

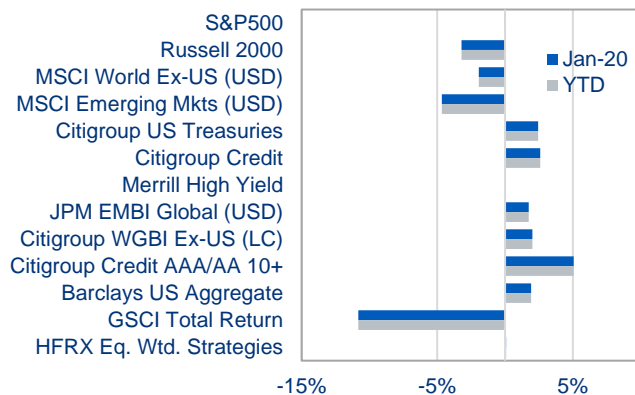
Global Market Review

Macro Summary

Global equities fell in January, largely reflecting concerns that the rampaging coronavirus would reduce output in China, disrupt global supply chains, and dent global growth. Reflecting this foreboding, the real yield on 10-year TIPS turned slightly negative, nominal bond yields in advanced economies fell sharply, the U.S. yield curve inverted between 3-months and 10-years, and oil prices plummeted. The dollar and gold prices rose, benefiting from safe haven flows. There were also a few other bright patches in the gloom. U.S. growth stocks, led by the same large tech darlings of 2019, rose in January, as did long-dated safe haven bonds.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Safe haven assets thrive on uncertainty over coronavirus.

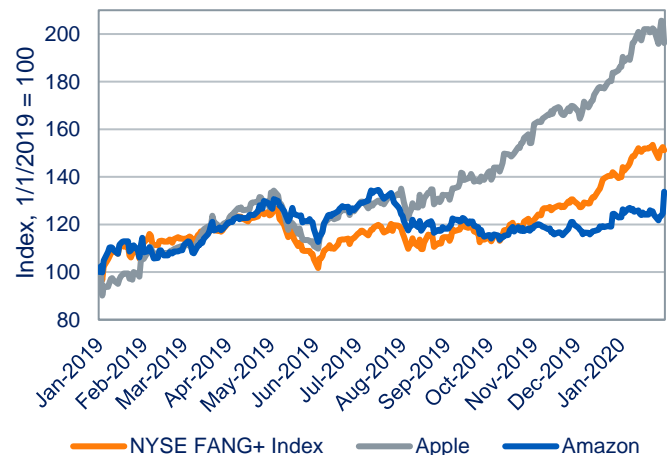
Flu Fears Grip U.S. Equity Prices

After gaining 31% last year, U.S. equities lost ground in January, as steep declines on the last day of the month erased previous gains. The Russell 3000's decline for the month of 0.1% largely reflects uncertainty over the ultimate impact of the coronavirus on economic and earnings growth. In addition, earnings have been lackluster and valuations high. Estimates for Q4 2019 earnings suggest a decline, which if validated, would represent the fourth consecutive quarter of falling earnings. Within this overall decline, however, there have been positive surprises, with 47% of companies exceeding earnings expectations. Apple announced record Q4 earnings, while Amazon's earnings vastly surpassed expectations.

Within the U.S. equity market, growth stocks and especially large cap growth stocks outperformed value, with the Russell 3000 Growth index gaining 2% compared to a 2.4% decline for its value counterpart. Within sectors, utilities soared, gaining 6.4% as bond yields tumbled. Tech stocks, up 3.9% for the month, were another bright spot, largely reflecting the 8% jump in the NYSE's FANG+ index of large tech stocks, which extended its vertiginous gain of last year (Exhibit below). The five biggest firms in the S&P 500 – Apple, Amazon, Google, Microsoft and Facebook – represent 18% of total market cap, 14% of total earnings, and have a P/E ratio of 30. The current forward P/E ratio of the S&P 500 as a whole stands at 18.4, compared to its 10-year average of 15.

Growth Stocks Rise, Led by Tech, Bucking Overall Decline

Source: Bloomberg.



Contagion Spreads Across Global Equity Markets

The measures by China and other countries to prevent the coronavirus from becoming a global pandemic are extensive and, if prolonged, would cripple trade and output. Quarantined areas of China include over 50 million people and industries that accounted for nearly 69% of the Chinese economy's total output in 2019. The resultant uncertainty triggered a global equity sell-off in the last days of January, pushing the MSCI ACWI index 1.1% lower. Chinese markets were closed for an extended period due to the Lunar New Year. However, Chinese equities were priced to fall by over 7% upon the resumption of trading, despite the central bank's injection of \$171 billion in liquidity and the government's announcement of fiscal and regulatory measures to support growth and maintain financial stability. Global companies and sectors exposed to the region endured hefty losses, as did commodity producers. Asian and Latin American bourses tumbled, sending the MSCI Emerging Markets index down 4.7%.

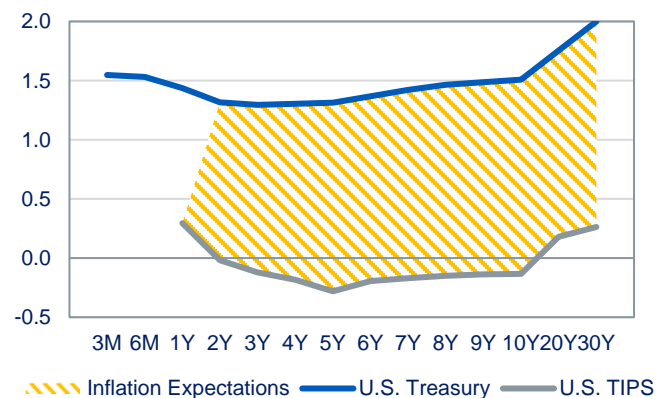
Developed markets fared somewhat better, with the MSCI World ex-US losing 1.9% during the month. European equities fell 2.5%, mainly reflecting disappointing economic growth and disinflationary pressures. Eurozone growth ground to a virtual halt in the fourth quarter of 2019, rising only 0.1%, as the French and Italian economies shrank unexpectedly. The U.K.'s economic growth was also flat, reflecting Brexit paralysis as the U.K. officially left the EU on January 31 without a clear idea of the scope and rules of its future relationship with its erstwhile largest trading partner.

Global Growth Fears Buoy Safe Haven Bond Prices

Safe haven bond prices rose, especially at the long-end of the maturity spectrum, with the U.S. Treasuries 10+ year index gaining 6%. The U.S. Treasury yield curve between 3-month and 10-year maturities inverted and the real yield on 10-year TIPS turned slightly negative (Exhibit below). The fall in real yields accounted for virtually the entire downward shift in the U.S. Treasury yield curve, as inflation expectations remained unchanged from low levels.

Yield Curve Inverts; Real Yields Turn Negative

Source: Bloomberg. U.S. Nominal and Real Yield Curves.



U.S. Investment grade corporate bonds rose, while the high-yield sector fell slightly, with bonds in the energy sector

particularly hard hit. Outside of the U.S., both developed and emerging sovereign bonds rose slightly. As widely expected, both the Fed and the ECB left rates unchanged in their January meetings. Nevertheless, global monetary conditions remain loose, as policy rates are near historic lows and asset purchases continue.

Hedge Funds Flat Overall

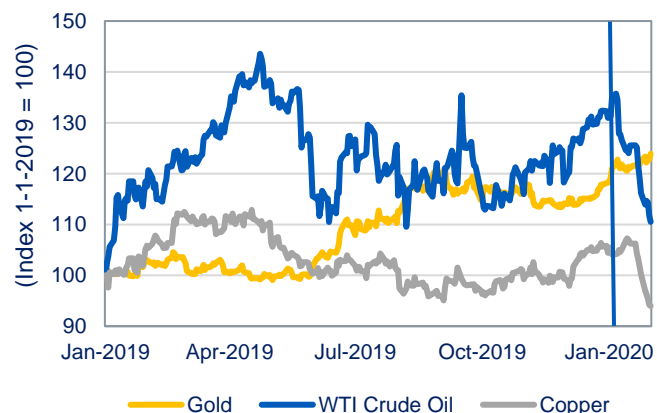
The HFRX Equal Weighted Strategies Index eked out a gain of 0.1% in January. Equity market neutral and long/short strategies declined 1.5% and 0.3%, respectively amidst the selloff in global equities. Other hedge fund strategies generated modest positive returns. Lower global bond yields supported returns for global macro and fixed income relative value strategies, which gained 0.6% and 0.7%, respectively. Distressed strategies performed best, rising 1.3%.

Oil and Copper Prices Plummet; Gold Gains

Fears that the coronavirus would curb China's voracious appetite for commodities sent oil and base metal prices tumbling, while gold gained on safe haven flows (Exhibit below). The GSCI all crude index fell 15.6%, contributing to a 10.8% drop in the broader GSCI index. With the price of oil down at \$52 per barrel (WTI), Saudi Arabia and other OPEC producers started plans for production cuts to support the market.

Oil and Copper Tumble, Gold Gains on Viral Uncertainty

Source: Bloomberg. Data through January 2020.



Performance of Major Market Indices through 01-30-2020

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	0.0%	0.0%	0.0%	21.7%	14.5%	12.4%
Russell 2000	-3.2%	-3.2%	-3.2%	9.2%	7.3%	8.2%
MSCI World Ex-US (USD)	-1.9%	-1.9%	-1.9%	12.1%	7.6%	5.1%
MSCI Emerging Mkts (USD)	-4.7%	-4.7%	-4.7%	3.8%	7.9%	4.5%
Citigroup US Treasuries	2.4%	2.4%	2.4%	8.9%	4.0%	2.3%
Citigroup Credit	2.6%	2.6%	2.6%	14.6%	6.6%	4.5%
Merrill High Yield	0.0%	0.0%	0.0%	9.4%	5.9%	6.0%
JPM EMBI Global (USD)	1.7%	1.7%	1.7%	11.5%	6.2%	6.2%
Citigroup WGBI Ex-US (LC)	2.0%	2.0%	2.0%	6.6%	3.6%	2.6%
Citigroup Credit AAA/AA 10+	5.1%	5.1%	5.1%	23.1%	10.8%	6.2%
Barclays US Aggregate	1.9%	1.9%	1.9%	9.6%	4.6%	3.0%
GSCI Total Return	-10.8%	-10.8%	-10.8%	-3.8%	-1.0%	-5.0%
HFRX Eq. Wtd. Strategies	0.1%	0.1%	0.1%	3.8%	1.4%	1.4%