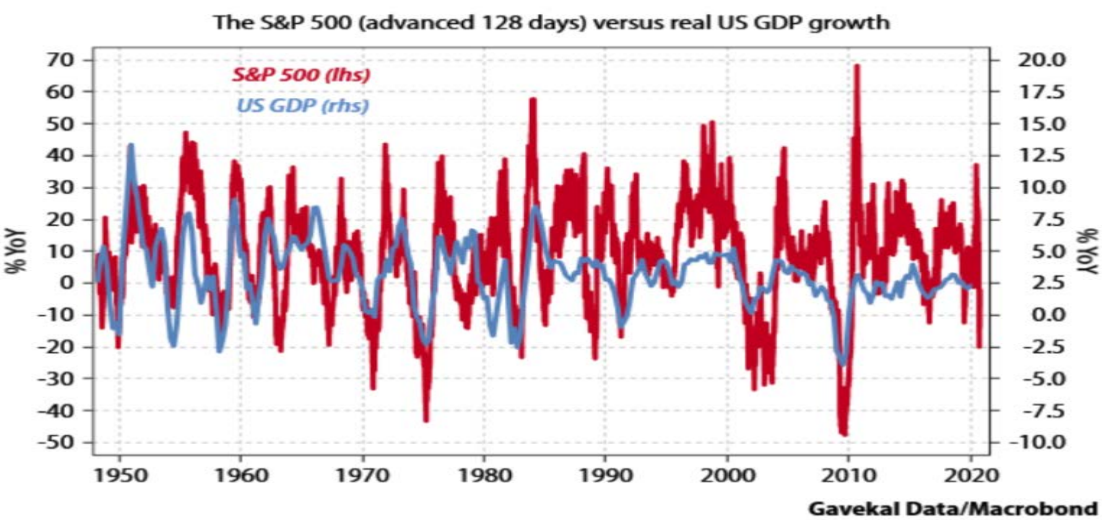
Segal Marco Advisors

May 4, 2020

MEMORANDUM

Month ending April 30, 2020

April was the best one-month performance in the equity market since 1987. This occurred despite the backdrop of dire economic news, with U.S. GDP growth declining -4.8%. As we illustrate in the chart below, the stock market usually leads GDP numbers on average by two quarters. However, this is a wholly unknown world and setbacks are likely, as either new waves of the virus occur or we find that consumer behavior and concurrent spending has changed as a result of the pandemic.



Equity Markets:

The S&P 500 was up 12.8%, (-9.3% year to date) and the price index has rebounded 30% of the lows of March. In a measure of the broad base of the uptick, the equal weighted S&P 500 returned 14.6% while the capitalization weighted return of 12.8%. It also proved to be a month of reversals, with value outperforming growth, oil rebounding, and small (+13.7%) and midcap stocks (+14.4%) outperforming large cap. Year to date the leaders are still intact (growth, and large cap), with the Russell 1000 Growth at -1.4% versus Russell 1000 Value at -18.5% and small capitalization (Russell 2000) returning -21.1%.

All 11 economic sectors rose in the month. Energy was the best performing sector (+30%), but remains the worst sector year to date. Consumer Discretionary rebounded (+21%) on the hopes of states reopening and the consumer coming back. All sectors are still negative year to date with the spread of high to low of -0.16 for Technology and -37% for Energy. Despite the April rally subsectors remain severely depressed year to date. For example, energy equipment has fallen -46%, automobiles are down -45%, and airlines declined -44%. In contrast, internet and direct marketing retail is up 36% year to date - an impressive 82 points difference in high to low return.

Non U.S. markets also participated in the reversals in April, with the MSCI EAFE returning 6.5% and MSCI Emerging Markets gaining 9.2%. However, year to date returns are still quite negative, -17.8% and -16.6% respectively.

Fixed Income Markets:

New issuance of corporate bonds was impressive with $40 billion issued on Thursday alone, and $276 billion of supply added in the month. The Federal Reserve mortgage buying program supported agency mortgage back securities with $295 billion in April. The Barclays Aggregate Index was up 1.8% in April, bringing the year to date return to 5.0%. High yield and credit indices provided the best returns in the month, up 4.6% each. This brought their year to date returns to -8.8% and 1.3% respectively.

Looking Ahead:

Earnings season is underway and it is pretty ugly. Clearly, near-term issues are being discounted. But as states begin to reopen, perhaps we will better understand the implications on consumer behavior. Or, maybe it will depend on density and depth of realized numbers of sick and associated deaths due to the virus (New York, New Jersey, New Orleans), before we truly understand what the long term implications are.

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