WEEKLY UPDATE

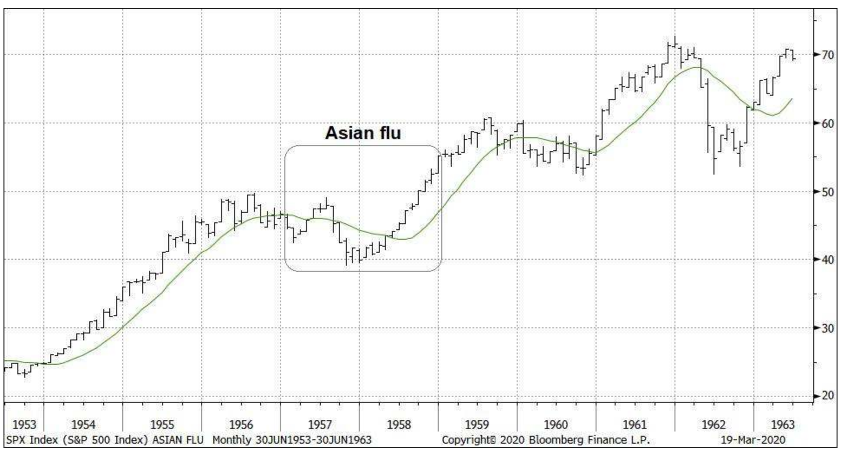
CARY STREET PARTNERS
A LUXON FINANCIAL COMPANY

MARCH 23, 2020

EQUITY MARKETS

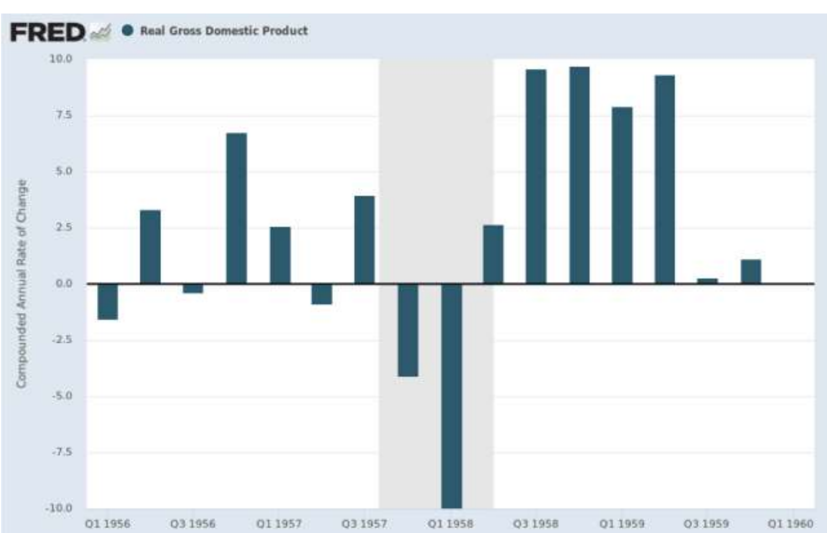
Equity markets continued to exhibit enormous volatility this week— resulting in almost a 15% S&P 500 decline for the week. Equities will not discover a confirmed market clearing level until we see an exhaustion of this volatility. There are certainly early signs of such an exhaustion, as seen in historic readings of the CBOE Volatility Index (VIX), a fast-moving indicator of fear. The chart below provides a historical guidepost to what we might expect the impact of the current crisis to look like. While no two periods in history are precisely the same, the closest correlation to the current situation was the Asian flu pandemic in 1957-58. The human toll of this episode resulted in hundreds of thousands of deaths, and the economic fallout was a sharp decline in personal consumption. Consequently, the U.S. economy experienced the sharpest contraction at that point since the Great Depression, and stock markets drew down approximately 22%. Today's crisis has resulted in a larger drawdown, approximately 30%, and we would expect a similar very ugly GDP print for the second quarter at least. We would also expect the corresponding higher than normal GDP growth as we emerge from this crisis. Equity markets begin to price in the other side of the valley sooner than one might think, typically three to six months in advance.

IMPACT ON THE MARKETS



Source: Fairlead Strategies, LLC

IMPACT ON THE ECONOMY



Source: Federal Reserve

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 3.20.2020
US EQUITY BENCHMARKS	
S&P 500 TR USD	-28.33
DJ US TR USD	-29.29
RUSSELL 1000 TR USD	-29.03
RUSSELL 1000 VALUE TR USD	-34.69
RUSSELL 1000 GROWTH TR USD	-23.71
RUSSELL 2000 TR USD	-39.04
INTERNATIONAL EQUITY BENCHMARKS	
MSCI FV ACWI NR USD	-31.41
MSCI FV ACWI EX USA NR USD	-29.83
US FIXED BENCHMARKS	
BBGBARC US TREASURY BILLS TR USD	0.64
BBGBARC US AGG BOND TR USD	0.01
BBGBARC US TREASURY US TIPS TR USD	-1.42
BBGBARC US CREDIT TR USD	-9.28
ICE BOFA US HIGH YIELD TR USD	-18.73
ICE BOFA US MBS TR USD	0.71
US FIXED MUNI BENCHMARKS	
BBGBARC MUNICIPAL TR USD	-7.53
INTERNATIONAL FIXED BENCHMARKS	
BBGBARC GLOBAL AGGREGATE TR USD	-3.31
REAL ASSETS	
FTSE NAREIT ALL EQUITY REITS TR USD	-34.18
ALTERNATIVE	
WILSHIRE FOCUSED LQD ALTERNATIVE TR USD	-9.55

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CREDIT MARKETS

U.S. investment grade risk — premiums are at the highest level since the 2008 financial crisis. Investors withdrew $35.6 billion from investment grade funds last week which was a record. The previous record, according to Refinitiv Lipper, was set two weeks ago at $7.3 billion. These outflows have been a catalyst for the rising yields and falling prices. The rise in yields affected all higher-grade asset classes last week including commercial paper, mortgages, agencies and municipal bonds. Some higher rated corporations issued debt last week in a sign that some normalcy is returning to the credit markets.

ECONOMIC NEWS

The Federal Reserve took several monetary steps to stabilize the credit markets. The Money Market Fund Liquidity Facility was launched, to stave off a potential "break the buck" scenario. The central bank also injected $130 billion into European banks to stabilize the currency markets. The Fed backstopped the commercial paper market ensuring liquidity and eliminating counterparty risks. Lastly, the central bank continues to enact quantitative easing, purchasing U.S. Treasuries and Agency Mortgages.

The federal government has instructed Fannie Mae and Freddie Mac to halt foreclosures for 60 days. Fiscal stimulus is being debated in congress and will likely include at least $1 trillion in new spending including direct payments to individuals.