

FEBRUARY 2020 RECAP

by Andrew Murphy, CFA | Director of Portfolio Management

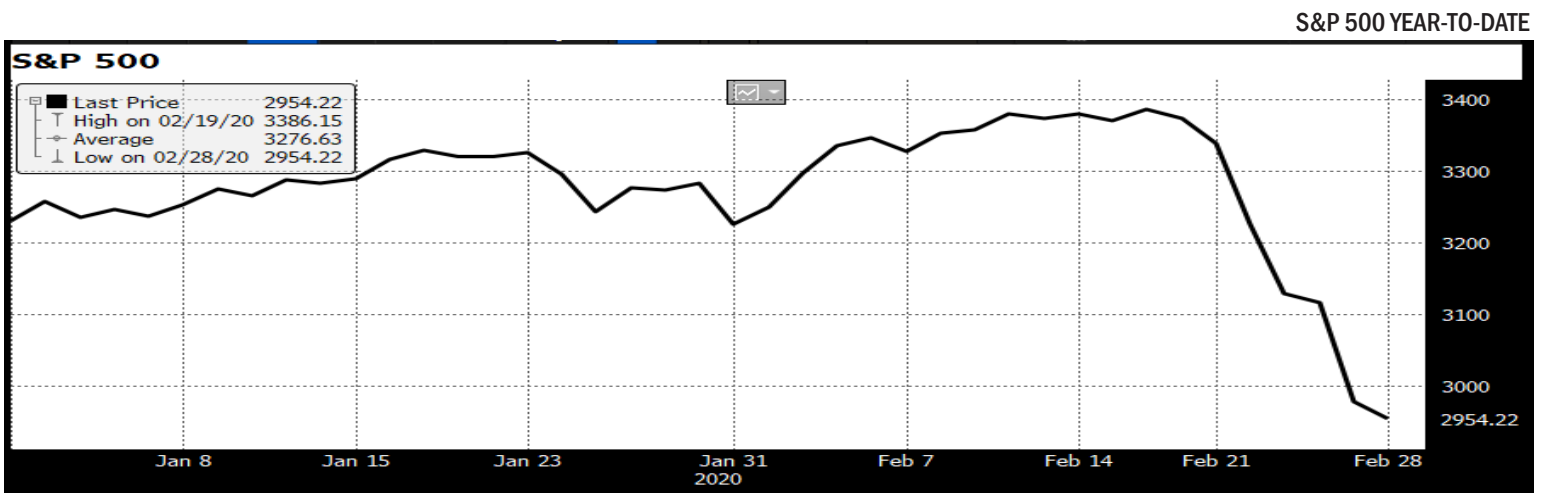


February was a challenging month in the equity markets as the S&P 500 declined by -8.3%. The market reached a new all-time high on February 19th (3,394) before declining by -12.7% in the last seven trading days of the month as fears over the coronavirus turned into panic. The S&P 500 is now down -8.2% for the year. Our Client Question of the Month addresses information on the coronavirus, its potential impact on the US economy, and how investors should think about the market selloff.

As we stated in our January Recap, a pullback in the equity market was somewhat expected after an increase of +31.5% in 2019. The equity market does not usually go up in a straight line, and some volatility is perfectly normal. Over the last 40 years, the S&P 500 has averaged intra-year price declines of -13.8%.

As of now, it is too early to assess the impact on global markets and economies. However, the market drawdown seems like panic selling from investors pricing in the worst-case scenario, a global recession and bear market. Our advice in volatile markets is put the environment into perspective, avoid making emotional decisions, and rely on the combination of comprehensive financial planning and investment management to help reach your long-term goals.

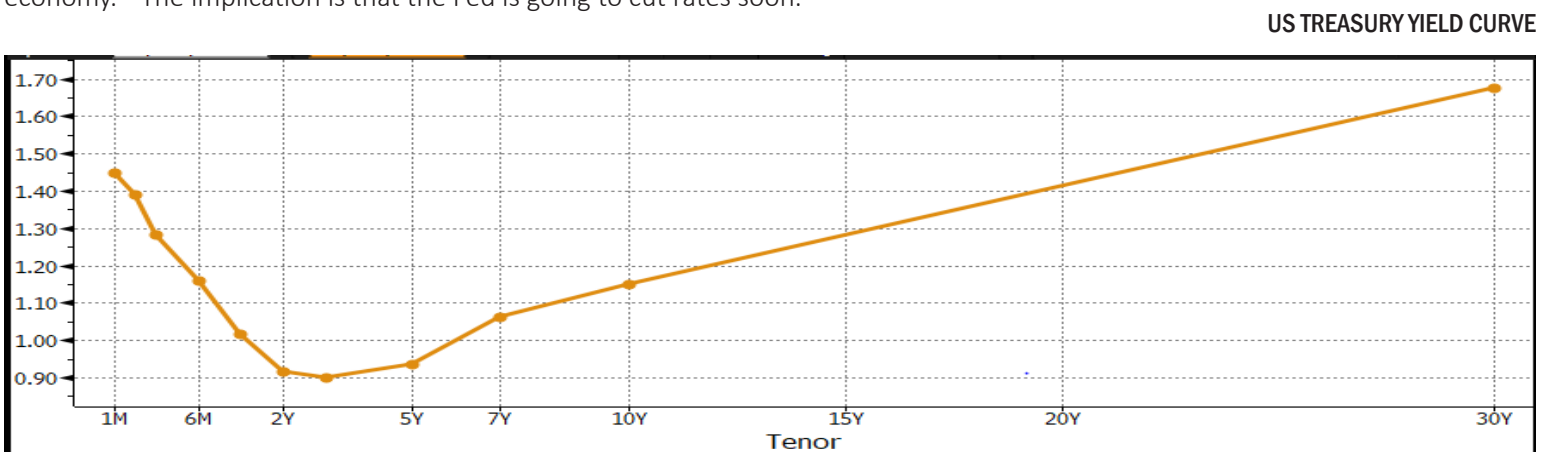
We help our clients navigate through challenging markets by ensuring their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio designed to meet longer-term goals. We will continue to look for opportunities and will use the market volatility to our advantage by tax-loss harvesting or reallocating to more attractive securities.



Interest Rates, the Yield Curve, and the Fed

The coronavirus created a “flight to safety” event where investors rushed to buy Treasury securities (this pushes prices up and yields down). As a result, the 10-Year Treasury hit an all-time low of 1.11%, far below the 50-Year average of 6.26%. Fears surrounding the coronavirus caused part of the yield curve to invert again as the spread between the 10-Year and 3-Month Treasury yield ended the month at -13bps. A yield curve inversion is the market’s sign of a pessimistic economic outlook and an expectation that the Fed will cut interest rates. Our thoughts and analysis on the yield curve inversion can be found [here](#).

The coronavirus and subsequent economic slowdown are expected to cause the Fed to lower interest rates again. After cutting interest rates three times last year, the current federal funds rate is 1.50% to 1.75%. The Fed is expected to lower rates by 0.25% at their March 18th meeting. On February 28th, Fed Chairman Powell put out a statement that said “the fundamentals of the US economy remain strong. However, the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy.” The implication is that the Fed is going to cut rates soon.



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MARKET RETURNS

US Equity											
Index	February	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
S&P 500	-8.23%	-8.27%	31.48%	-4.39%	21.82%	11.95%	1.37%	9.86%	9.21%	12.64%	6.04%
Russell 3000	-8.19%	-8.29%	31.01%	-5.25%	21.12%	12.72%	0.47%	9.27%	8.71%	12.46%	6.18%
Dow Jones Industrial Average	-9.75%	-10.55%	25.34%	-3.48%	28.11%	16.43%	0.21%	9.42%	9.61%	12.19%	7.30%
Nasdaq	-6.22%	-4.31%	36.74%	-2.81%	29.73%	8.97%	7.11%	15.01%	12.87%	15.77%	4.22%
S&P 400	-9.49%	-11.86%	26.17%	-11.10%	16.23%	20.73%	-2.18%	3.27%	5.48%	11.08%	8.73%
Russell 2000	-8.42%	-11.36%	25.49%	-11.03%	14.63%	21.28%	-4.41%	3.50%	5.10%	10.40%	6.38%
Russell 1000 Growth	-6.81%	-4.73%	36.39%	-1.51%	30.21%	7.07%	5.67%	15.67%	12.40%	14.78%	5.01%
Russell 1000 Value	-9.68%	-11.63%	26.52%	-8.28%	13.64%	17.33%	-3.84%	3.76%	5.49%	10.38%	7.05%
International Equity											
MSCI Index	February	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
EAFE	-9.04%	-10.94%	22.01%	-13.79%	25.03%	1.00%	-0.81%	3.92%	1.96%	4.83%	2.94%
Europe	-8.73%	-11.45%	23.20%	-16.90%	28.06%	1.34%	-1.42%	4.29%	1.67%	3.93%	2.08%
Japan	-9.14%	-10.38%	19.61%	-12.88%	23.99%	2.38%	9.57%	3.35%	3.65%	5.11%	1.09%
China	0.97%	-3.88%	23.46%	-18.88%	54.07%	0.90%	-7.82%	10.29%	5.49%	5.64%	8.65%
Emerging Markets	-5.27%	-9.69%	18.42%	-14.57%	37.28%	11.19%	-14.92%	4.89%	2.73%	3.18%	6.04%
ACWI ex US	-7.90%	-10.38%	21.51%	-14.20%	27.19%	4.50%	-5.66%	4.15%	2.18%	4.34%	3.43%
US Fixed Income											
Bloomberg Barclays Index	February	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
Aggregate	1.80%	3.76%	8.72%	0.01%	3.54%	2.65%	0.55%	5.01%	3.57%	3.93%	5.18%
Treasury Bills	0.13%	0.26%	2.21%	1.83%	0.81%	0.26%	0.03%	1.67%	1.07%	0.57%	1.66%
Corporates	1.34%	3.71%	14.54%	-2.51%	6.42%	6.11%	-0.68%	6.70%	4.95%	5.72%	6.23%
Securitized	1.10%	1.93%	6.44%	0.99%	2.51%	1.77%	1.47%	3.79%	2.87%	3.32%	4.94%
High Yield	-1.41%	-1.38%	14.32%	-2.08%	7.50%	17.13%	-4.47%	4.86%	5.19%	7.26%	7.07%
Munis	1.29%	3.11%	7.54%	1.28%	5.45%	0.25%	3.30%	5.32%	4.01%	4.50%	5.17%
US Equity Sectors											
Index	February	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
Technology	-7.28%	-3.61%	50.29%	-0.29%	38.83%	13.85%	5.92%	22.25%	18.37%	17.60%	4.19%
Real Estate	-6.34%	-5.01%	29.00%	-2.23%	10.85%	1.12%	1.24%	8.28%	5.80%	10.63%	
Industrials	-9.32%	-9.73%	29.32%	-13.32%	21.01%	18.85%	-2.56%	5.16%	6.85%	11.84%	7.17%
Energy	-14.56%	-24.01%	11.81%	-18.10%	-1.01%	27.36%	-21.12%	-9.93%	-6.92%	0.74%	5.44%
Consumer Discretionary	-7.56%	-6.97%	27.94%	0.82%	22.98%	6.03%	10.11%	11.56%	10.34%	16.04%	8.10%
Communication Services	-6.34%	-5.48%	32.69%	-12.53%	-1.25%	23.48%	3.40%	3.70%	5.58%	10.11%	1.58%
Consumer Staples	-8.11%	-7.77%	27.61%	-8.39%	13.49%	5.38%	6.60%	4.68%	5.92%	11.03%	9.10%
Utilities	-9.88%	-3.88%	26.35%	4.11%	12.10%	16.29%	-4.84%	9.96%	10.35%	12.06%	7.90%
Materials	-8.39%	-14.05%	24.58%	-14.70%	23.84%	16.69%	-8.38%	2.40%	2.67%	7.99%	7.21%
Financials	-11.19%	-13.51%	32.09%	-13.04%	22.14%	22.75%	-1.56%	4.79%	8.26%	10.38%	4.60%
Health Care	-6.67%	-9.20%	20.82%	6.47%	22.08%	-2.69%	6.89%	9.43%	7.02%	13.56%	8.29%
Calendar Year Returns								Annualized Returns			



The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index is constructed based on the integrated China equity universe included in the MSCI Emerging Markets Index, providing a standardized definition of the China equity opportunity set. The index aims to represent the performance of large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks. China A shares will be partially included in this index, making it the de facto index for all of China. It can be used as a China benchmark for investors who use the MSCI ACWI Index or MSCI EM Index as their policy benchmark.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

MSCI ACWI: Morgan Stanley Capital International All Country World Index (MSCI ACWI) is an index designed to capture large and mid cap representation across 23 developed markets and 23 emerging market countries. The index covers approximately 85% of the global investable equity opportunity set. Represented countries are: Developed Markets: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Emerging Markets: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt. The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.