

CAPITAL MARKET REVIEW

First Quarter 2020



The Economy

So often we are afraid of the wrong thing, because our sense of fear comes from media distortions. This crisis is a case in point. Anecdotally I have heard many neighbors and friends who are terrified of getting the Coronavirus. They are under the impression that it is a death sentence. I get it, the media spends all day every day counting the bodies, that has an impact. Perhaps some perspective will help.

The truth is Covid-19 is not a death sentence. If the most aggressive estimates are correct, and they do not appear to be, 97 percent of the people who get the disease will survive, and 84 percent will have mild symptoms that keep them at home. In Germany where they have done some mass testing those numbers are 99.6 percent survive and 96 percent have mild symptoms with over half having no symptoms at all.

So why are we all being told to isolate? Flattening the curve does not reduce the amount of data under the curve. The danger of Covid-19 is not the mortality rate, it is the incubation rate. It spreads so quickly that even though those with severe symptoms are a small minority, they are enough to overwhelm our medical system. Yes, flattening the curve will save lives, but only because not flattening the curve would cause some severe cases to not be able to obtain treatment.

I am simply repeating what we have been told by the actual medical experts, but this is not how the media has spun social distancing. This may be splitting hairs, but it is an important hair to split, because at some point we have to come out of our holes. There has to be an end game, and that end game will not happen if people fear for their lives should they be exposed.



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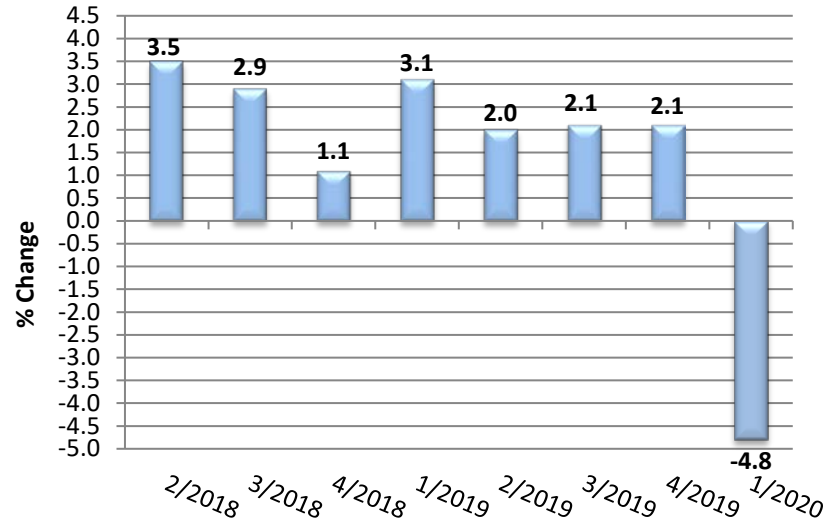
The Economy

The 4th quarter 2019 GDP growth came in at 2.1 percent, and now that means next to nothing. The COVID-19 crisis has the entire world shutdown. The 1st quarter came in at -4.8 percent and the real question is how long will this last?

The official unemployment rate is 4.4 percent in March. The rate will rise considerably when they count the approximately 10 million people who lost jobs in the first two weeks of social distancing. What else can we say?

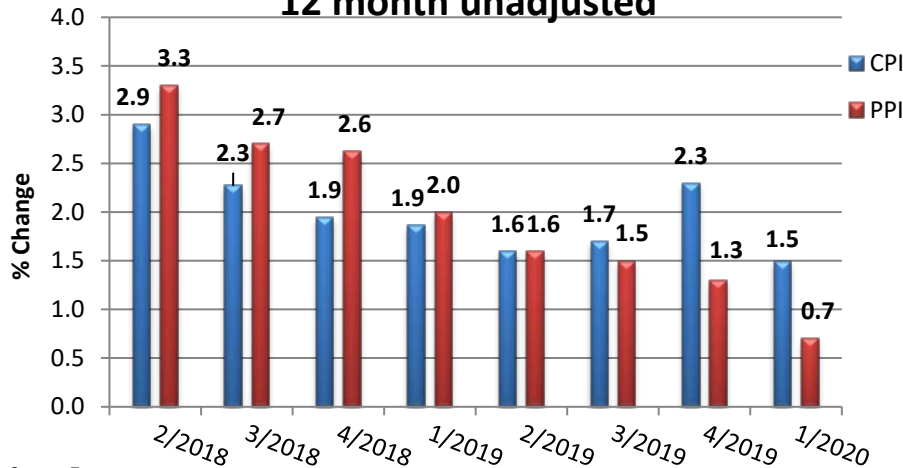
Inflation is 1.5 percent based on the latest consumer price index report. That will likely drop further as demand for goods is temporarily non-existent and oil prices drop due to the Russia and Saudi price war.

Domestic GDP



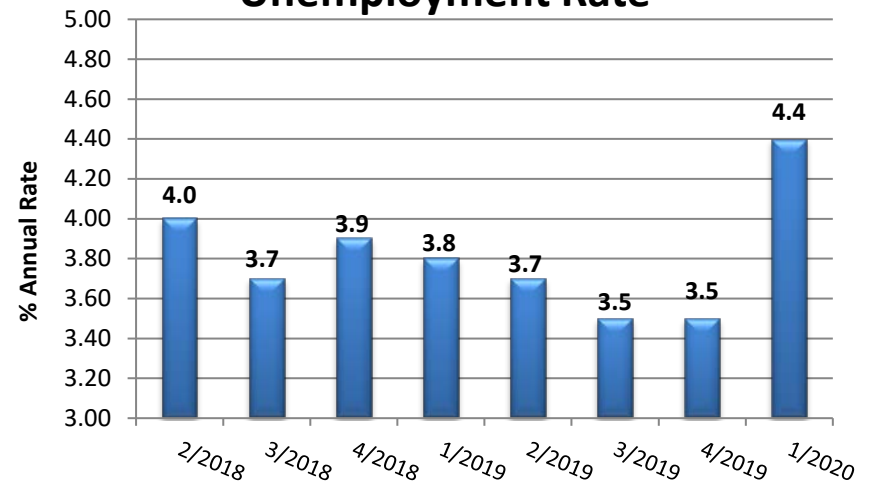
Source: Factset

Inflation Indicator 12 month unadjusted

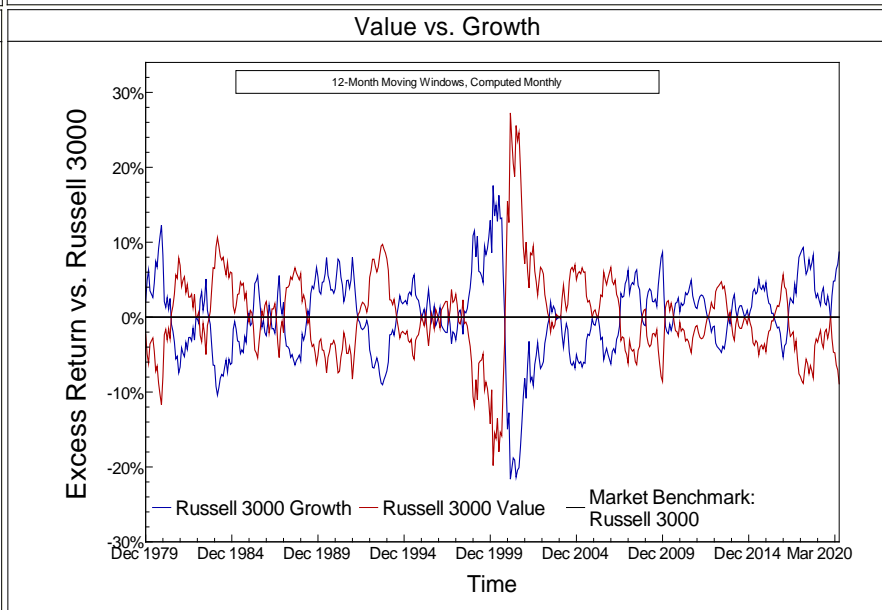
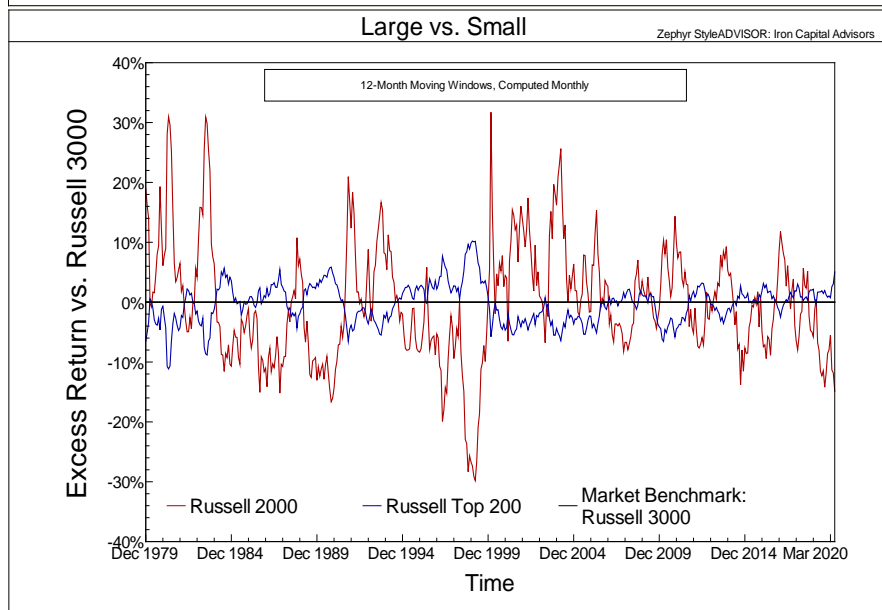
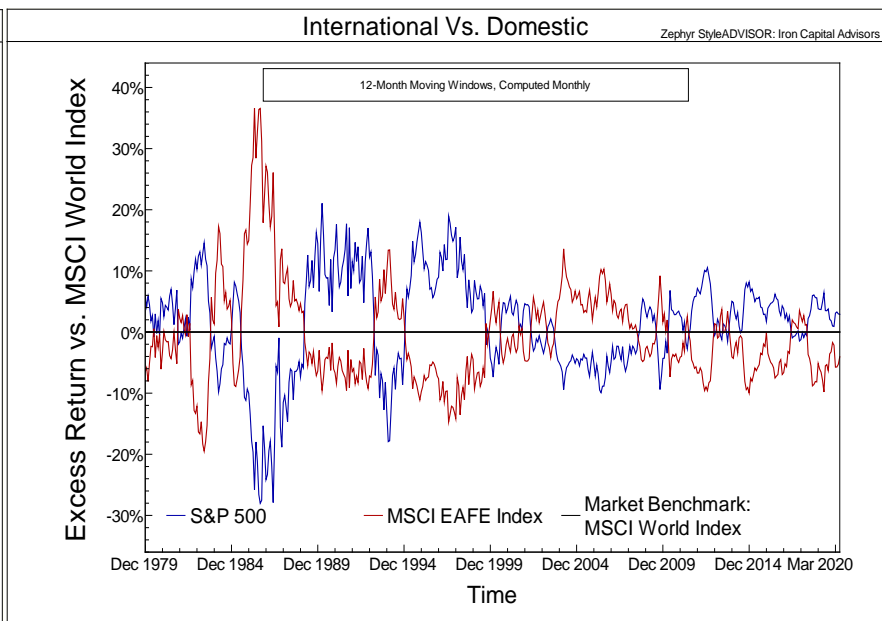
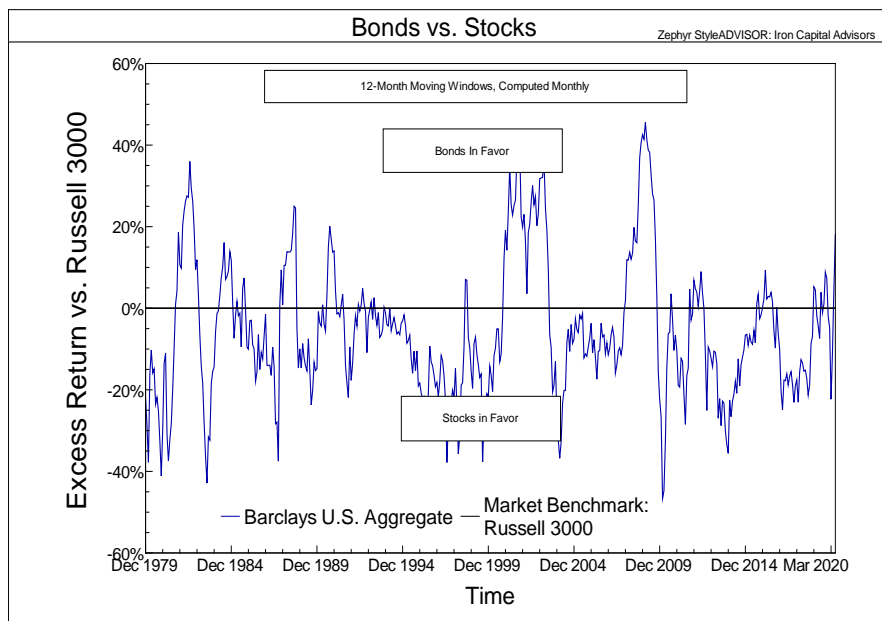


Source: Factset

Unemployment Rate



Source: Factset



Domestic Equity Markets

Markets plunged in a rapid selloff. For the quarter the S&P 500 finished down 19.6 percent and small company stocks represented by the Russell 2000 index were down 30.6 percent. Growth outpaced value but all major asset classes fell.

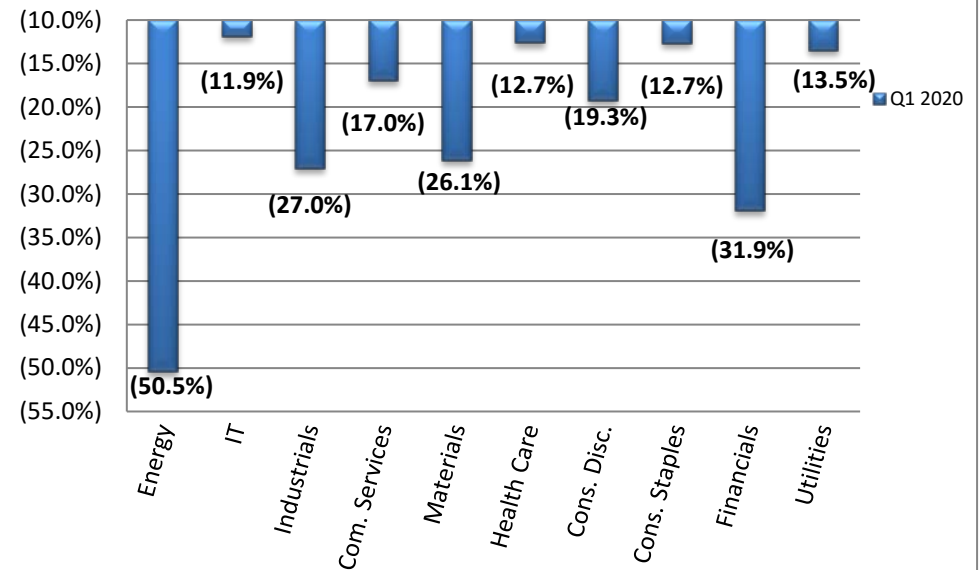
Energy stocks led the way down as the sector was hit by a Saudi Arabia vs Russia price war on top of the Covid-19 shutdown. This sector has real fundamental issues and may not bounce back for a long period of time.

Financials on the other hand seem overly beaten up. The Covid-19 crisis is not a financial crisis. As the economy re-opens bank stocks should bounce back.

Domestic Indices Three Months Ending March 31, 2020

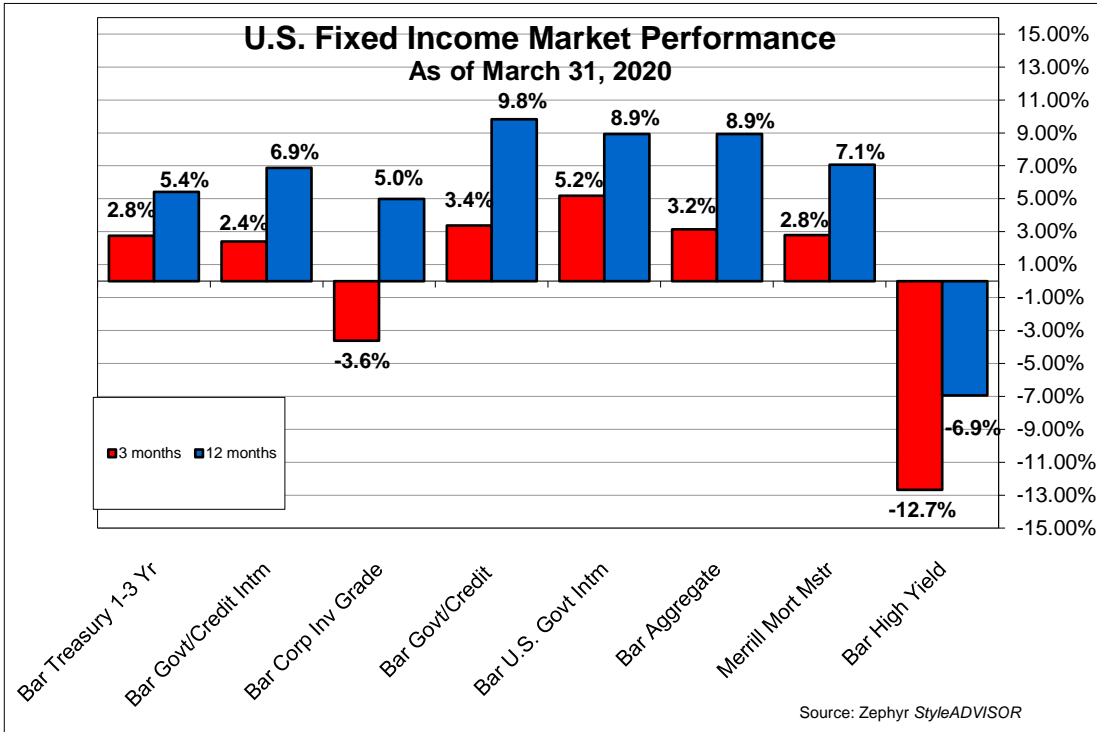
	Yield	Price/Earnings	Price/Book
S&P 500	2.22%	17.2	2.82
Russell 1000 Gr	1.29%	24.1	6.99
Russell 1000 Val	3.34%	13.3	1.51
Russell Midcap	2.23%	17.3	1.97
Russell 2000 Gr	0.89%	80.0	3.19
Russell 2000 Va	3.19%	18.9	0.91

S&P GICS Sector Returns



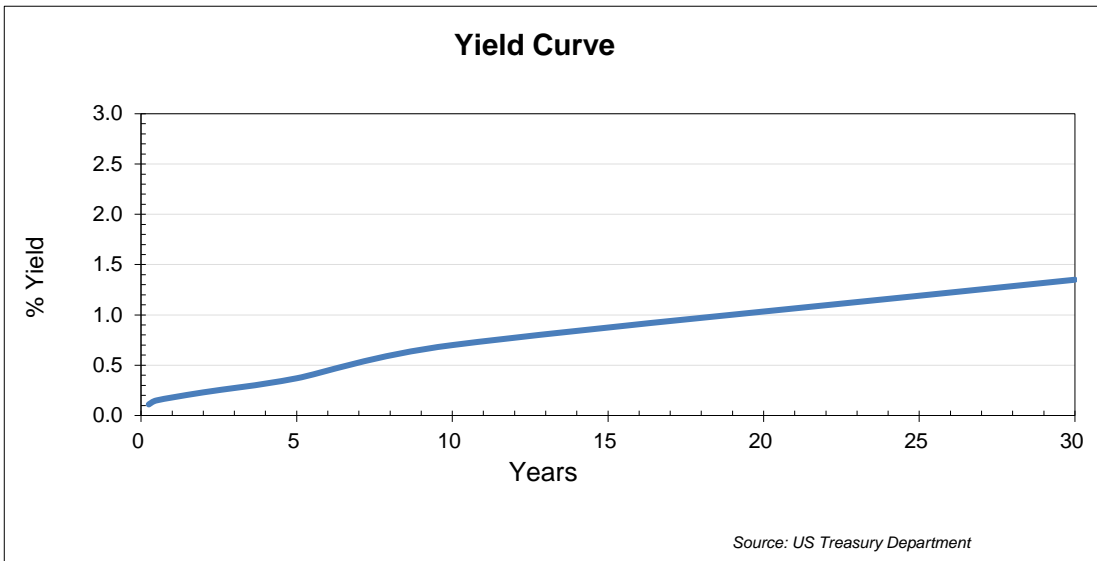
Source: Factset

DOMESTIC FIXED INCOME MARKET



Bonds were up for the quarter. The Barclays US Aggregate Bond index ended up 3.15 percent. High yield bonds dropped 12.68 percent.

With the 10 year Treasury ending the quarter with 0.70% yield, bonds make little sense for most investors.



Yield Curve as of March 31, 2020

Time to Maturity	Interest Rate
3 Month	0.11
6 Month	0.15
2 Year	0.23
5 Year	0.37
10 Year	0.70
30 Year	1.35

INTERNATIONAL MARKETS

International stocks dropped as well. The EAFE index finished down 22.7 percent while the MSCI Emerging Markets index ended the quarter down 23.6 percent.

Covid-19 is truly a global crisis and no market was left unharmed. The more important question is where does the world go from here?

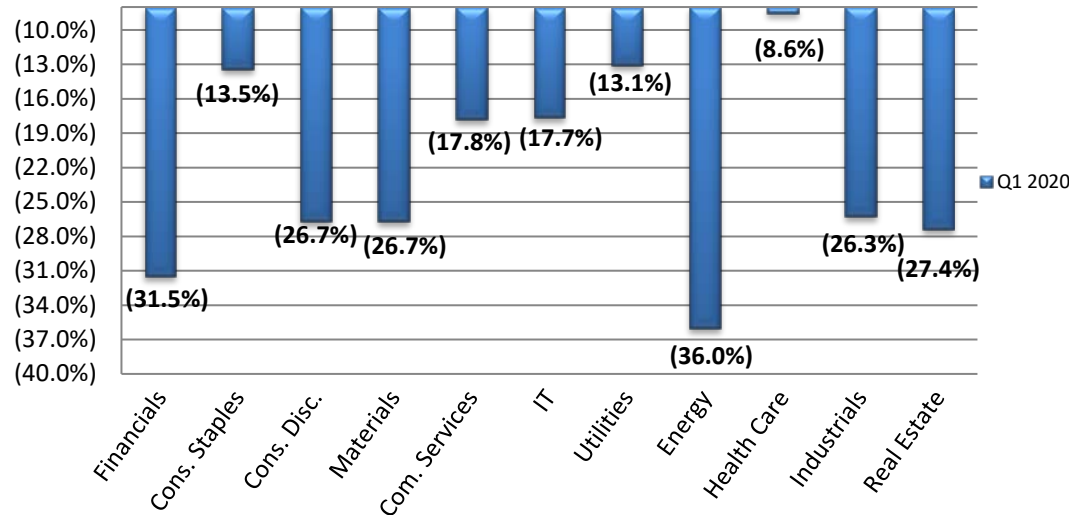
China led the world into this crisis and is already well on the way to recovery. They have re-opened and are bouncing back.

Europe has been the hardest hit. It may take longer for them to bounce back and many of the EU economies were weak heading into this crisis.

MSCI Country Returns Three Months Ending March 31, 2020

	Return US\$ (%)	Return Local Currency (%)	Currency Effect(%)
Austria	-42.88%	-41.57%	-1.31%
Belgium	-32.54%	-30.98%	-1.56%
Denmark	-7.74%	-5.75%	-1.99%
Finland	-18.94%	-17.08%	-1.86%
France	-27.47%	-25.81%	-1.66%
Germany	-26.95%	-25.27%	-1.68%
Ireland	-25.52%	-23.81%	-1.71%
Italy	-29.21%	-27.58%	-1.63%
Netherlands	-20.63%	-18.95%	-1.68%
Norway	-33.27%	-20.26%	-13.01%
Portugal	-13.11%	-11.11%	-2.00%
Spain	-29.73%	-28.11%	-1.62%
Sweden	-21.36%	-16.76%	-4.60%
Switzerland	-11.12%	-11.19%	0.07%
UK	-28.79%	-23.92%	-4.87%
Europe Total	-24.23%	-21.69%	-2.54%
Australia	-33.23%	-23.31%	-9.92%
Hong Kong	-17.33%	-17.73%	0.40%
Japan	-16.63%	-17.18%	0.55%
New Zealand	-16.33%	-4.79%	-11.54%
Singapore	-28.19%	-23.96%	-4.23%
Pacific Total	-20.18%	-18.27%	-1.91%
Brazil	-50.20%	-35.80%	-14.40%
Canada	-27.37%	-20.28%	-7.09%
China	-10.22%	-4.25%	-5.97%
Greece	-45.13%	-43.86%	-1.27%
Hungary	-39.01%	-31.95%	-7.06%
India	-31.13%	-27.00%	-4.13%
Indonesia	-39.44%	-28.85%	-10.59%
Korea	-22.40%	-18.31%	-4.09%
Mexico	-35.44%	-19.80%	-15.64%
Poland	-36.47%	-30.32%	-6.15%
Russia	-36.34%	-21.84%	-14.50%
Thailand	-33.69%	-27.35%	-6.34%
Emerging Markets	-23.57%	-19.02%	-4.55%

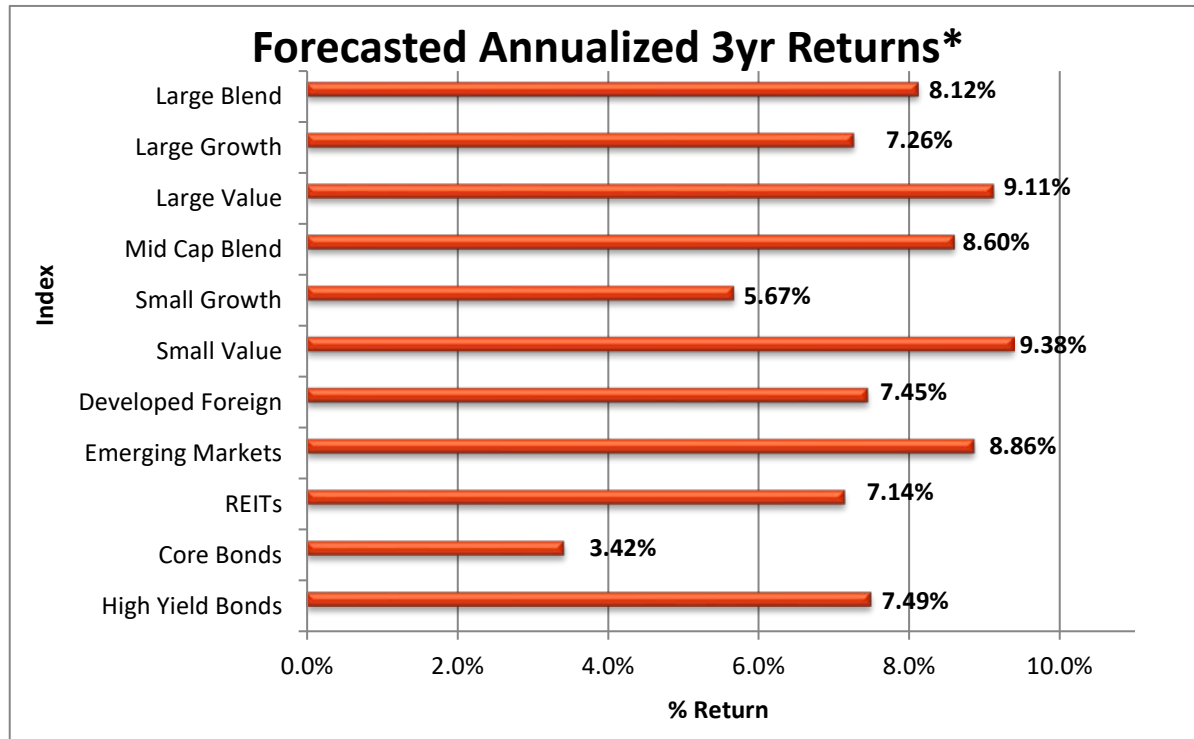
Developed Int'l Sector Returns*



Source: T. Rowe Price

* MSCI EAFE Index

Market Forecast



We appear to be in a bottoming process from the crisis selloff. This is an encouraging sign. The rally will likely be strong once people start back to work. Its strength and longevity will depend on how quickly we get back to normal. This will be a stock pickers market, as some companies will emerge stronger and some will not emerge at all.

Small company stocks will likely lead the initial rebound, but then it will depend on the economy. If the economy remains weak large companies will be the safer place to be.

Bonds make no sense at these prices. High yield bonds may be the only place to get positive long-term returns.

**Changes in Return Expectations
as of March 31, 2020**

Asset Class	Change Over Quarter	Change Over Year
Large Blend	0.32%	-0.07%
Large Growth	0.18%	-0.21%
Large Value	0.66%	0.29%
Mid Cap Blend	0.46%	0.16%
Small Growth	-0.16%	-0.39%
Small Value	0.67%	0.45%
Developed Foreign	0.72%	0.33%
Emerging Markets	0.53%	0.00%
REITs	0.26%	0.14%
Core Bonds	-0.27%	-0.63%
High Yield Bonds	1.26%	0.99%

*Forecasted 3 year annualized returns represent Iron Capital's investment return expectations for various asset classes over the next 3 years. They are calculated using a weighted average of historic returns and forward return assumptions. They are meant to be a tool to judge relative attractiveness of asset classes and not a guarantee of future investment returns.

SELECTED INDEX RETURNS - PERIODS ENDING March 31, 2020

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
US EQUITIES						
Broad Stock Market - Russell 3000	-20.90%	-20.90%	-9.13%	4.00%	5.77%	10.15%
Large Stocks - S&P 500	-19.60%	-19.60%	-6.98%	5.10%	6.73%	10.53%
Dow Jones Industrial Average	-22.73%	-22.73%	-13.38%	4.42%	6.86%	10.00%
Medium-Size Stocks - Russell Mid-Cap	-27.07%	-27.07%	-18.31%	-0.81%	1.85%	8.77%
Small Stocks - Russell 2000	-30.61%	-30.61%	-23.99%	-4.64%	-0.25%	6.90%
Small Value Stocks- Russell 2000 Value	-35.66%	-35.66%	-29.64%	-9.51%	-2.42%	4.79%
Small Growth Stocks- Russell 2000 Growth	-25.76%	-25.76%	-18.58%	0.10%	1.70%	8.89%
Large Value Stocks - Russell 1000 Value	-26.73%	-26.73%	-17.17%	-2.18%	1.90%	7.67%
Large Growth Stocks - Russell 1000 Growth	-14.10%	-14.10%	0.91%	11.32%	10.36%	12.97%
US FIXED INCOME						
1-3 Yr Treasury (Gov't) Bonds - Barclays Capital	2.76%	2.76%	5.41%	2.69%	1.84%	1.44%
US Government Bonds Int - Barclays Capital	5.18%	5.18%	8.93%	4.12%	2.77%	2.79%
US Corporate Inv Grade Bonds - Barclays Capital	-3.63%	-3.63%	4.98%	4.20%	3.36%	4.92%
Government/Credit (Corp) Bonds - Barclays Capital	3.37%	3.37%	9.82%	5.17%	3.54%	4.15%
Int Govt/Credit (Corp) Bond - Barclays Capital	2.40%	2.40%	6.88%	3.79%	2.76%	3.14%
US Aggregate Bond Market - Barclays Capital	3.15%	3.15%	8.93%	4.82%	3.36%	3.88%
Mortgage Master - Merrill Lynch	2.79%	2.79%	7.06%	4.08%	2.96%	3.29%
US Corp High Yield Bonds - Barclays Capital	-12.68%	-12.68%	-6.94%	0.77%	2.78%	5.64%
INTERNATIONAL (Measured in US Dollars)						
Non-US Stocks - MSCI EAFE	-22.72%	-22.72%	-13.92%	-1.33%	-0.13%	3.20%
World Stocks (includes US) - MSCI World	-20.93%	-20.93%	-9.87%	2.49%	3.83%	7.17%
European Stocks - MSCI Europe	-24.23%	-24.23%	-14.95%	-1.73%	-0.71%	3.08%
Japanese Stocks - MSCI Japan	-16.63%	-16.63%	-6.31%	1.33%	2.18%	4.11%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	-27.58%	-27.58%	-23.56%	-4.57%	-1.40%	2.27%
Chinese Stocks - MSCI China	-10.22%	-10.22%	-5.66%	7.23%	3.76%	4.61%
Indian Stocks - MSCI India	-31.13%	-31.13%	-30.86%	-6.64%	-3.50%	-0.42%
Emerging Markets - MSCI EM	-23.57%	-23.57%	-17.36%	-1.25%	0.01%	1.04%
Int'l Gov't Bonds -Citi World Gov't Bond (Non USD)	-1.88%	-1.88%	1.79%	3.14%	2.39%	1.38%
REAL ESTATE						
FTSE NAREIT Equity-Reits Index	-27.30%	-27.30%	-21.26%	-3.28%	-0.43%	7.35%
SHORT TERM INTEREST RATES						
T-Bills	0.39%	0.39%	2.04%	1.74%	1.12%	0.60%

Note: Returns for periods longer than 12 months are annualized.