MARKET INSIGHTS

from Ziegler Capital Management

March 2020 Market Commentary

The first quarter of 2020 was a tale of two markets – an initial period of strong returns, continuing the performance of 2019, was abruptly halted on February 20, which was the first day of the fastest bear market in U.S. history. The quarter ended with a market rally, with major indices rising over 20% from their lows, but still deeply in negative territory for the quarter. Volatility returned with a vengeance.

2020 began with some geopolitical tension after the U.S. military strike killed Iran's top military commander, but it quickly faded. This was followed by the U.S. signing "phase one" of a trade deal with China that calmed two years of tensions, a North American trade deal and the completion of "Brexit." As the quarter progressed, COVID-19 began to dominate the news headlines.

Just as the U.S. began to deal more aggressively with COVID-19 in March, Saudi Arabia and Russia engaged in an oil price war, further enraging the markets. In an emergency move, the U.S. Federal Reserve cut rates on March 9, the same day the stock market declined sharply and triggered a NYSE circuit breaker. Two days later, the S&P 500 officially entered bear market territory with a cumulative loss of 20%, and there was

S&P 500 Returns By Sector

For a perspective on how quickly the market swung during the quarter, please note the significant return differential between two distinct time periods:

Sector	YTD through 2/19/2020	2/20/2020 through 3/31/2020
Communication Services	6.51	-22.03
Consumer Discretionary	6.39	-24.14
Consumer Staples	2.57	-14.93
Energy	-8.93	-45.59
Financials	1.13	-32.69
Health Care	2.10	-14.47
Industrials	3.24	-29.33
Information Technology	12.07	-21.42
Materials	-1.49	-25.03
Real Estate	6.60	-24.24
Utilities	8.59	-20.34
TOTAL RETURN	**5.07%**	**-23.45%**

Source: Bloomberg

ABOUT ZCM MARKET INSIGHTS

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

www.zieglercap.com/insights

We are a premier asset management firm comprised of investment teams employing repeatable processes providing tailored investment solutions across the fixed income and equity markets.

www.zieglercap.com

more to come with additional losses in the following weeks. By mid-March, non-essential businesses began to close and many Americans transitioned to working from home. A stunning 3.3 million Americans filed for unemployment insurance during the week of March 23. The U.S. Government reacted by passing a $2.2 trillion stimulus package – the largest in history and far surpassing the nearly $800 billion passed in the depths of the 2008 financial crisis.

There is still much to come on the short and long-term economic impact of this health crisis on the global economy. An official gauge of Chinese manufacturing climbed sharply in March as factories returned to work after near shutdowns, although business activity remains far from normal. The impact of the U.S. shutdown will be better judged once companies start to report first-quarter earnings in April. Consumer confidence fell to 120 in March, its lowest reading since January 2017. Data suggest that the U.S. consumer is pessimistic for the near term, but is anticipating a return to normalcy over the summer.

The U.S. Bloomberg Barclays Aggregate Index returned 3.15% for the first quarter including a return of -0.59% during March. With the sell-off in the equity markets, investors have turned to fixed income as a safe haven. In spite of positive returns during the quarter, there have been significant moves in the bond market with the 10-Year U.S. Treasury ending March with a yield of 0.67% after starting 2020 at 1.92%. In the credit markets, the Bloomberg Barclays Corporate Index Option Adjusted Spread ended March at 272 basis points after beginning the year at 93 basis points. Spreads peaked at 373 basis points on March 23 – underperforming Treasuries by over 16%, a level last seen since the great financial crisis.

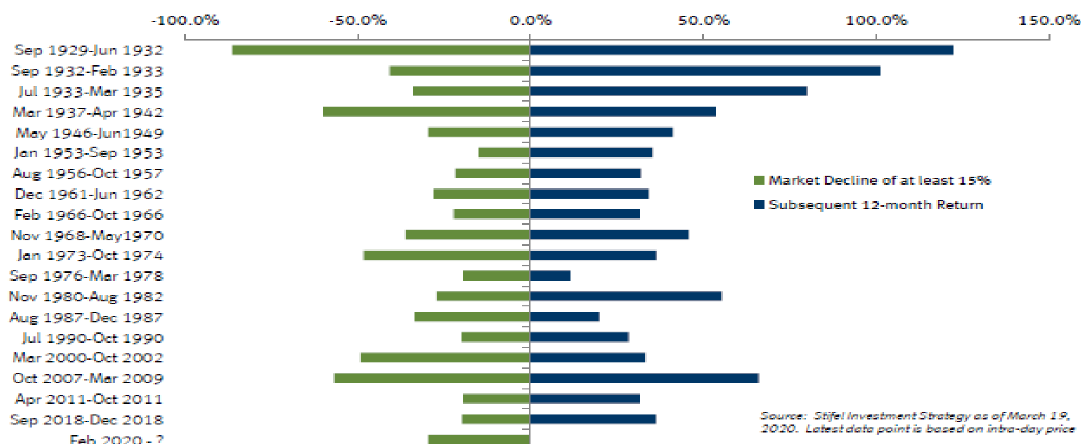
The VIX ended March at 53.54 after peaking at 82.69 on March 16 after beginning the year at 12.47. For perspective, the highest level ever recorded for the VIX was on October 24, 2008 (89.53) in the peak of the global financial crisis.

While our portfolio management teams preach patience and to avoid market timing, a moment arrives in every market downturn where stocks cease trading on fundamentals and everything trades together regardless of the characteristics of a particular stock. Individual stock correlations have jumped to 90% from 35% prior to the sell-off – indicating that investors are no longer differentiating among investments in what is being sold or bought.

While not discounting the severity of the 2020 market decline, pullbacks are rather common. In fact, they occur with relative frequency regardless of the economic cycle or underlying market conditions. Significant events like COVID-19 often drive market volatility like we have experienced over the past month. The chart below profiles every 15% or more decline of the S&P 500 since the 1929 market crash and its related bear market. The recent sell-off is the 20th such event. The right-hand side of the chart shows the subsequent 12-month return for each event.

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 March 19, 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 the 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 a stock market bottom can be difficult to predict, they often happen before an economic bottom as astute investors are forward-looking, pricing worst-case scenarios first then adjusting upward in anticipation of recovery. Stock correlations of 90% suggest that there has been little differentiation in the behavior of individual stocks as of late. There are companies in this current environment that are undervalued based on fundamentals and offer good buying opportunities relative to the pre- COVID-19 market move.

Similar to our thoughts at the end of February, we actively monitor the capital markets and are prepared to respond accordingly. We continue to advise our clients to adhere to their long-term plans and objectives.

ZIEGLER CAPITAL MANAGEMENT, LLC
70 West Madison Street | Suite 2400 | Chicago, Illinois | 60602 | www.zieglercap.com

20-02001
Printed Internally

Ziegler Capital Management, LLC ("ZCM") is an SEC Registered Investment Adviser that is a majority owned indirect subsidiary of 1251 Capital Group, Inc. Past performance does not guarantee future results. Indices are unmanaged, do not reflect fees and expenses, and are not available as direct investments. This commentary often expresses opinions about the direction of market, investment sector, and other trends. The opinions should not be considered predictions of future results. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete. Any projections, targets, or estimates in this report are forward looking statements and are based on ZCM's research, analysis, and assumptions made by the Adviser. Other events, which were not taken into account, may occur and may significantly affect performance. Any assumptions should not be construed to be indicative of the actual events that will occur. Actual events are difficult to predict and may depend upon factors that are beyond the control of ZCM. Certain assumptions have been made to simplify the presentation and, accordingly, actual results will differ, and may differ significantly, from those presented. Some important factors which could cause actual results to differ materially from those projected or estimated in any forward-looking statements include,
but are not limited to, the following: changes in interest rates and financial, market, economic, or legal conditions. Nothing contained in this commentary may be relied upon as a guarantee, promise, assurance, or a representation as to the future