

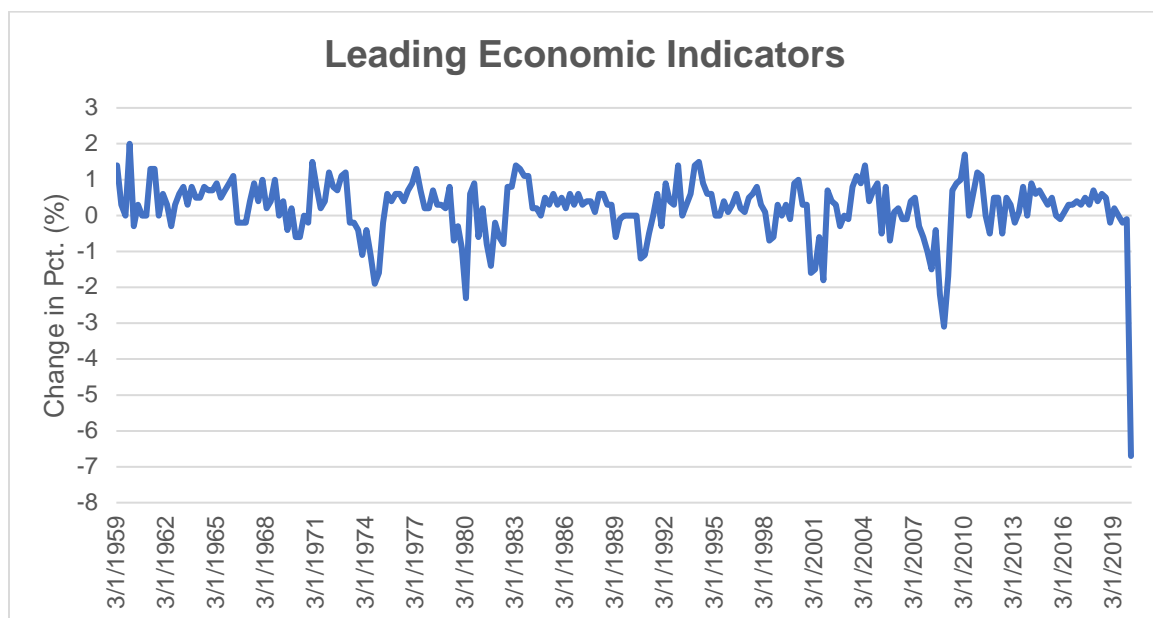
AndCo's Weekly Market Update

April 20, 2020

THE ECONOMY

Despite the continued negative news related to the state of the global economy, there was some positive news to focus on. First, efforts to slow the spread of COVID-19 (Coronavirus) appear to be having a positive effect as measured by a slowdown in the rate of new infections. According to Dr. Deborah Brix, who is advising the administration, the number of newly reported cases of Coronavirus has declined during the past five days as of April 15th¹. Importantly, there are several clinical trials that are underway, with one trial being conducted by the University of Chicago, showing real promise². Finally, President Trump announced federal guidelines on reopening of the US economy.

Unfortunately, the US labor market continues to shed jobs as roughly 5.2 million Americans filed for first time unemployment benefits for the week ending April 11th. Over the past four weeks roughly 22.0 million American workers have been displaced by the Coronavirus. While we will have to wait several weeks until we begin receiving economic data points for April, if the Conference Board's Index of Leading Economic Indicators for March are to be believed, the US economy came to a sudden halt. The index declined -6.7% during March, the largest monthly decline on record since the index was constructed in 1959.



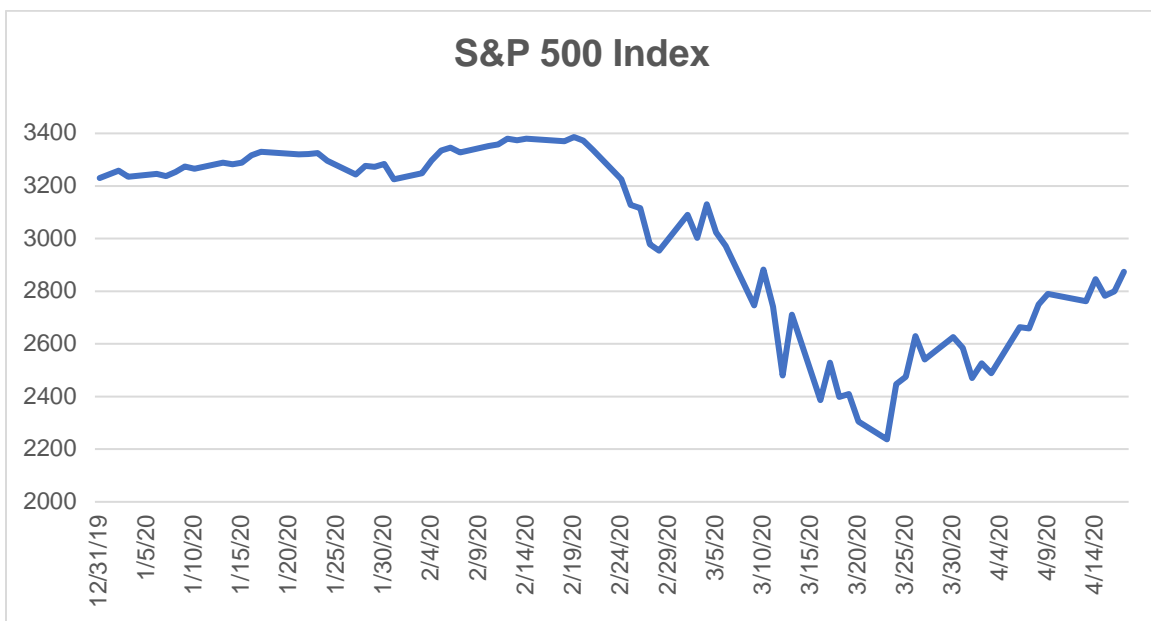
Source: Bloomberg as of April 17, 2020



EQUITIES

US Equity markets posted positive gains for the week with the S&P 500 rising more than 3.0%. For the month of April, the S&P 500 is currently up 11.3%, and up 28.7% since the most recent market bottom on March 23rd. While equities remain far below their previous highs (-14.8%), the recent retracement has been encouraging for investors.

Prior to last Thursday’s announcement by President Trump concerning the reopening of the economy, the market had been rallying primarily on hopes that the pace of growth of the virus was slowing and that an effective treatment and eventual vaccine could be developed. As public conditions related to the virus improve, investors could begin shifting focus towards the fundamentals and results for the 1st quarter. According to FactSet, of those companies who have reported actual earnings, only 66% have exceeded EPS estimates, which is below the trailing five-year average³. Of those companies reporting earnings, financials such as JPMorgan and Wells Fargo were significantly impacted as a result of rising loan loss provisions and declining lending activity.

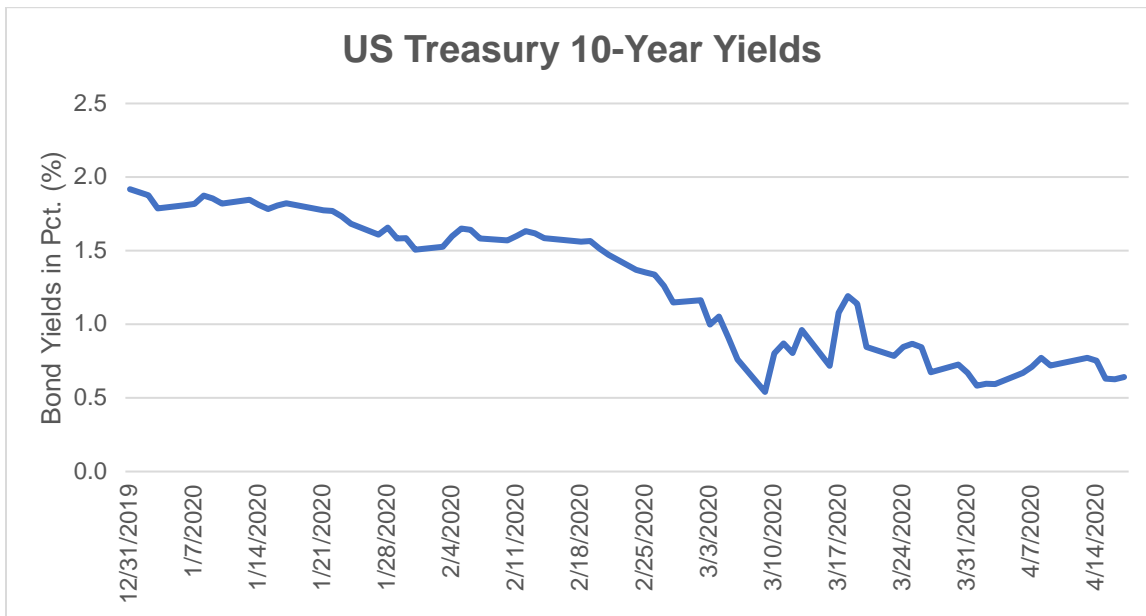


Source: Bloomberg as of April 17th, 2020



FIXED INCOME

While stocks rose during the week on optimism regarding the Coronavirus, US Treasury bond yields fell on concerns about the economy. The US Treasury 10-Year fell roughly eight basis points from 0.72% to 0.64% as both manufacturing and retail sales pointed to a weaker US economy. On Friday, the Federal Reserve (Fed) announced that it was planning on paring back the amount of Treasury bonds it purchases from \$30 billion a week to \$15 billion. Corporate bond spreads continued to fall due primarily due to the last week’s announcement that the Fed would purchase corporate bonds, primarily via ETFs, to support market liquidity. According to the Financial Times, for the week, more than \$10 billion flowed into high yield bond ETFs, eclipsing the record by more than 50%⁴.



Source: Bloomberg as of April 17th, 2020

One area of the market that we are watching closely is the municipal bond market. While everyone is rightly concerned with the potential for increased defaults in corporate bonds, especially high yield bonds, municipal bond yields have remained elevated in recent weeks as local municipal revenues are expected to decline due to the pandemic. While non-tax sensitive investors may not be directly impacted with potential defaults and spread widening in municipal bonds, unique opportunities may be presented that allow taxable bond managers to add exposures tactically in client portfolios when opportunities are presented.



Appendix

1. <https://www.msnbc.com/msnbc/watch/dr-birx-says-reported-coronavirus-cases-declined-over-past-five-days-82092101657>
2. <https://www.statnews.com/2020/04/16/early-peek-at-data-on-gilead-coronavirus-drug-suggests-patients-are-responding-to-treatment/>
3. <https://insight.factset.com/sp-500-earnings-season-update-april-17-2020>
4. <https://www.ft.com/content/19e47570-ba23-4929-988e-9b5f468b20d5>

Important Disclosure Information

This document is being provided solely for informational and educational purposes and should not be regarded as investment advice or as a recommendation regarding any particular course of action and additionally is not intended to provide, and should not be relied upon, for legal, tax, or accounting advice.

The material provided herein is valid as of the date of distribution and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after such date. This document may contain projections or forward-looking statements which are subject to various uncertainties whereby the actual outcomes or results could differ from those indicated.

Certain information is based on sources and data believed to be reliable, but AndCo cannot guarantee the accuracy, adequacy or completeness of the information. The source for all data, charts and graphs is AndCo Consulting unless otherwise stated.

AndCo Consulting is an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC"). Registration as an investment adviser does not constitute an endorsement for the firm by securities regulators nor does it indicate that the adviser has attained a particular level of skill or ability.