PATHSTONE

MARKET FLASH REPORT

March 2020

KEY TAKEAWAYS

- Markets were rattled in March as the ongoing spread of the Coronavirus pandemic led to a global stoppage of economic activity. The S&P 500 had both its worst monthly and quarterly returns since the fourth quarter of 2008.
- Liquidity was impacted by a combination of caution amongst market makers and challenges of most trading having to happen from home rather than trading floors. Even traditional safe havens, such as treasuries and gold, were highly volatile over the past month.
- Social distancing measures have drastically changed the near-term outlook for U.S. consumers and businesses, as unemployment levels are increasing and shoppers are stuck at home. The speed and magnitude of job loss have been unmatched historically—roughly 10 million Americans filed for unemployment insurance in just the last two weeks of March.
- Governments and central banks worldwide have worked to implement stimulus measures to help ease the pain. Here in the U.S., the government approved a $2 trillion stimulus package aimed at helping businesses and workers, while the Fed cut their policy interest rates to near-zero percent and announced almost unlimited amounts of Quantitative Easing in order to inject liquidity into financial markets.
- European countries face the challenge of having to get approval for greater deficit spending from the EU, where more conservative countries like Germany are hesitant to allow for an added collective burden.

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INDEX PERFORMANCE (as of 3/31/20)

Equity	Q1 2020	One-Year	Three-Year
U.S. Large Cap	-19.6%	-7.0%	5.1%
U.S. Small Cap	-30.6%	-24.0%	-4.6%
Developed Non-U.S.	-22.8%	-14.4%	-1.8%
Emerging Market	-23.6%	-17.7%	-1.6%
Real Assets			
Real Estate	-27.4%	-22.0%	-2.4%
Commodities	-23.3%	-22.3%	-8.6%
Natural Resource Equities	-43.9%	-43.2%	-18.0%
Fixed Income			
Core Plus			
U.S. High Yield Debt	-12.7%	-6.9%	0.8%
Emerging Market Debt	-15.2%	-6.5%	-0.8%
Core Bonds			
U.S. Aggregate Bonds	3.1%	8.9%	4.8%
U.S. Treasuries	8.2%	13.2%	5.8%
U.S. Municipal Bonds	-0.6%	2.8%	2.9%

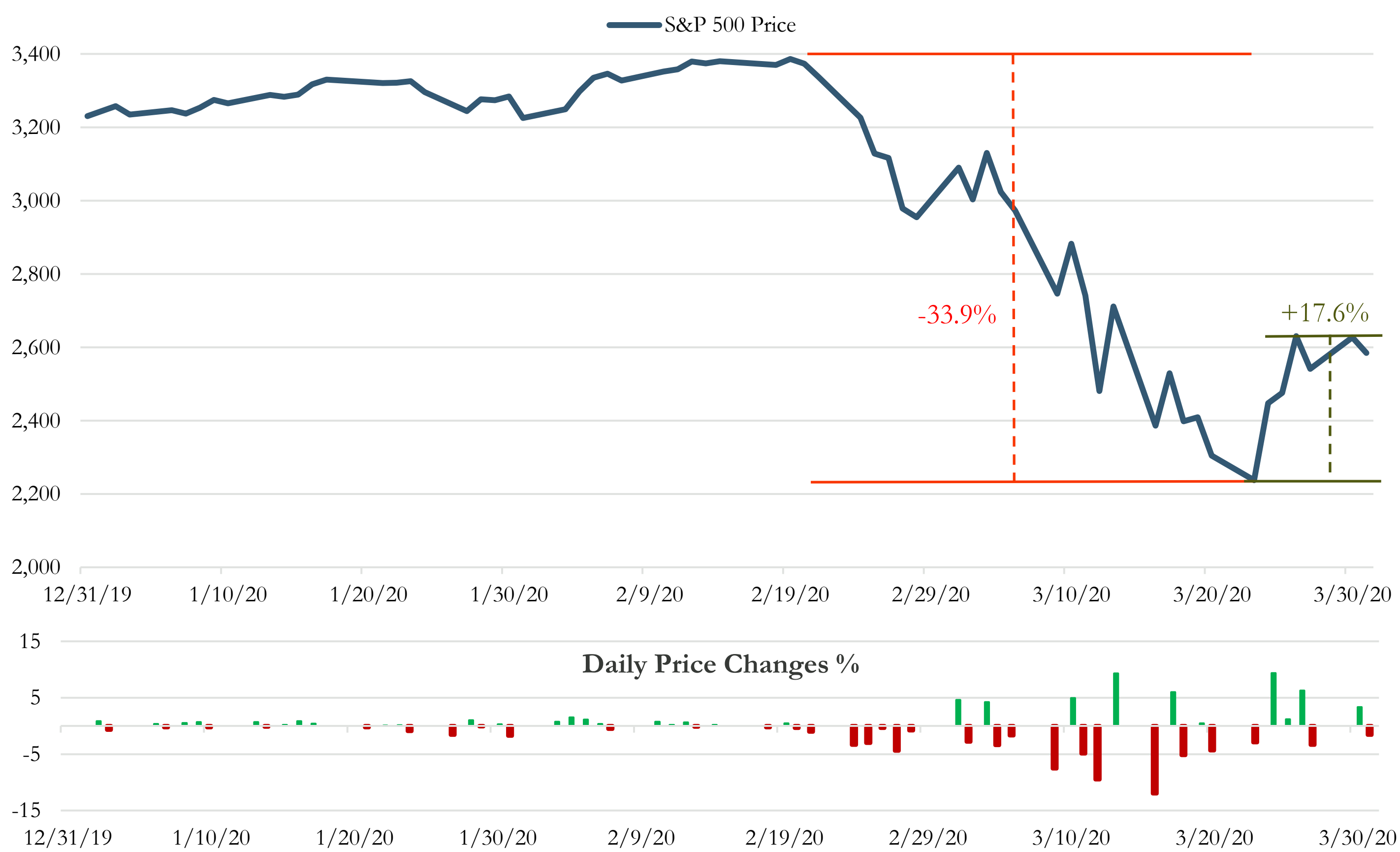
Month-End Values/Yield	Current	Prior Month	One-Year Ago
CBOE Volatility Index	53.5	40.1	13.7
10-Year Treasury Yield	0.7%	1.1%	2.4%

Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.
You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

QUARTERLY COMMENTARY

- Volatility reared its head in March as investors try to handicap how severe and lasting the economic impact of the Coronavirus will be. Trying to digest whether government stimulus efforts can sustain households and the "non-essential" businesses that are closed, how quickly we return to some sense of normal, and what that new normal looks like, is a complicated and uncertain challenge.
- As some countries appear to be reaching a peak in the infection curve, they are now wrestling with how to address the loosening of lock-down rules to get their economies moving again. Fearing a second wave of the virus spread makes for a difficult decision.
- Volatility has been off the charts. The VIX Index—a gauge of expected volatility—shot to levels not seen since the Global Financial Crisis. Markets experienced some of their best and worst daily returns in over 30 years, all during the same week.
- The pace of the sell-off was historic, resulting in the fastest bear market in the last 70 years (defined as a peak to trough decline of 20%). After peaking on February 19th, it took only 16 trading days before the S&P 500 was 20% lower. The previous fastest was 38 trading days, which culminated in the Black Monday sell-off in October 1987.
- Volatility tends to cluster and we know the challenges in trying to time the market's daily swings, especially during times of heightened uncertainty. After a peak to trough decline of nearly 34%, markets have already experienced a 17% rally off the March 23rd lows.
- We expect these wild price swings will persist until investors feel the spread of the virus is under control. The best course of action when trying to navigate an uncertain future is to maintain a disciplined, unemotional investment process, which is no easy feat during times like these.

Speedy Decline for Equities



Sources: Bloomberg.

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U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the DJ UBS Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.