

## Equity Market Summary

U.S. Equity Markets	Feb 19-Feb 27	YTD	Top/Bottom Sectors	Feb 19-Feb 27	YTD	Non-US Equity Markets (in USD)	Feb 19-Feb 27	YTD	Non-US Regions (in USD)	Feb 19-Feb 27	YTD
S&P 500	-12.0%	-7.5%	Utilities	-8.4%	-0.6%	MSCI AC World Ex U.S.	-7.3%	-7.7%	Developed Americas	-8.8%	-5.6%
Russell 1000 Growth	-12.7%	-4.6%	Real Estate	-8.6%	-2.5%	MSCI EAFE (Developed)	-7.5%	-8.1%	Developed Asia	-5.4%	-7.7%
Russell 1000 Value	-11.3%	-10.2%	Technology	-14.7%	-4.4%	MSCI Emerging	-6.6%	-7.4%	Developed Europe	-8.5%	-8.2%
Russell 2000	-11.5%	-10.1%	Financials	-12.2%	-11.2%	MSCI China	-4.1%	-1.9%	Emerging Americas	-12.4%	-16.4%
Russell 2000 Growth	-11.6%	-7.1%	Materials	-11.8%	-13.1%	MSCI Japan	-5.0%	-8.8%	Emerging Asia	-5.3%	-5.0%
Russell 2000 Value	11.4%	-13.2%	Energy	-17.6%	-24.9%	MSCI Italy	-8.3%	-5.0%	Emerging EMEA	-8.7%	-12.2%

## Where we were:

- The global economy entered 2020 with a lot of positives, led by a healthy consumer, U.S. unemployment at 50-year lows, improving manufacturing sector, accommodative central bank policies, and even Europe showed signs of strengthening. Global equity markets enjoyed a very strong 2019, but valuations were looking stretched, especially in the U.S. where multiples rose 30% over the last year.

## Where we are now:

- Coronavirus: 84,000 cases, 2,900 deaths. Reported cases in at least 60 countries.

### Economy:

- Coronavirus is leveling a hit to global economic activity on both the demand and supply side. Unfortunately, we still lack enough hard data on the virus itself, supply chain disruptions and consumer spending to accurately quantify the impact.
- Evidence on growth suggests at least a 50% hit to China 1Q'20 GDP.
- Impacts outside China are evident with retail demand dropping by over 40% in South Korea.

### Financial Markets:

- Global equity markets are down 10% from their highs of Feb. 19. This is the most rapid sell-off in history from an all-time high.
- Despite a very strong 2019, the S&P 500 is up only 5%, including dividends, since the 4Q'18 sell-off began.
- U.S. Treasury yields are reaching record lows. Credit spreads are widening with high yield spreads up 100bps YTD.

### Earnings:

- Global earnings growth estimates have remained relatively stable YTD. U.S. and China revisions actually looked worse at the beginning of 2019. However, Emerging Asia and specifically China expectations have dropped by over 2% in the past few weeks. This drop is likely to widen and spread rapidly to other regions.
- U.S. semiconductor companies are still showing significant earnings revisions strength. With 30% of industry group revenues tied to China, look for this to change meaningfully. Marvell Technology will report earnings on March 4 and may provide a good read on where semi earnings are headed.
- Apple, Microsoft, and PayPal, just to name a few, have already withdrawn or lowered their earnings outlooks in response to COVID-19. In contrast, Starbucks reported that 88% of stores in China are open and seeing early signs of a recovery in the country.

## Summary:

The human toll of COVID-19 is unquestionably devastating, and its impact has spilled into the economy and financial markets. A more than 1% impact on global GDP appears a very real possibility. As the yield curve inverts and credit spreads widen, financial conditions tighten. The Fed's hand is being forced and they risk making matters worse if they do not respond to improve financial conditions. China's Central Bank is already acting aggressively, an outcome of which can be seen in the surprising relative strength of Chinese equity markets. We'll be watching earnings revisions and company guidance as the most timely indicators of the ultimate impact.

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