

MARKET & ECONOMIC INSIGHTS

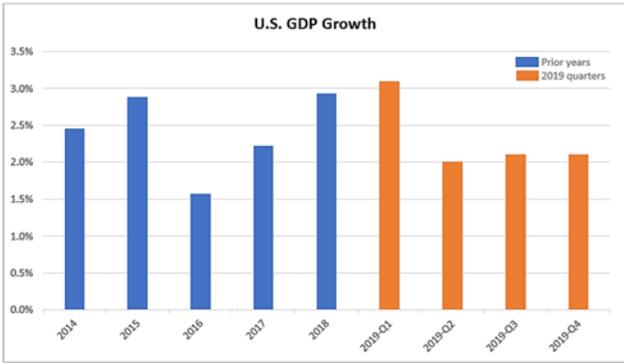
An Executive Summary for February 2020

Over the past two weeks, global equities and other risk-oriented investments have experienced large price swings, predominantly in reaction to the coronavirus outbreak, which has upended the outlook for global growth as well as the political and business landscape. Interest rates fell globally in response to investor concern and deteriorating growth expectations. After month-end, the Federal Reserve made an unexpected interest rate cut to support liquidity and protect the U.S. economy. This unanticipated Fed action surprised investors, driving U.S. stocks downward and the 10-year U.S. Treasury yield to an all-time low of 0.7%. On a positive note, despite large trading volumes, there were no major market disruptions or price spikes. Trading was robust on both the buying and selling sides.

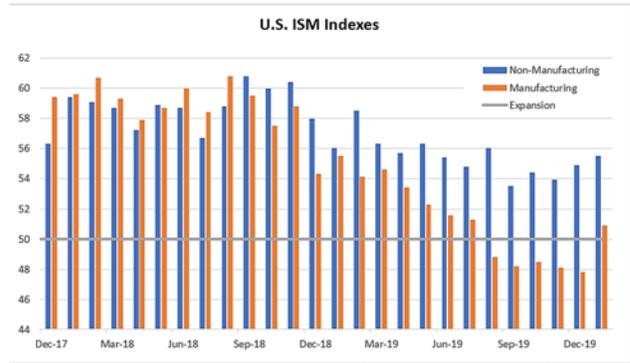
Monthly returns for investable assets generally reflected a flight-to-quality mentality. Safe haven government and high-quality fixed income rose as bond yields fell sharply. Lower quality bond prices declined as credit spreads widened. Equity markets decreased, but high quality growth stocks were more stable than lower quality companies. There were several notable anomalies. The U.S. stock market, normally considered a safe haven, fell further than the emerging markets. Forced selling by investors and central bank purchases of international bonds appear to have pushed down the price of gold and distorted the relationship between currencies. All equity sectors lost ground for the month and year to date. Energy and financial companies sharply underperformed over profitably fears. Technology companies and interest rate sensitive sectors such as utilities and real estate held up relatively well, declining less than the broad market.

Both stock and credit-oriented bond markets are less liquid than during prior major market downturns. A greater portion of market activity is now controlled by program trading which tends to move in unison as prices fluctuate. The low return offered by high quality bond investments has led to large asset flows in and out of riskier investments such as equities and high yield bonds and pushed up valuations. The upheaval and dispersion experienced in the capital markets over the past two weeks may have created a favorable environment for active managers.

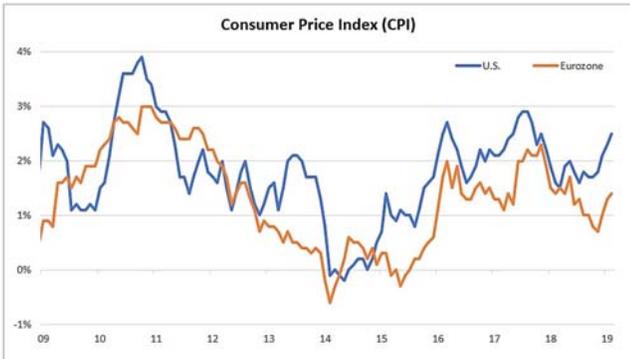
Although many economic indicators showed improvement in February, the spread of the coronavirus will slow global economic growth and weaken the positions of consumers and corporations in the months ahead. Political concerns surrounding Brexit and trade disputes have dissipated, but the stark divisions on display in the U.S. election has likely contributed to market volatility. Central banks remain committed to accommodative policies that boost growth, and fiscal support through additional government spending is probable. However, the magnitude and duration of the current health crisis and the potential impact on supply chains, global trade and human behavior are difficult to forecast. Recent events have once again shown that market behavior is unpredictable, and diversification can protect investment portfolios from the most severe losses. Therefore, short-term uncertainty and timing decisions should not dictate significant changes to portfolio allocations.



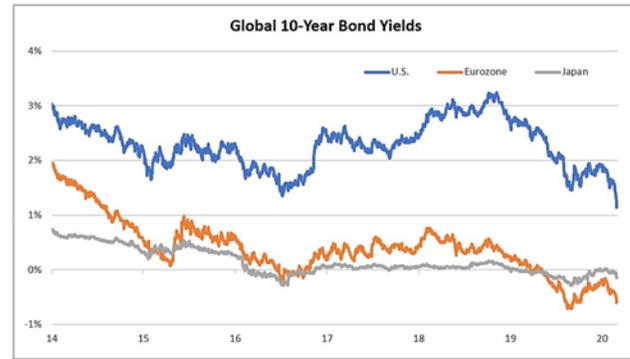
U.S. Department of Commerce



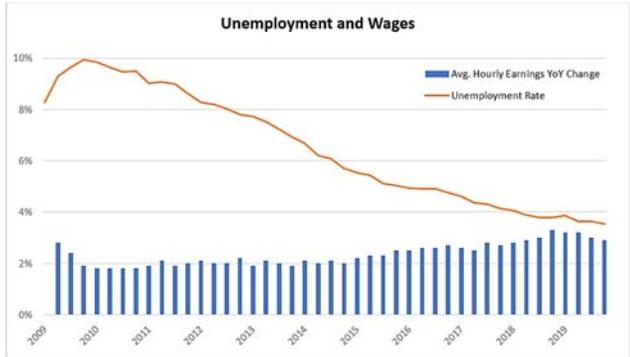
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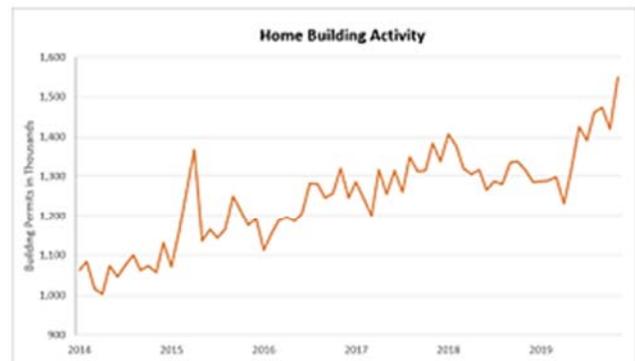
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