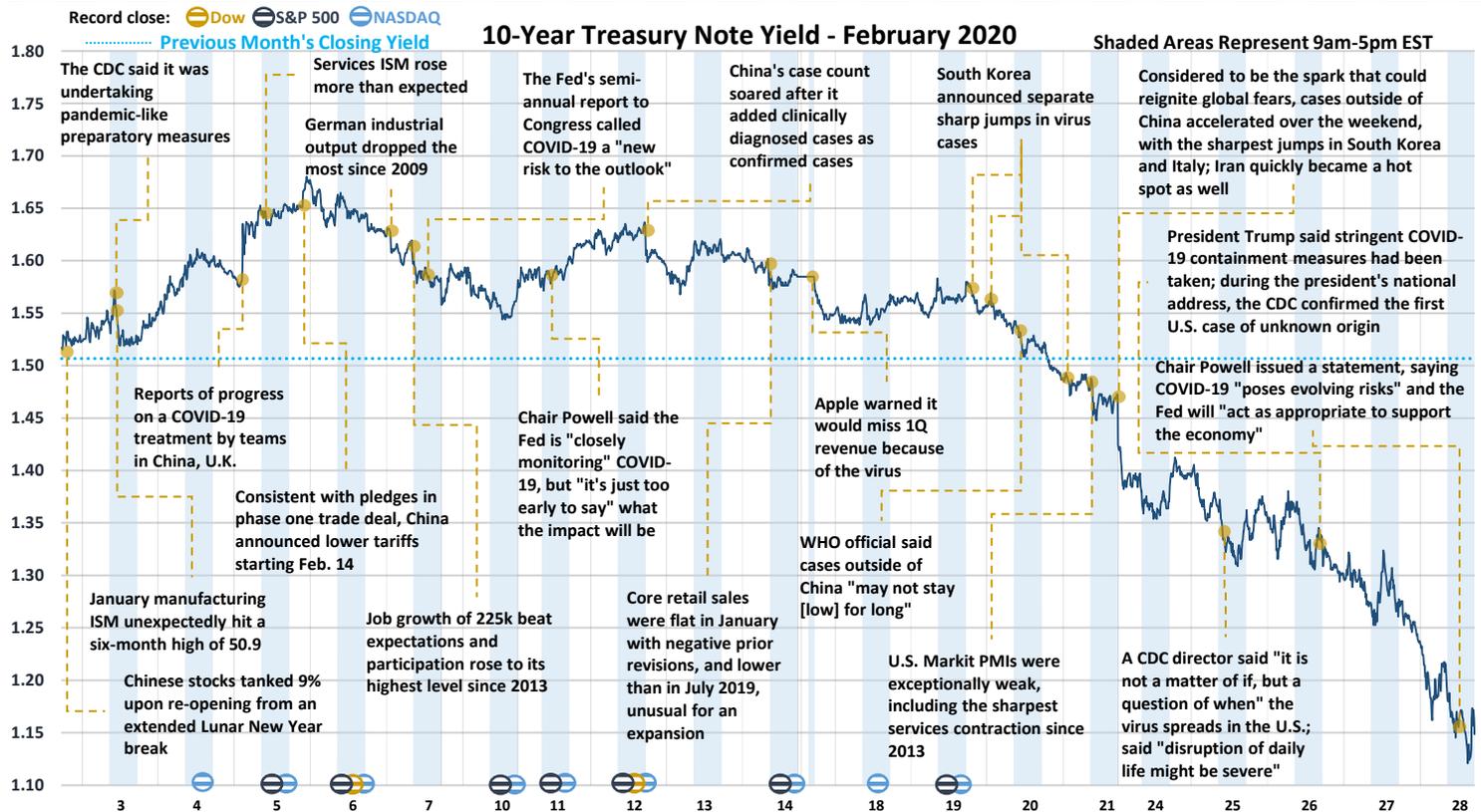


# Monthly Review

February 2020

Global Markets Crumbled as COVID-19 Spread Outside of China, Raising Fears of Pandemic and Recession



## Global Markets Came Unhinged in February as Fears of a Global Pandemic Sent Stocks Plunging and Longer Treasury Yields to Their Lowest Levels on Record

**Markets:** Hopes that the new coronavirus, COVID-19, could be contained to China crumbled in February as cases popped up in nearly 60 countries around the world by the end of the month. The surge outside of China led to growing fears of a pandemic that, considered alongside drastic containment measures already implemented in some economies with expectations that more countries will follow, could lead to a standstill in global activity. While total cases neared 80,000 in China, new infections had slowed in the final few weeks of the month thanks in part to severe containment efforts implemented by the government, including the quarantine of tens of millions of its citizens. Those measures have a cost, however, evidenced by official PMIs tumbling in February to record lows. The manufacturing index slumped from 50.0 to 35.7 while services plunged from 54.1 to 29.6. Investors fear that a similar economic standstill could become a reality around the world as the virus's spread beyond China accelerated, including an explosion in cases in South Korea, Italy, and Iran. Additionally, the U.S. reported cases across multiple states with some suspected to be the result of community transmission. The CDC further stoked concerns with multiple officials explicitly or implicitly indicating that domestic spread was inevitable. As the virus news devolved, major global corporations restricted company travel, countries began to quarantine local virus hotspots, and major public events were canceled. Growing fears of a pandemic rocked global markets. In the final week of the month, U.S. and European equities, oil, and Treasury yields all posted their largest declines since the 2008 financial crisis. After setting several all-time highs early in the month, the S&P fell 8.4%, but sank 11.5% in the final week alone. The frenzied flight to quality drove Treasury yields sharply lower and longer maturities to their lowest levels on record. The 2-year yield dropped 40 bps for the month, but was down 44 bps in the final week. The 0.91% yield was the lowest since November 2016, when the Fed was targeting a fed funds range of 0.25% to 0.50%. The drop correlated with growing expectations that the Fed, potentially as part of a coordinated response from global fiscal and monetary policymakers, could cut rates by as much 0.50% in March. The 10-year yield fell 36 bps, 32 bps in the final week, to an all-time low of 1.15%. The 30-year bond yield also fell 32 bps to a new historic low.

**Economic data released in February was entirely overshadowed by virus developments that severely limited investors' ability to glean any forward-looking indications from prior trends. However, the tone was generally upbeat and offered some signs that activity had stabilized since the trade deal was reached.**

January's retail sales report confirmed **consumer spending** moderated at the end of last year and started 2020 slowly. The recent weakness left total Dollars spent in January below the level in July, an unusual occurrence during an economic expansion. Still, solid labor data – hiring was better than expected at 225k and participation rose to a seven-year high – and resilient confidence measures supported expectations for an improvement ahead. Tracking the **business sector**, both ISM reports and small business confidence were better than expected in January and capital goods orders and shipments both rose more than estimated. However, preliminary Markit PMIs showed a sharper-than-expected slowing in February, at least partly because of the virus outbreak. The **housing** data remained strong as mortgage rates remained low. Prior to the virus outbreak, goods **trade data** showed a drop in both exports and imports that led to a narrower-than-expected deficit in January. **Inflation** was weaker-than-expected near the end of 2019 and despite a firm CPI report, the Fed's preferred PCE measure was softer than expected in January at 1.63%.

**Monetary Policy:** When the Fed met in January, at a time when fewer than 5,000 people around the world had been infected, officials considered COVID-19 "a new risk" to the outlook. By the end of the month, however, after global cases had exploded to more than 80,000 across an increasing number of countries outside of China, the Fed issued an unscheduled statement into a turbulent market environment. Cementing the market's previously-determined opinion that the Fed would be forced to ease policy, Fed Chair Powell admitted the virus "poses evolving risks" to the outlook and officials will "use our tools and act as appropriate to support the economy."

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2-Year Treasury Note Yield - February 2020



5-Year Treasury Note Yield - February 2020



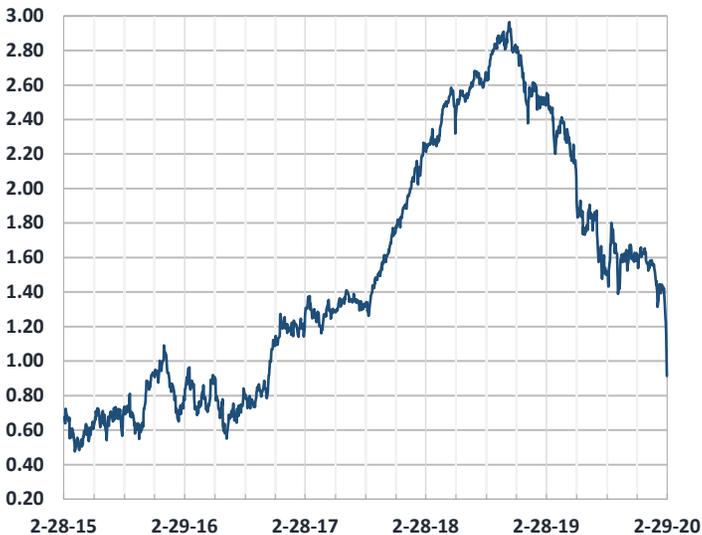
2-Year Treasury Note Yield - Last 12 Months



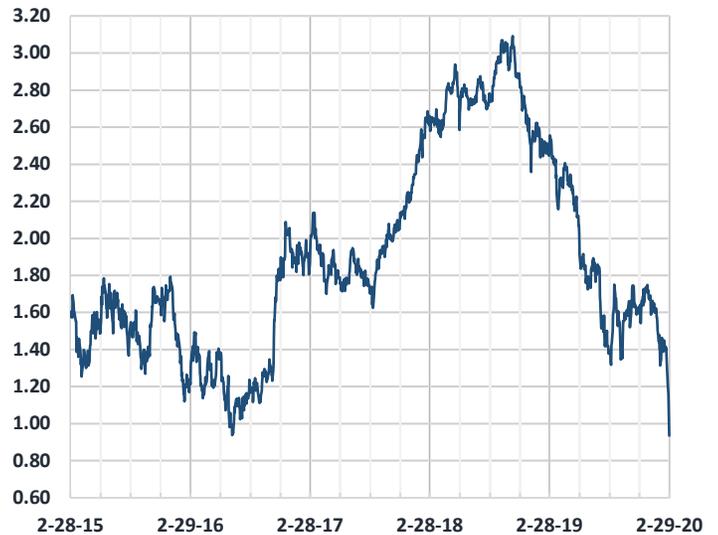
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

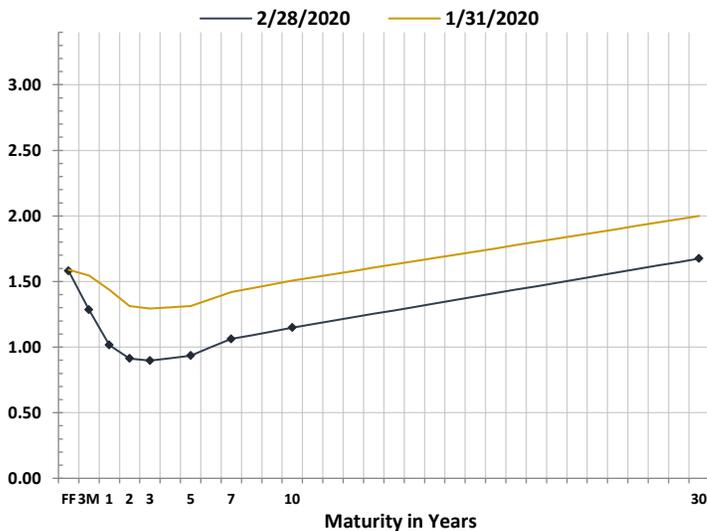


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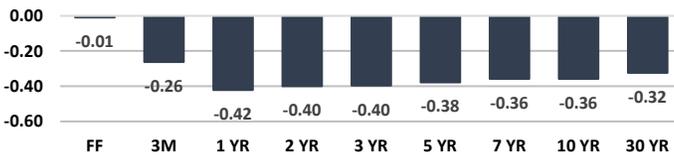
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	25,409	-10.07% ↓	-10.96% ↓	-10.96% ↓
S&P 500	2,954	-8.41% ↓	-8.56% ↓	-8.56% ↓
Nasdaq	8,567	-6.38% ↓	-4.52% ↓	-4.52% ↓
Stoxx Europe 600	376	-8.54% ↓	-9.66% ↓	-9.66% ↓
China CSI 300	3,940	-1.59% ↓	-3.82% ↓	-3.82% ↓
Nikkei 225	21,143	-8.89% ↓	-10.63% ↓	-10.63% ↓

Global Sovereign Debt Performance

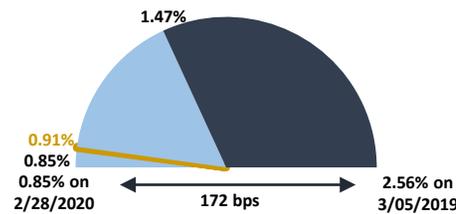
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	0.91%	-40.0 ↓	-65.6 ↓	-65.6 ↓
U.S. 5-year	0.94%	-37.8 ↓	-75.5 ↓	-75.5 ↓
U.S. 10-year	1.15%	-35.8 ↓	-76.9 ↓	-76.9 ↓
German 10-year	-0.61%	-17.3 ↓	-42.2 ↓	-42.2 ↓
U.K. 10-year	0.44%	-8.2 ↓	-38.0 ↓	-38.0 ↓
French 10-year	-0.29%	-11.2 ↓	-40.5 ↓	-40.5 ↓
Italian 10-year	1.10%	16.7 ↑	-31.0 ↓	-31.0 ↓
Japanese 10-year	-0.15%	-8.7 ↓	-14.2 ↓	-14.2 ↓

Commodity Performance

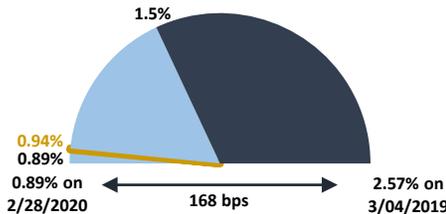
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 44.76	-13.19% ↓	-26.70% ↓	-26.70% ↓
U.S. Dollar	98.13	0.76% ↑	1.81% ↑	1.81% ↑
Gold Spot	1,586	-0.05% ↓	4.52% ↑	4.52% ↑
Commodity Index	70.98	-5.15% ↓	-12.25% ↓	-12.25% ↓

Treasury Notes Intraday Ranges: 52-Week Yield Range / Monthly Yield Range / Last Traded Yield

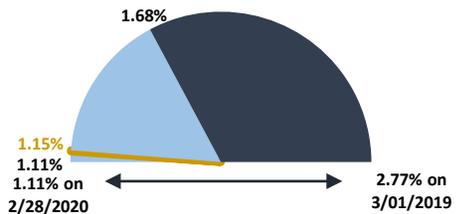
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

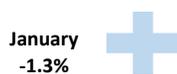


Six-month average rose to 206k matching the best since July 2018; participation rose to a seven-year high

Unemployment Rate



Existing Home Sales MoM



Both housing reports were stronger than expected

New Home Sales MoM



Core Retail Sales



Broader trend remained weak

Consumer Confidence



ISM Non-Manufacturing

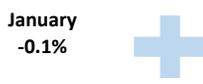


Manufacturing PMI hit a six-month high

ISM Manufacturing

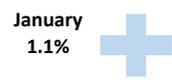


Manufacturing Production



Rose 0.3% when Boeing drag is excluded

Core Capital Goods Orders

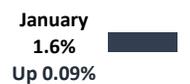


Orders and shipments both exceeded expectations

Trade Balance



Core PCE YoY



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