Market Update

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Equity Market

The equity markets were highly reactionary over the weekend on news of a steep drop in oil prices on top of coronavirus fears. On Friday, Russia rejected OPEC calls to limit oil production and create price support as demand wanes over a global economic slowdown. In a move viewed as Russian retaliation, Saudi Arabia announced a 30% price drop and an increase in production. The pending price war, while a boon for consumers, is a problem for smaller U.S. exploration and production companies now at risk of seeing prices fall below their break-even production price.

Equity market volatility as measured by the VIX index stands at 57, up from the mid-teens less than a month ago. Domestic equity markets now stand down 18% from the highs set on February 19th. This is the quickest drop to near correction territory on record. Analysts and investors alike are still trying to get a handle on how these events will affect earnings for the year. The markets need some stability in earnings opinions before they can adjust to the new consensus forecast.

While emotions are running high, we remind investors that discipline is important in times of stress and volatility. In our manager of managers strategy, SSW has been mindful to include funds with allocations to value stocks plus an emphasis on defensive downside capture. Since the markets first began the sell-off, the majority of our funds have outperformed their sector peers. While we cannot control market downturns, we attempt to mitigate negative returns by allocating to managers with defensive characteristics.

We continue to monitor the markets daily and make prudent adjustments to our active strategies. In our sector rotation strategy, we increased our defensive allocation to utilities which has outperformed the broader market.

Fed Funds Futures Market

March 2020 Rate Cut – 50 bps to 75 bps cut priced into Fed Fund Futures as of this morning.

After an unexpected rate cut of 50 bps earlier this month, the Federal Reserve is expected to make more cuts at their regular meeting on March 18th. With additional virus concerns and the breakup of the OPEC+ alliance, Fed Funds Futures contracts are currently indicating two-to-three 25 bps cuts, which would lower the Fed Funds Target Rate (Upper Bound) to 75 bps or 50 bps, respectively.

Goldman Sachs Commentary

"The U.S. economy could slip into a recession if the coronavirus contagion lasts for an extended period of time," said Goldman Sachs strategist David Kostin in a new note to clients. Should a U.S. recession transpire, Kostin sees S&P 500 earnings diving 13% and the index plunging about 18% from current levels. Kostin is holding out hope the U.S. averts a recession, however. In a baseline scenario, Kostin thinks S&P earnings will be flat in 2020 and the index will rally 15% or so to 3,400."

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J.P. Morgan Commentary

"Our base case scenario anticipates that the hit to both regional and global [GDP] growth will be transitory and that economic data as well as earnings will recover in 2H20. Although some near-term caution is warranted, this is not a time to turn outright negative on risk assets; we expect volatile data and news flow to persist over the short term before stabilizing later in the second quarter."

Cantor Fitzgerald Commentary

"Novel coronavirus is an almost perfect demand shock in an already highly fragile growth environment. That fragility should not be underestimated. Markets ignored it. Other signs of fragility are ubiquitous. By way of recent example, Japan's Q4 GDP print was -1.5% or so (today). Europe PMIs were long in contraction across the board pre-Corona. India and China have ongoing banking crises. Even US PMIs were flirting with contraction pre-Corona and manufacturing ISM was already there. This brings us back to where we started: rates have been telling us this all along. As we've been writing, U.S. credit is the next shoe to drop. Fragile."

Global Interest Rates

10 Year Government Rates	
Brazil	7.02%
Mexico	6.64%
India	6.05%
Greece	1.83%
Italy	1.34%
South Korea	1.26%
Singapore	0.98%
New Zealand	0.82%
Hong Kong	0.68%
Australia	0.61%
U.S.	**0.53%**
Canada	0.50%
Portugal	0.33%
Spain	0.23%
U.K.	0.12%
Japan	-0.18%
France	-0.42%
Netherlands	-0.68%
Germany	-0.87%
Switzerland	-1.06%