RESEARCH Corner

March 20, 2020

OBSERVATIONS

- U.S. cases of Covid-19 have now surpassed 14,000 cases. California & Pennsylvania tell residents to stay home. In Wuhan, China a milestone was reached yesterday with zero new cases reported.
- Despite a broad-based selloff in ETFs, FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google) have not underperformed the broader market.
- The NYSE will close the floor of the exchange beginning March 23, moving to a completely electronic market.
- Most of the financial industry now operating in some form of business continuity.
- Federal Reserve launched the Money Market Liquidity Facility (MMLF) to bolster prime money market funds.
- Bank of England cuts rates and increases quantitative easing by £200bn.
- Market dislocation is forcing some mutual fund managers to **sell what they can** (i.e. liquid U.S. Treasuries and high-quality fixed income) and **not what they want to sell** to meet redemptions from panicked retail investors.

EXPECTATIONS

- Growth should continue to outperform value as long as Energy/Financials/Industrials remain under pressure (YTD the Russell 1000 Growth has bested the Russell 1000 Value by 11.45%)[1].
- Continued dislocation in fixed income markets and cross-asset ETFs.
- Global equity markets showing signs of near-term stability led by Asian markets. Asian markets up over 5%, US Futures show positive signs for 2nd day.

OPPORTUNITIES

- As high yield spreads approach 1000bps, selective opportunities begin to emerge.
- Maintain cash balances or Government/Treasury money market funds.
- Significant declines in equities present opportunities to rebalance.
- The municipal bond market continues to show relative value versus treasuries, the opportunity is to buy municipal bonds **not sell** (AAA 2 Yr Muni yielding 2.21% vs 2 Yr U.S. Treasury yielding .42%)[1].

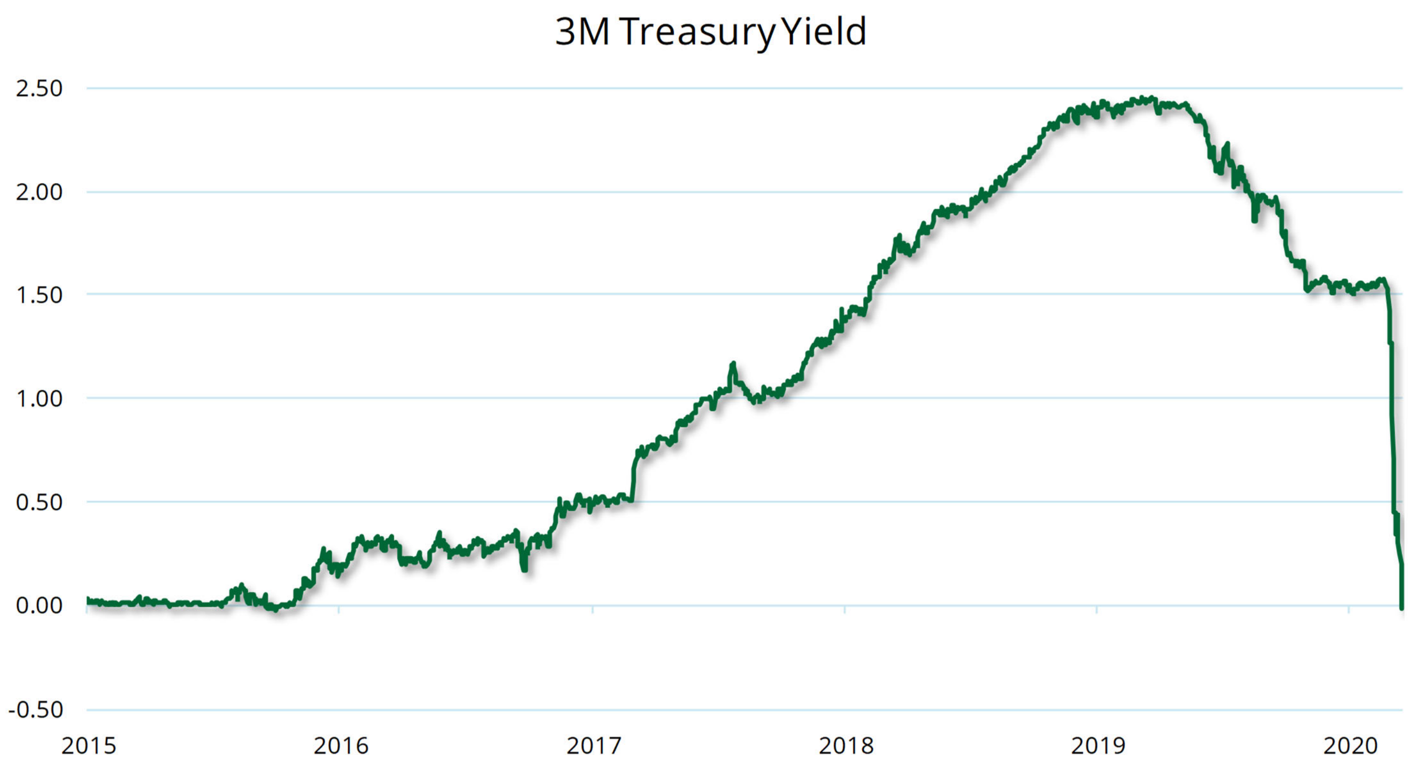
One more thought

Clearstead would like to emphasize the importance of remaining invested during times of market turbulence. Reacting with emotion, while perfectly understandable, can lead to negative long-term consequences. Trying to time the markets is notoriously difficult, if not impossible, and is highly taxing to returns. By way of example, if you would have missed the 20 best performing days over the past 20 years (ended Dec 31, 2019) your return would have been 0.08%, missing the top 10 days would have netted returns of 2.44%, while staying invested in the market would have yielded a 6.06% return[2]. Perhaps more telling is that 6 of the top 10 performing days occurred within days of the top 10 worst performing days[2]. This, of course, is with perfect hindsight and while we do not know what the future holds, we do consider history and empirical evidence and both suggest remaining invested and committed to your long-term plan to be critical to long term investing success.

[1] *Bloomberg LP, data as of 3/19/2020*

[2] *J.P. Morgan Asset Management, Market Insights – Guide to the Markets, Q1 2020 as of March 16, 2020. Returns are annualized.*

Graphic of the Day



Source: Clearstead, Bloomberg LP, data as of 3/19/2020.

As the market sell off has intensified, demand for cash in the form of U.S. Treasury bills has accelerated causing yields to turn negative.

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