

What Happens in March Stays in March

May 2020

Markets rebound in April as investors move past initial panic reaction to COVID-19

Key Observations

- Investors benefitted from a substantial market rebound in April after an incredibly weak March, but year-to-date returns broadly remain negative with the exception of fixed income.
- Oil lagged the risk-on rally amid a worsening supply/demand imbalance and traded with a negative price for the first time ever.
- While general performance in financial markets was positive in April, lagged economic data is starting to reflect the negative economic impacts of COVID-19, and those grim headlines are likely to persist.

Market Recap

After an incredibly volatile and severe drawdown in March, most markets rebounded in April and recovered some first quarter losses. It was certainly a welcome reprieve for investors as volatility fell, supporting liquidity and allowing for more normal trading activity. Most asset classes generated positive returns in April as the bid for risk assets came back. Within fixed income, U.S. interest rates across the curve were range bound and ended the month flat, while credit spreads tightened globally, most notably in riskier segments of the market. Equity markets experienced the strongest recovery in April, particularly U.S. companies. While the risk-on tone emerged in most markets, the oil market was one that did not participate in the rally and had a very challenging and volatile April. While this is unprecedented, it's conceptually straightforward. Oil is traded via futures contracts, and to put it simply, given the amount of excess supply, holders of those futures contracts didn't need or weren't able to receive delivery of the oil at expiration. As such, holders were willing to pay someone else to own the contract and take delivery of the oil. The price of oil has since rebounded into positive territory, but we expect more volatility and price pressure in the near future.

It's difficult to pinpoint one catalyst for the broad market rally from the lows, however, there were several key developments and themes that likely contributed to the risk-on sentiment. First off, it seems that as more time passes, the amount of uncertainty in terms of the potential health impact of the virus is waning, albeit at a slow pace. As countries and regions across the world begin to reopen and discussions about that process advance, those headlines and positive news flow likely spur some investor optimism. Another crucial factor at play is the unprecedented stimulus that we've seen to date at a global level, on both the monetary and fiscal fronts.

Market Outlook

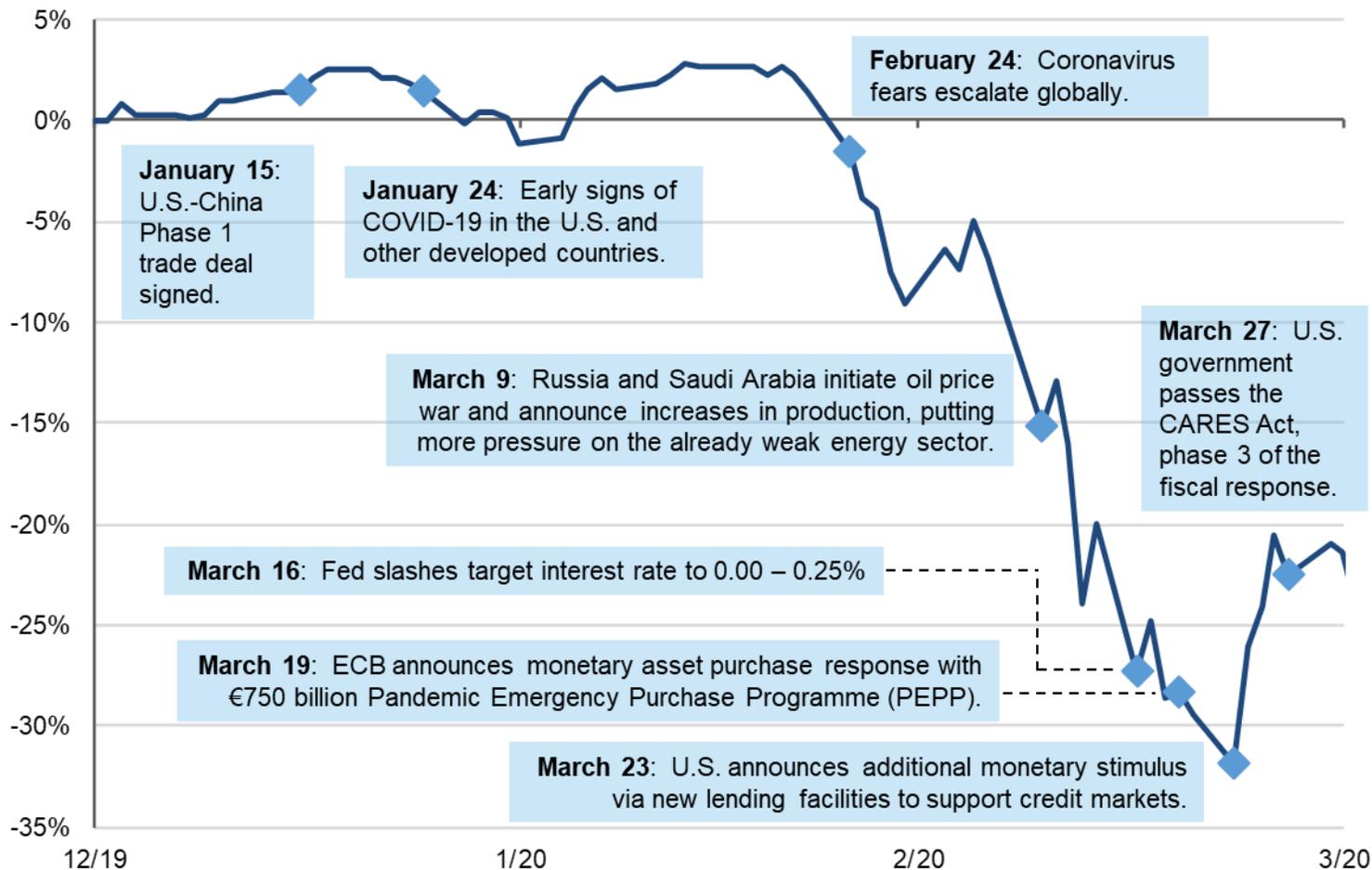
While most financial markets enjoyed a solid rebound in April, it's important to note that now is when we should be prepared for economic headlines to become increasingly negative. At the macro level, the first estimate of first quarter GDP showed a 4.8 percent decline – the biggest drop since the financial crisis. For context, GDP plummeted 8.4 percent in the fourth quarter of 2008. These dismal economic prints are likely to continue in the coming weeks and months, but the key question is how and when the recovery starts to develop, which is largely predicated on our ability to control the virus.

At IFAM Capital, we find ourselves in a unique position today amid the COVID-19 pandemic, with the ability to protect and grow our client's assets. We will continue to adapt and overcome the headlines, and we hope that everyone continues to stay safe and healthy. As the saying goes, a rising tide lifts all boats.



1Q 2020 MARKET EVENTS

Global Equity Total Return (12/31/19 - 3/31/20)



Key 2Q 2020 Dates

April

- 22:** Kickoff of the 1Q 2020 earnings season
- 28-29:** FOMC Meeting
- 30:** Tentative end to social distancing in the U.S.

May

- 8:** U.S. nonfarm payrolls report

June

- 9-10:** FOMC Meeting

Source: Bloomberg as of 3/31/20. Global Equity represented by MSCI ACWI Net Total Return USD Index.



DISCLOSURES

IFAM is an SEC Registered Investment Advisor with its compliance office at IFAM Capital, 2133 S Timberline Rd. Suite 120, Fort Collins, CO 80525. Phone 970-530-5036. Please contact this office to request a copy of the firm's ADV/brochure. You may find additional information about our firm at www.ifamcapital.com.

DiMeo Schneider & Associates, LLC is an Investment Research Consultant to IFAM Capital. DiMeo Schneider & Associates, LLC compiled the information and data in this newsletter. The information and data was obtained from sources deemed reliable. IFAM Capital believes the data provided to be accurate but cannot verify or guarantee it. Errors could have occurred in the data, calculations, or in the preparation of the information. Past performance is not a guarantee of future results.