WEEKLY UPDATE

MARCH 30, 2020

CARY STREET PARTNERS
A LUXON FINANCIAL COMPANY

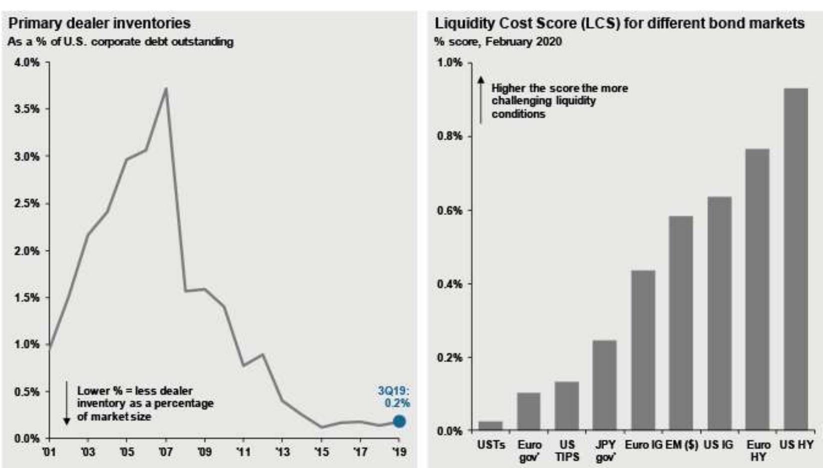
EQUITY MARKETS

This week witnessed further volatility in equity markets, however the resulting performance was better than recent experience, with the S&P notching a 10%[1] gain for the week. Among a host of data points and indicators, we feel the most important to look for are a plateau in the COVID-19 rate of infection in the U.S., and an exhaustion in the CBOE Volatility Index (VIX). The VIX is a measure of fear in the markets, which was at historic highs as recently as last week. A meaningful turn down in the VIX is a key ingredient for establishing a market clearing bottom in equities. Early signs of exhaustion are evident, but we need to see further evidence of simmering volatility to form conviction that the market has cleared. The turn from peak fear is likely to come before the evidence of a COVID plateau.

CREDIT MARKETS

Recent volatility has not been limited to the equity markets. When panic selling takes hold, nothing is immune. Virtually all classes of fixed income have sold off recently during this liquidation event. What is important to understand is that a good deal of the recent price decline has been due to lack of liquidity in those bond markets. The chart below illustrates how much less market making liquidity exists in today's bond markets. This creates a lack of bids when all the initiative is coming from the sell side. Much of that forced selling was driven by mutual fund liquidations. While bond markets are certainly less efficient, creating additional volatility, many of these markets have begun to settle down following Federal Reserve liquidity measures.

BOND MARKET LIQUIDITY[2]



Credit Markets had one of the best weeks in years with falling risk premiums creating an environment for significant issuance of new debt. There was $98.35[1] billion in investment grade debt issued breaking a previous record set in September 2019. Companies such as Home Depot, Target, Nvidia, CSX, CVS, Morgan Stanley and State Street all issued bonds. Appetite for corporate debt returned as these deals were 6.5x[1] oversubscribed on average. The average for all of 2019 issuance is 3.2x[1] oversubscribed.

CONTINUED...

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 3.26.2020
US EQUITY BENCHMARKS	
S&P 500 TR USD	-20.96
DJ US TR USD	-21.70
RUSSELL 1000 TR USD	-21.48
RUSSELL 1000 VALUE TR USD	-27.40
RUSSELL 1000 GROWTH TR USD	-15.91
RUSSELL 2000 TR USD	-31.92
INTERNATIONAL EQUITY BENCHMARKS	
MSCI FV ACWI NR USD	-24.43
MSCI FV ACWI EX USA NR USD	-22.56
US FIXED BENCHMARKS	
BBGBARC US TREASURY BILLS TR USD	0.64
BBGBARC US AGG BOND TR USD	2.67
BBGBARC US TREASURY US TIPS TR USD	2.18
BBGBARC US CREDIT TR USD	-4.44
ICE BOFA US HIGH YIELD TR USD	-14.35
ICE BOFA US MBS TR USD	2.64
US FIXED MUNI BENCHMARKS	
BBGBARC MUNICIPAL TR USD	-0.25
INTERNATIONAL FIXED BENCHMARKS	
BBGBARC GLOBAL AGGREGATE TR USD	-0.27
REAL ASSETS	
FTSE NAREIT ALL EQUITY REITS TR USD	-23.35
ALTERNATIVE	
WILSHIRE FOCUSED LQD ALTERNATIVE TR USD	-7.66

[1] Source: Bloomberg

[2] Source: J.P. Morgan Asset Management; (Left) Federal Reserve Bank of New York, SIFMA; (Right) Barclays. U.S. corporate debt outstanding includes money market debt. Liquidity Cost Score focuses on the cost of trading across different asset classes by assessing 20,400 fixed income securities. It is calculated by the bid-spread minus the ask-spread multiplied by the option-adjusted spread duration (OASD). *Guide to the Markets* – U.S. Data are as of March 24, 2020.

Credit spreads tightened over the course of the week in most fixed income asset classes. On Wednesday, municipal bonds had the largest single day rally since the 2008 financial crisis.

As of Friday, March 27, the 1-month, 2-month, and 3-month Treasury Bills all had negative yields to maturity[3]. The 6-month T-bill yields 0%. Much of this is due to the Federal Reserve intervening in the short-term debt markets and fixed income shifting to more liquid securities during a period of massive redemptions.

ECONOMIC NEWS

The Department of Labor released weekly initial unemployment claims for the U.S. which came in at 3.283 million (compared to a normal 210k weekly average over the last year).[4] The highest prior release was 695k in 1982 with data going back to 1960. Given a total labor force of 165 million people, the data implies a rise in the unemployment rate of two full percentage points. In February, the rate was 3.5%, so the release is indicative of the unemployment rate rising to 5.5%. At the peak of the 2008 financial crisis, the highest number of weekly unemployment claims was 665k. The highest unemployment rate was 10.2% as a result of the 2008 financial crisis. The 10.2% peak of unemployment occurred almost a full year after the 2008 financial crisis in December of 2009. The $2 trillion relief package was passed by both houses of congress.

[3] Source: Bloomberg

[4] Source for all unemployment data: Department of Labor.