Monthly Market Review

pfm

Economy remains under pressure, while markets rally.

Economic Highlights

- The COVID-19 pandemic has upended the U.S. economy. In three months, it has gone from stable growth to a historic plunge with the depth unknown. Even as plans evolve to ease lockdown restrictions, the pandemic is exacting an unprecedented toll on business activity, employment and consumer spending.
- U.S. gross domestic product fell at an annualized rate of 4.8% in the first quarter of 2020, the worst level since the Great Recession, even though the economic impact of the pandemic-induced shutdown was concentrated late in the quarter. The current quarter will be much weaker.
- The U.S. economy lost 20.5 million jobs in April, erasing nearly all the jobs created since the 2008-2009 recession. Unemployment spiked to 14.7%, the highest level since the Great Depression, and is likely still under-reported. Some 6.4 million people left the workforce, pushing the labor force participation rate down to 60.2%, the lowest since 1973. The number of Americans applying for unemployment benefits topped 30 million.
- According to IHS Markit, private sector firms in the U.S. signaled an unprecedented decline in business activity in April. The manufacturing PMI fell to 36.1, while the services PMI sank to 26.7 (a record low), both well below the level of 50 which marks the boundary between expansion and contraction.
- The Federal Reserve (Fed) — after having reduced rates essentially to zero in March — focused on mobilizing its arsenal of emergency lending programs to shore up corporations and stabilize still-fragile markets. At its April meeting, the Federal Open Market Committee acknowledged the hardships the pandemic has caused, noted considerable risks for the U.S. economy over the medium term, and signaled it will maintain current policy until "the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." Fed Chair Jerome Powell commented that the Fed would use all of its tools to support the economy "forcefully, proactively, and aggressively."
- The Paycheck Protection Program and Health Care Enhancement Act, authorized by the fiscal stimulus bill passed by Congress in April, provides $484 billion in additional funding to replenish key programs under the CARES Act, including the small business loan program which was quickly depleted.

Bond Markets

- After extreme market volatility in March, the fixed income markets gradually moved back toward more normal conditions. Movements in U.S. Treasury yields were relatively tame. Short-term yields inched higher off briefly negative yields, fueled in part by the massive increase in short-term Treasury borrowings to fund the CARES Act, while long-term yields moved lower by three to five basis points. The federal deficit — expected to total $3.7 trillion this fiscal year — barely made headlines.
- Treasury benchmark returns for April were generally muted. The 3-month and 2-year U.S. Treasury indices returned just 0.01% and 0.03%, respectively. The 5-year and 10-year indices returned 0.18% and 0.70%, respectively.
- Corporate bond and other non-government sectors produced strong returns, as the Fed's lending and liquidity support programs helped push yield spreads sharply lower. For example, the 1-5 year index of investment-grade corporate bonds had excess returns over Treasuries of 2.97% in April. Compared to March, where the return on this index lagged the Treasury benchmark by 5.83%, this was strong evidence of the effectiveness of the central bank's actions.

Equity Markets

- U.S. equities rallied after plummeting from all-time highs in February. Large tech companies powered the rebound, even as investors digested the deteriorating economic landscape. For the month, the S&P 500 rose 12.7%; the NASDAQ surged 15.4% and the Dow increased 11.1%.
- Global developed market equities also recovered, though the move up was not as great, with the MSCI ACWI ex-USA Index increasing at 7.6%.

PFM Outlook

- With markets across the globe moving on a tentative path created by the coronavirus and the course of the economy highly uncertain, we believe a duration position that is neutral to benchmarks is the appropriate strategy to mitigate risk. The delay in index re-balancing at the end of March makes this more challenging because it made the April 30 gap wider than usual, but nevertheless, believe it is the right course.
- The strong value offered by federal agency and supranational bonds in late March weakened steadily through April as markets stabilized and spreads narrowed. Yet, some value remains, especially on longer maturities. We will continue to add both new issues and secondary offerings to portfolios.
- Corporate bond prices are now being essentially backstopped by the Fed. Although spreads have narrowed, selective issues still offer good risk-adjusted return potential. PFM has begun to cautiously add back to corporate allocations, but only after assessing how each issuer will emerge from the current economic downturn.
- Mortgage-backed securities (MBS) benefitted from the Fed's intervention. Volatility subsided, and yield spreads have retraced some of the widening from the first quarter. We view the current valuations of agency MBS as an opportunity to increase allocations at attractive levels.
- We remain cautious about asset-backed securities (ABS) due to the uncertainty created by wide-scale forbearance and the expected increase in delinquencies in underlying assets.

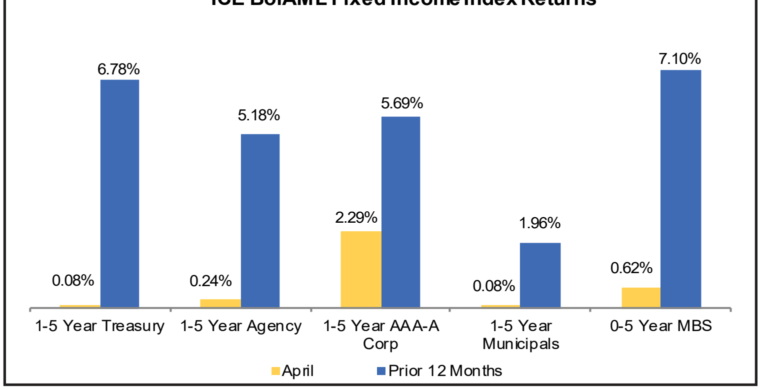
U.S. Treasury Yields				
Duration	Apr 30, 2019	Mar 31, 2020	Apr 30, 2020	Monthly Change
3-Month	2.42%	0.09%	0.10%	0.01%
6-Month	2.45%	0.15%	0.11%	-0.04%
2-Year	2.27%	0.25%	0.20%	-0.05%
5-Year	2.28%	0.38%	0.36%	-0.02%
10-Year	2.50%	0.67%	0.64%	-0.03%
30-Year	2.93%	1.32%	1.29%	-0.03%

Yields by Sector and Maturity as of April 30, 2020				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.10%	0.07%	1.02%	--
6-Month	0.11%	0.11%	1.00%	--
2-Year	0.20%	0.26%	0.99%	1.06%
5-Year	0.36%	0.59%	1.33%	1.31%
10-Year	0.64%	1.11%	2.02%	1.81%
30-Year	1.29%	1.67%	2.94%	2.45%

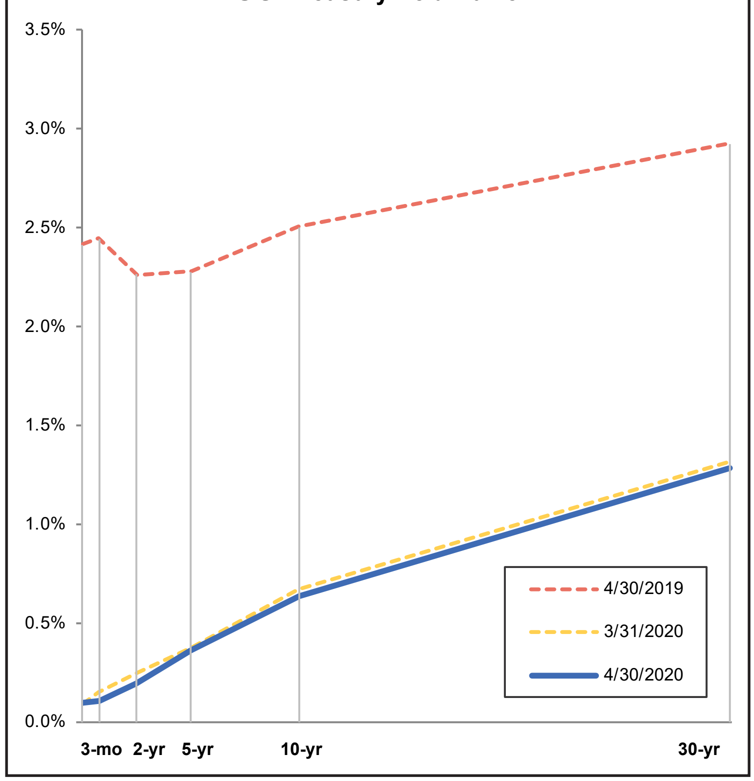
Spot Prices and Benchmark Rates				
Index	Apr 30, 2019	Mar 31, 2020	Apr 30, 2020	Monthly Change
1-Month LIBOR	2.48%	0.99%	0.33%	-0.66%
3-Month LIBOR	2.58%	1.45%	0.56%	-0.89%
Effective Fed Funds Rate	2.45%	0.08%	0.05%	-0.03%
Fed Funds Target Rate	2.50%	0.25%	0.25%	0.00%
Gold ($/oz)	$1,286	$1,583	$1,694	$111
Crude Oil ($/Barrel)	$63.91	$20.48	$18.84	-$1.64
U.S. Dollars per Euro	$1.12	$1.10	$1.10	$0.00

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Consumer Confidence	28-Apr	Apr	86.9	87.0
GDP Annualized QoQ	29-Apr	1Q A	-4.8%	-4.0%
PCE Core Deflator YoY	30-Apr	Mar	1.7%	1.6%
FOMC Rate Decision (Upper)	1-May	Apr	41.5	36.0
Non-farm Payrolls	7-May	Apr 25	22,647k	19,800k
Unemployment Rate	8-May	Apr	-20,537k	-22,000k
ISM Manufacturing	8-May	Apr	14.7%	16.0%

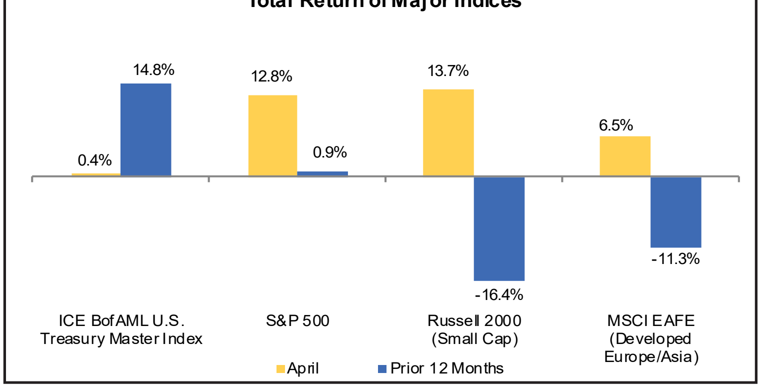
ICE BofAML Fixed Income Index Returns



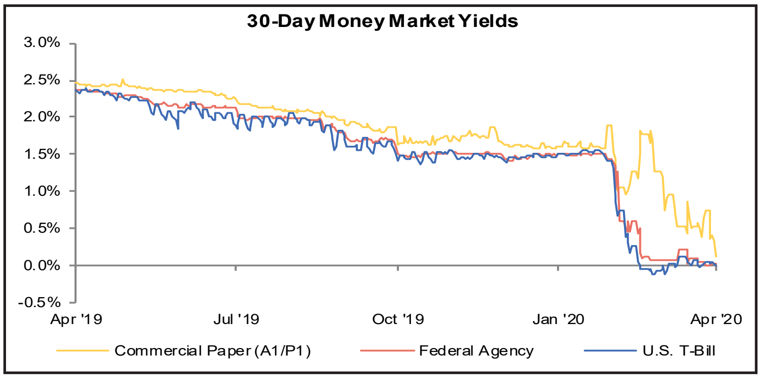
U.S. Treasury Yield Curve



Total Return of Major Indices



30-Day Money Market Yields



Source: Bloomberg. Data as of April 30, 2020, unless otherwise noted.