WEEKLY UPDATE

CARY STREET PARTNERS

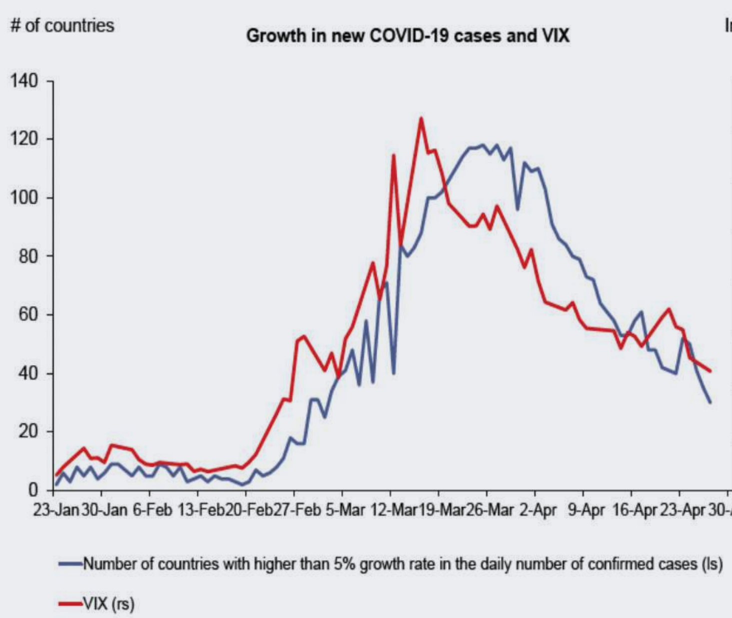
MAY 4, 2020

EQUITY MARKETS

Equity markets edged lower last week, with the S&P 500 dipping .21%. The past week featured earnings releases for many of the largest constituents of the S&P—Google, Facebook, Microsoft, Apple and Amazon. These five names make up approximately 20% of the index. Their strength is a large factor in the S&P holding up relatively well during the COVID pandemic. Business models for these technology centric companies are relatively less impacted by fallout from the virus.

Below is a chart that illustrates the two data points we have been relentlessly following since the onset of the COVID crisis. We have previously pointed out that these will be the early indicators of market improvement. As both the COVID infection rate and the CBOE Volatility Index (VIX) peaked in late March, equity markets made a bottom. The conclusion to draw from this chart is that markets have improved as forward volatility has diminished along with progress being made on the COVID battle front. Volatility is still elevated. It will take further progress on COVID infection rates as well as potential treatments and vaccines for equity markets to sustain the dramatic relief-rally we have undergone since the March 23rd low. But these indicators build conviction around a series of higher lows on pullbacks being the most likely outcome going forward. They also lessen the chance markets will re-test the March 23rd low. Further improvement on both data points will help the equity markets withstand the terrible economic news that will be with us for some time.

VIRUS PEAKED A MONTH AGO AND MARKET STRESS IS GOING AWAY



Source: JHU, Bloomberg Finance LP, DB Global Research

CONTINUED...

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 5.04.2020
US EQUITY BENCHMARKS	
S&P 500 TR USD	-11.83
DJ US TR USD	-12.55
RUSSELL 1000 TR USD	-12.27
RUSSELL 1000 GROWTH TR USD	-4.09
RUSSELL 2000 TR USD	-24.10
INTERNATIONAL EQUITY BENCHMARKS	
MSCI FV ACWI EX USA NR USD	-19.60
MSCI FV ACWI NR USD	-15.27
US FIXED BENCHMARKS	
BBGBARC US TREASURY BILLS TR USD	0.63
BBGBARC US AGG BOND TR USD	4.86
BBGBARC US TREASURY US TIPS TR USD	4.24
BBGBARC US CREDIT TR USD	1.00
ICE BOFA US HIGH YIELD TR USD	-10.07
ICE BOFA US MBS TR USD	3.56
INTERNATIONAL FIXED BENCHMARKS	
BBGBARC GLOBAL AGGREGATE TR USD	1.58
US FIXED MUNI BENCHMARKS	
BBGBARC MUNICIPAL TR USD	-1.55
REAL ASSETS	
FTSE NAREIT ALL EQUITY REITS TR USD	-19.56
SPDR® GOLD SHARES	10.57
ALTERNATIVE	
WILSHIRE FOCUSED LQD ALTERNATIVE TR USD	-5.02

Source: Bloomberg

CREDIT MARKETS

The Bloomberg Barclays U.S. Aggregate Index return was up 1.67% for April. U.S. investment-grade corporate bonds gained 5.44%.[1] For the major bond sectors, Treasuries, agencies, mortgage backed, municipal and high-yield bonds all had positive returns for the month.[2] U.S. high yield had the highest return in April +5.62%.[3] Lower-rated credit outperformed higher-rated credit in a reversal from March.

There are many signs that liquidity is improving. Treasuries recorded their fourth straight monthly gain in April as U.S. economic activity remained severely depressed. Central Bank purchases averaged $10 billion per day over the last week. At the beginning of the month, the daily average was $75 billion per day.[4]

Risks remain with certain sectors of fixed income still at depressed levels. The collateralized loan obligation (CLO) market is currently pricing in just a fraction of the likely wave of defaults on the horizon. Many commercial and residential mortgage-backed securities are trading at distressed levels, because valuing rents, property values and defaults is largely unknown. Many companies will likely file for chapter 11 in the retail and energy sector.

ECONOMIC NEWS

First quarter real GDP fell 4.8% at a seasonally adjusted annual rate, worse than consensus.[5] In March, personal income fell 2.0%, personal spending fell a record 7.5% and the savings rate jumped to 13.1%.[6] Initial jobless claims for the week ending April 25th came in at 3.8 million, higher than the expectation of 3.5 million.

[1]Bloomberg Barclays US Corporate Index
[2]Bloomberg Barclays Indices
[3]Bloomberg Barclays US Corporate High Yield Index
[4]Bloomberg
[5]Bloomberg
[6]Bloomberg