NORTH STAR
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MARKET UPDATE

QUARTER 1, 2020

As efforts to contain COVID-19 widened beyond Asia and Europe, global equity markets declined quickly, with high levels of volatility. While infection trajectories have slowed in countries like China and South Korea, the U.S. is currently in an acceleration phase[i], with different parts of the country experiencing varied levels of infection rates. With most states issuing directives to keep people home, Congress passed an unprecedented $2.2 trillion fiscal stimulus package to help support the challenges many American workers and businesses face as we shelter in place.

For the quarter, domestic large company stocks (S&P 500) decreased 19.60% while small company stocks (Russell 2000) decreased 30.61%, with growth stocks faring better than value stocks across all market capitalizations. The weakest sectors within the economy were energy and financials, while technology and consumer staples were stronger sectors by comparison.[ii]

The U.S. dollar appreciated against most major foreign currencies during the quarter. A decrease in value of the U.S. dollar enhances returns when investing in foreign securities while an increase in the dollar's value reduces returns for U.S. investors holding foreign securities. For the quarter, the MSCI EAFE Index (in U.S. dollars) decreased 22.83% while the MSCI EAFE Index (in local currency) decreased 20.55%. [ii]

The demand for U.S. Treasuries increased sharply during the quarter, pushing yields much lower with higher bond prices (bond yields move inversely to bond prices). The yield on 10-year Treasury bonds started at 1.88% on January 2 and declined to 0.70% by quarter end, its largest one-quarter decline since 2011.[iii] For the quarter, the Barclays U.S. Aggregate bond index (a blended composite) increased 3.15%.[ii]

On March 15 the Federal Open Market Committee reduced the target range for the federal funds rate to between 0% and 0.25% three days prior to their regularly scheduled meeting. This is the same range for federal funds that we saw after the financial crisis set in December of 2008 and lasting through December of 2015.

In a press release following the meeting, the Fed made it clear that it is going to keep rates near zero until the economy demonstrates that it has stabilized from the impact of COVID-19. It is also prepared to use a broader range of tools to support the flow of credit to households and businesses consistent with the Fed mandate to promote maximum employment goals.[iv]

At times like this, taking the long view isn't always easy. This is a serious public health crisis, and for all of us it is unprecedented, except perhaps for those who were alive in 1918 during the Spanish Flu. Recent actions by Congress and the Treasury were also unprecedented. What is important to consider today is that the particulars of every crisis are quite unique. Black Friday, 9/11 and the Financial Crisis were all different from one another, but the market's reaction to all of them was similar. During all of those periods of uncertainly financial markets declined.

At some point the period of decline reverses. The roaring 20s followed the Spanish Flu. Significant periods of economic growth followed Black Monday, 9/11 and the Financial Crisis of 2008-09. When uncertainty recedes and answers to important questions about the future become clear, financial markets generally rise.

Nobody knows what the short and mid-term impact will be. However, we continue to encourage our clients to look further down the road. Today we are coping with an acceleration phase in infections domestically while Chinese citizens are starting to return to work.[v] Volatile markets could be expected in the weeks and months to come, but we hope that this newest report is accurate and it follows into the rest of Asia and into Europe and America in due time.

Written by North Star Resource Group

AVERAGE ANNUAL RETURNS FOR PERIODS ENDING 3/31/2020						
INDEX	**1ST Q**	**YTD**	**1 YR**	**3 YRS**	**5 YRS**	**10 YRS**
S&P 500	-19.60%	-19.60%	-6.98%	5.10%	6.73%	10.53%
Russell 2000	-30.61%	-30.61%	-23.99%	-4.64%	-0.25%	6.90%
MSCI EAFE (U.S. dollars)	-22.83%	-22.83%	-14.38%	-1.82%	-0.62%	2.72%
Barclays US Aggregate Bond	3.15%	3.15%	8.93%	4.82%	3.36%	3.88%
BENCHMARK COMPOSITES	**1ST Q**	**YTD**	**1 YR**	**3 YRS**	**5 YRS**	**10 YRS**
Aggressive Growth	-23.02%	-23.02%	-13.03%	1.03%	3.22%	7.74%
Growth	-17.99%	-17.99%	-8.53%	2.01%	3.43%	7.15%
Conservative Growth	-12.25%	-12.25%	-3.18%	3.32%	3.84%	6.57%
Income and Growth	-7.03%	-7.03%	1.15%	3.99%	3.78%	5.71%
Income	-1.48%	-1.48%	5.88%	4.90%	3.97%	5.10%

[i] Information is beautiful, https://informationisbeautiful.net/visualizations/covid-19-coronavirus-infographic-datapack/, Accessed 1 April 2020.
[ii] Morningstar Direct
[iii] Otani, A., Isaac, A., and Chiu, J., "Stocks End Worst Quarter in 12 Years" Wall Street Journal, April 2020: A1
[iv] Wesbury, B., Stein, R., Strider, E., Opdyke, A., and Gill, B., "Fed Fires Bazooka at Coronavirus" First Trust, https://www.ftportfolios.com/Commentary/EconomicResearch/2020/3/16/fed-fires-bazooka-at-coronavirus, Accessed 1 April 2020.
[v] Taplin, Nathaniel, "China Is Back to Work. But the Spector of Covid-19 Still Haunts the Economy" Wall Street Journal, https://www.wsj.com/articles/china-is-back-to-work-but-the-specter-of-covid-19-still-haunts-the-economy-11585821108, Accessed 1 April 2020.