MARKET INSIGHTS

from Ziegler Capital Management

February 2020 Market Commentary

After a strong start to the equity markets in February, there was a sharp reversal following the February 19 all-time market highs.

Prior to this tumultuous month end, the markets were roaring along through February 19 driven likely by higher consumer sentiment, low inflation expectations and an accommodative U.S. Federal Reserve (“Fed”). Stocks were off to their best start since 1991 prior to the late month moves, with the S&P 500 outperforming in seven of the previous eight weeks and the Dow Jones Industrial Average, Russell 2000, and Nasdaq all closing higher in each of the prior eight weeks.

The run of positive performance changed beginning on February 20. Over the last eight trading sessions of February, the S&P 500 fell -12.36% based on fears that began with the spread of the novel coronavirus, continued due to the effects of early primary/caucus success of a Democratic Socialist candidate for President in the U.S., and are likely further exacerbated by automatic trading programs.

As a perspective on how quickly the market swung in February, please note the significant return differential between two distinct time-periods:

S&P 500 Returns By Sector

Sector	YTD Return through February 19	Returns February 20 through February 28, 2020
Communication Services	6.51	-10.71
Consumer Discretionary	6.39	-12.56
Consumer Staples	2.57	-10.18
Energy	-8.93	-16.43
Financials	1.13	-14.34
Health Care	2.10	-10.52
Industrials	3.24	-12.44
Information Technology	12.07	-13.12
Materials	-1.49	-12.91
Real Estate	6.60	-11.92
Utilities	8.59	-11.77
TOTAL RETURN	**5.07%**	**-12.36%**

Source: Bloomberg

While this market swing has definitely dominated headlines this month, time will tell if there are any significant lasting effects on the economy. From a U.S. perspective, economic growth may take a modest hit this quarter as coronavirus containment efforts have reduced airline travel and international business

ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics effecting our clients and colleagues.

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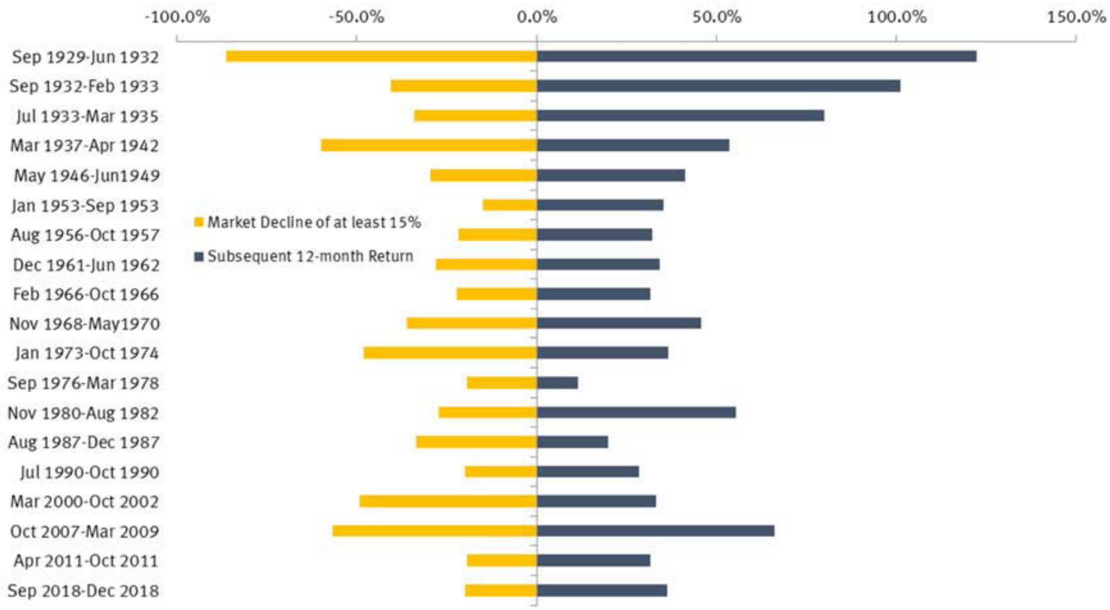
activity, and have slowed the supply chain of goods from overseas. However, the U.S. economy remains consumer driven (70%). Consumer sentiment climbed to 101.0 in February, up from 99.8 in January according to the University of Michigan. This is the highest reading since March 2018.

The U.S. economy depends less on international trade than those of Asia, Europe, and Latin American. Uncertainties from the trade war in 2018 and 2019 led U.S. companies to stockpile inventories, which may help blunt the effect of the reduced flow of goods from China in the near term. Strong labor and housing markets, coupled with wage gains and low inflation, are helpful to the U.S. economy.

While this market sell-off is concerning and the total impact remains unknown, there are several historical periods to look back on for direction. Historically, market declines of 10% or more are part of a normal market cycle. These corrections take place on average every 16 to 17 months since the end of World War II. Prior to this week, the last correction was about 14 months ago.

Market Declines and Subsequent Returns

In periods where markets declined greater than 15% we have seen positive returns in the subsequent 12 months.



Source: Stifel Investment Strategy via Bloomberg, as of February 21, 2020. Each market decline reflects a decline of at least 15% in the S&P 500's index value, without dividends reinvested S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment. Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

While the equity markets have garnered a majority of the headlines, there have been significant moves in the fixed income markets. U.S. Treasury rates have fallen, led by longer maturities. There has been a flight to quality and renewed expectations of rate cuts by the Fed. The market is showing a 100% possibility of a 25 basis point cut and a 94% possibility of a 50 basis point cut in March. The 10-year Treasury yield finished the month at 1.16%, after hitting an intra-day all-time low of 1.12%. As a result, all U.S. sectors have posted positive total returns for the year through February 28 with the Bloomberg Barclays Aggregate returning 3.72%. With the sell-off in the equity markets, investors have turned to fixed income as a safe haven. Gold, also considered a safe haven asset, traded at near seven-year highs at the end of February, but saw some pressure as investors may be selling gold to cover margin calls.

The VIX has shot up to 49.13 as volatility gripped the market during the last week, slightly above the 44.14 reading at the market lows in March 2009. This is also the highest level since 2011. The VIX last peaked at 36.1 on December 24, 2018 in the heat of worries about a Fed-induced recession that was similarly driven by U.S. mid-term elections and a news cycle that was heavily focused on politics.

We continue to monitor the capital markets and are prepared to respond accordingly. While the month experienced wide swings in market behavior, bouts of volatility are actually rather common. We advise our clients to adhere to their long-term plans and objectives.

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