The Stonebridge Market Commentary

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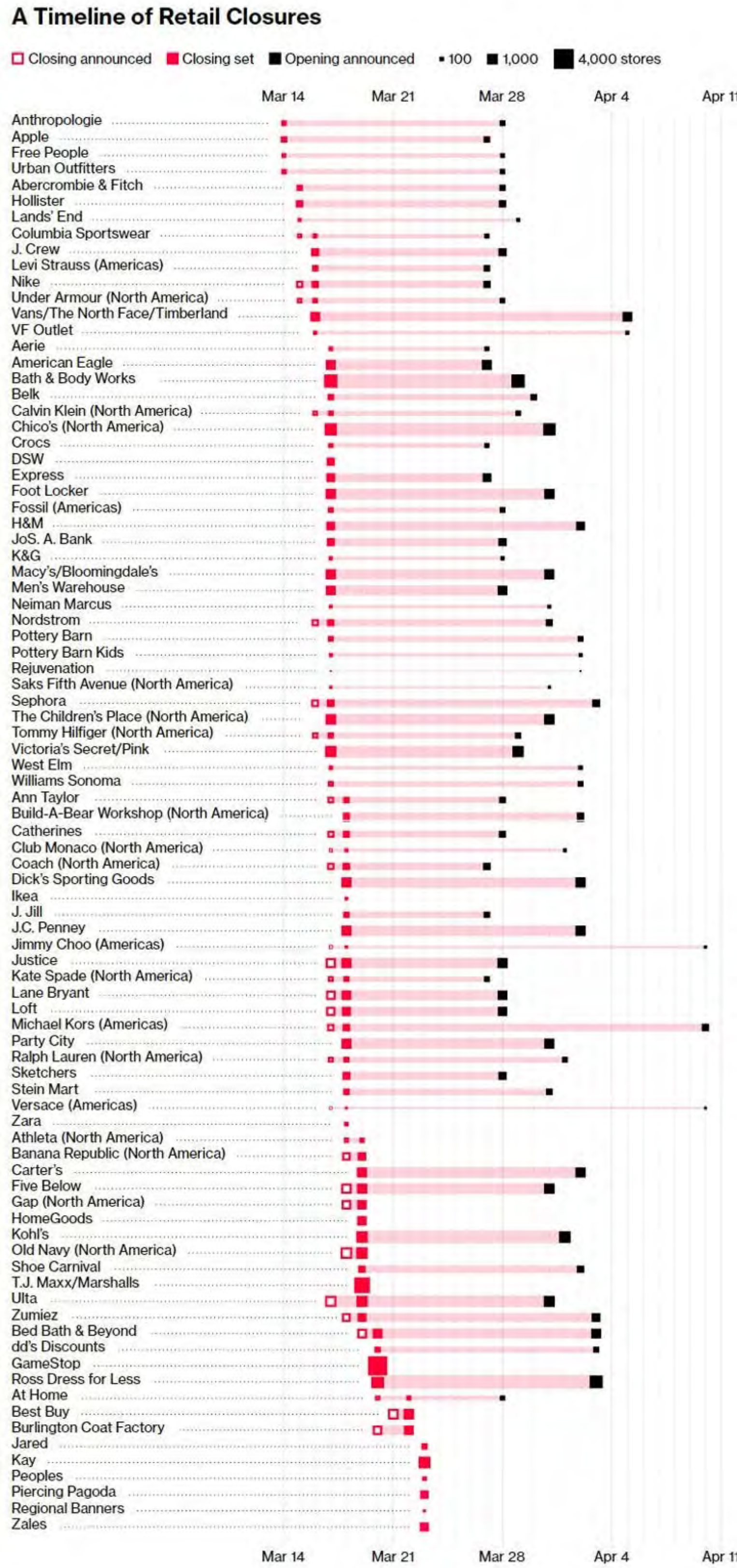
Equity Market Commentary

I'm out of superlatives. I think I crossed that bridge weeks ago. What we are witnessing is probably the greatest test of the markets' resilience since at least 2008-9. At the time, the markets melted down because of the realization that the financial markets, banks, and insurance companies were in serious trouble and that maybe our financial system would not survive. Thankfully, the folks at the Treasury, the Fed, the NY Fed, and the White House were able to get plans in place to save the system. This time, not only is the financial system involved but much of the country is shut down for now. Unemployment will rise and the GDP will fall. How far it will change is still unknown and we are treated daily to the thoughts of people who also don't know in spite of their well thought-out arguments.

What we do know is that there is real pain being visited on small business particularly. Restaurants, bars, retailers big and small are all being shattered by the shut down orders. Many will not survive even with government assistance. Outfits like The Cheesecake Factory are not going to pay their April rents. Expect others to follow. Set forth below is a rough timeline of store closures. Big guys like Macy's, Nordstrom's, Kohls, and Neiman Marcus have furloughed most of their employees.

We do know that this pandemic has walloped the economy for the first quarter and looks like it will do so in the second as well. Friday we will see the March jobs report and it will be very bad. Earnings for the first quarter are on tap in a couple of weeks and you can expect pain there as well. The thing is, how much of this has already been reflected in market action? Probably a lot, but whether all of the uncertainty is baked in is unknowable at this point. Expectations are very low at this point and it will be interesting to see market reactions as the earnings season unfolds.



Source: FZstreet.com

About the pandemic itself: market reaction may hinge on news about how and how fast America can get back to work. It may be that we will have a rolling restart based on the virus case load in each state or even county in the country. Sweden is conducting an interesting experiment right now. With cases on the low side they have opted to keep the country working and restaurants open. They are putting some limits on big gatherings and advising people who are unwell to stay home. We'll see how that plan works out in a few weeks. As far as the actual science goes, I will refrain from comment except to say we'll get through this and hopefully sooner rather than later. Treatments are being tested. Help is on the way.

Now to the market and the last month (or three). Lots of "worsts" for the month of March and the first quarter. Worst one day plunge (in points, not %), worst quarter since 1987 (Dow), 2008 S&P, worst month. So how have we done historically after a month like March?

The next few months are going to be hard to take headline wise. Expect a high level of hyperbole. We are in an election year after all. We think that it is too late to sell most things. Conversely, it is probably too early to go head first back into the market. That said, we are monitoring a ton of opportunities and await our target prices being hit so we can feel comfortable buying a few names. Hang in there.

INDEX	1-MONTH	2-MONTH	1-YEAR
DJIA	0.05%	1.77%	5.69%
S&P 500	-0.15%	2.14%	8.72%
Nasdaq	-0.47%	2.53%	8.35%

Source: Dow Jones Market Data

How bad was it?

Index	Month	Quarter
S&P	(12.51%)	(20.00%)
Dow	(13.74%)	(23.20%)
NASDAQ	(10.12%)	(14.18%)

Fixed Income Commentary

For individual bond investors who monitor their investment statements on a monthly basis, March 2020 bond valuations will look fairly uneventful. Those doing so would have missed the huge swing in daily values we saw during the month since most losses were largely pared by month-end. Both the Exchange Traded Fund (ETF) that tracks the aggregate US bond market index (ticker AGG) and the ICE BofAML 1-5 year municipal index were down over 5% as of Friday, March 20th. By month-end both had rebounded to down only about 0.50% and 1.20%. Sudden and historic levels of investor redemptions from mutual funds, and the forced selling by mutual funds to satisfy those liquidations, led to a sharp drop in bond prices across all fixed income asset classes. High-yield funds, both corporate and municipals, saw the largest amounts of selling and poorest performance. While those sectors have recovered some from their lows, indices were still down over 10% in some cases.

Higher quality bonds and funds performed better as savvy buyers took advantage of spiking yields and bought up excess supply. The passing of the stimulus bill, with help for companies and municipalities, improved market confidence along with the Federal Reserve's steps to backstop bond markets by expanding purchases from treasuries and mortgage backed bonds to include corporate and very short-term municipal securities. Generally, price moves appeared to be more liquidity driven rather than credit driven.

Given the uncertain times we are working through, we would expect headline risk around credit in general to be a new reality in the near-term. With that said, just as we have worked to de-risk equity portfolios in the months leading up to the recent peak in the stock market, we have also continued to increase the credit quality of our bond portfolios. We have favored higher quality companies and issuers in safer sectors providing essential services. That strategy has not provided immunity to the market disruption we have seen in past weeks, but did provide a cushion, as those securities were the better performers.

While we expect there to be credit stresses as we work through the COVID-19 outbreak, companies, states and municipalities overall prove to be resilient moving through economic recessions. Further, in addition to the unprecedented monetary and fiscal support already announced, congressional leadership has signaled that a further round of economic stimulus is being contemplated which would include additional aid to states and municipalities—a positive move in supporting our local governmental entities.

As we have always done, we will continue to monitor the credit quality of the bonds we use in our portfolios and will take advantage of both credit and liquidity opportunities to add to bond positions as we move forward.

Stay safe and healthy. We will get through these challenging times.

Sources:
Data sourced through Bloomberg, Morningstar and ErikSTownsend, Dow Jones Market Data, and FZstreet.com