Stocks Wrap Up the First Quarter With Double-Digit Declines

To say that a lot has changed in the last month is the understatement of the year or a lifetime. The markets are playing a weak supporting role to the worst healthcare challenge in our generation, as well as the worst economic problem since 2008. The good news is that policymakers are unleashing all the tools at their disposal in an unprecedented way to essentially "buy time" for the economy while we await medical solutions, explains Raymond James Chief Investment Officer Larry Adam. The $2 trillion stimulus package includes programs, loans, funding and direct payments to help keep the recession shallow, and when the crisis passes, these could be the key components of very strong growth.

"The combination of aggressive monetary policy and substantial fiscal stimulus should deter the worst-case scenarios from occurring," shares Adam.

In response to the COVID-19 pandemic, we've seen the Federal Reserve (the Fed) announce two cuts to the overnight lending rate target range, now between 0% and 0.25%, and we've seen the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, both intended to provide some economic relief during the global quarantine. With the number of new daily cases still spiking, the ultimate duration and magnitude of the outbreak remain highly uncertain, cautions Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy.

There are glimpses of optimism, though. Stocks, particularly healthcare names, rallied slightly as testing became more available and the stimulus package passed. However, it wasn't enough to make up for the substantial losses seen throughout the month. The S&P 500 lost 12.5% for March, while the Dow Jones and Nasdaq delivered -13.7% and -10.1% respectively. For the quarter, all three domestic indices ended well into record-breaking negative territory.

	12/31/19 Close	3/31/20 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	28,538.44	21,917.16	-6,621.28	-23.20%
NASDAQ	8,972.61	7,700.10	-1,272.51	-14.18%
S&P 500	3,230.78	2,584.59	-646.19	-20.00%
MSCI EAFE	2,036.96	1,558.48	-478.48	-23.49%
Russell 2000	1,668.47	1,153.10	-515.37	-30.89%
Bloomberg Barclays Aggregate Bond	2,225.00	2,297.24	+72.24	+3.25%

Performance reflects price returns as of market close on March 31, 2020.

Here is a look at some key factors we are watching, both here and abroad:

Economy

- Initial claims for unemployment benefits rose to a record 3.3 million on a seasonally adjusted basis, with nearly every state citing the impact of the virus.
- The economic aid package extends benefits to a broader range of unemployed workers. Still, the unprecedented increase in jobless claims suggests that labor market conditions are deteriorating more rapidly than previously thought, explains Chief Economist Scott Brown.
- It's no surprise that social distancing has had a major impact on the economy, particularly in the airlines, hospitality, leisure and retail space. Job losses will hinder consumer spending and business investment in the near term, Brown concludes.

Equities

- March was one of the worst months ever for the oil market as demand fell dramatically due to the COVID-19 pandemic, compounded by the Saudi-Russia price war, explains Pavel Molchanov, director of equity research.
- Renewable energy may be a relative safe haven (e.g., wind, solar, water), Molchanov says. For example, the U.S. electric power sector has no linkage to oil prices. Much the same can be said of Europe, China, India and South America.
- As previous recoveries reveal, buying at the absolute bottom is not necessary to generate sizable returns. Bear market declines are often rapid, whereas bull markets typically last for much more extended periods of time, Madere suggests.
- Even if equities experience additional weakness, stocks will eventually find a bottom. As the market shifts from decline to advance, investors may want to allocate additional capital.

International

- March may have come in like a lion, but it did not go out like a lamb, at least for the global equity markets, according to European Strategist Chris Bailey. The full implications of the health challenge of COVID-19 are still being worked through, but policymakers around the world are loosening monetary policy and developing assistance programs in response.
- Countries in East Asia including China and South Korea – which have tentatively culled their COVID-19 outbreak to negligible levels – have provided insights into how others can start to fully emerge from the restrictions and impacts of the virus.

Fixed income

- Not all fixed income is the same. The Fed is supporting investment-grade securities and providing only limited support for businesses that issue in the high-yield space. The Fed is directly buying Treasuries and Agency MBS, but they are also indirectly buying investment-grade corporates and munis. More than ever, quality rules, says Chief Fixed Investment Strategist Kevin Giddis.

Bottom line

- In times of volatility, a disciplined investment strategy should help as markets tend to overreact on both the downside and upside as headlines drive fear and over-optimism, explains Adam.
- Regardless of where stocks ultimately find a bottom, the current bear market provides a tremendous opportunity for long-term investors, Madere adds. With stocks down sharply, those with diversified portfolios and a long-term outlook can ease into partial positions (reserving some buying power for a sustained rally).

As always, please reach out with any questions you may have – about the markets, your financial plan or anything else that we may be able to help with. We want to hear how you're holding up and look forward to speaking with you. Thank you for your trust in us.

Sincerely,

Larry Cavalena
Registered Principal

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