MARKET INSIGHTS

from Ziegler Capital Management

April 2020 Market Commentary

After severe shocks in late February and March, markets rebounded strongly in April with the S&P 500 posting a 12.73% return. This is the single best monthly return since 1987. The S&P 500 is up nearly 30% from the March 23 lows and has recovered 60% of its fall. While COVID-19 continues to spread globally, there are signs of containment in some areas and some countries, including U.S. states starting to gradually reopen their economies. Central banks and governments have introduced significant stimulus measures to help reduce economic damage.

U.S. GDP contracted 4.8% during the first quarter and forecasts for the second quarter are more significantly negative, likely putting the U.S. into a “formal” recession. Jobless claims now exceed 30 million people and more are expected, as many states are backlogged in processing applications. While a portion of these job losses will return as the economy re-opens, there is concern for some as the shutdown has curtailed activity in areas such as airline travel, hotels and other areas that will likely be slower to return to normalcy.

The U.S. Federal Reserve’s response has been dramatic. The Fed has committed to unlimited government bond purchases, as well as buying investment grade corporate bonds and certain high yield securities (“fallen angels”) if the issuer had an investment grade rating prior to March 22. These moves have greatly enhanced liquidity in the fixed income markets.

Returns by Sector

	S&P 500		Russell 2000	
Sector	**YTD**	**April 2020**	**YTD**	**April 2020**
Communication Services	-5.47	13.82	-24.02	10.51
Consumer Discretionary	-2.71	20.54	-29.36	26.87
Consumer Staples	-6.76	6.86	-14.26	9.21
Energy	-35.70	29.79	-47.34	39.84
Financials	-25.40	9.58	-29.69	7.73
Health Care	-1.65	12.63	-5.56	17.24
Industrials	-19.99	8.37	-24.63	11.74
Information Technology	0.22	13.80	-10.61	14.71
Materials	-14.84	15.31	-30.11	15.38
Real Estate	-11.58	9.48	-27.09	8.85
Utilities	-10.71	3.22	-12.73	-0.09
TOTAL RETURN	**-9.19%**	**12.73%**	**-21.01%**	**13.72%**

Source: Bloomberg

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ABOUT ZCM MARKET INSIGHTS

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

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Ziegler CAPITAL MANAGEMENT, LLC

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.

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There remains a sizeable disparity between the returns of large and small company stocks, as well as between growth and value. While the Russell 2000 outperformed the S&P 500 in April, it remains almost 12% behind on a year to date basis. However, small cap stocks have lead the way out of recession 9 of the last 10 times. Growth stocks continue to outperform Value stocks on a year-to-date basis through April 30th, the Russell 1000 Growth has returned -1.39% whereas the Russell 1000 Value has returned -18.50%. Similarly, in Small Cap stocks – the Russell 2000 Growth has returned -14.71% and the Russell 2000 Value has returned -27.74% on a year-to-date basis through April 30.

Oil continued to exhibit price volatility in April with West Texas Intermediate (WTI) falling to a quarterly low of $11/barrel after beginning the year at over $60/barrel. WTI finished April at $18.84/barrel. In late April, oil futures for immediate delivery turned negative for the first time in history coupled with weak demand and storage facilities at capacity and not available to take physical delivery.

Despite April's market rebound, considerable uncertainty remains about the trajectory of global growth over the next several quarters. Analysts continue to revise forecasts downward with the biggest impacts in Energy, Financials, and Industrial sectors. The go-forward question is whether these forecasts are already factored into the price of stocks or is there further pain on the horizon. Time will tell.

Consumer confidence plunged to 86.7 in April, the lowest reading in six years and down from 118.8 in March. The index is composed of consumer's assessment of present conditions and future expectations of the economy. The consumer is responsible for approximately 70% of the U.S. economy. The U.S. Government has passed over $3.0 trillion in stimulus packages – far greater than what was passed during the 2008 financial crisis. This includes each recipient of state unemployment aid receiving $600 per week in additional aid through July 31 from the CARES Act in an effort to assist individuals with the near-term impact of what may be temporary unemployment for some.

The U.S. Bloomberg Barclays Aggregate Index returned 4.98% for the year-to-date period through April 30 including a return of 1.78% during April. With the sell-off in the equity markets, investors have turned to fixed income as a safe haven. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury ending April with a yield of 0.64% after starting 2020 at 1.92%, although the 10-Year's end of April return was relatively unchanged from the end of March. In the credit markets, the Bloomberg Barclays Corporate Index Option Adjusted Spread ended April at 206 basis points after beginning the year at 93 basis points after peaking at 373 basis points on March 23.

The Volatility Index ("VIX") ended April at 35.14, falling from the March-end reading of 53.54 and after peaking at 82.69 on March 16. Volatility remains elevated – as a perspective, the VIX began the year at 12.47. While equity market swings are still occurring, the +/- 3% daily moves have subsided for now.

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

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