSE NAREIT US Real Estate	-8.01	-6.90	4.22	4.38	5.06	11.16	7.84
Bloomberg Commodity	-5.04	-12.03	-11.05	-5.19	-6.20	-5.58	-3.89
Cash and Equivalents							
US T-Bills 90 Day	0.15	0.28	2.18	1.73	1.13	0.61	1.40

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