April 2020 Market Update

After a disastrous March, equities staged a remarkable relief rally in April. U.S. stocks rose 12.9% and international stocks were up 8.2%. The rally was fueled by unprecedented fiscal and monetary stimulus as well as a substantial flattening of the novel coronavirus infection curve and promising vaccine news. Bonds rallied as Treasury yields dropped slightly and credit recovered. Real estate continued to lag and is the worst performing asset class year-to-date.

April highlighted the importance of sticking to a long-term asset allocation plan and not timing the market. The stock price rally directly contradicted dire economic news and warnings on corporate earnings. 2020 Q1 GDP was down 4.8% and Q2 GDP is expected to drop another 20% or more. Unemployment is expected to exceed 15%. Economists expect a recovery in the second half of the year but some effects will certainly last into 2021. The economic effect of the COVID-19 crisis is worse than the great recession in 2008-09 when GDP dropped only 4.0% and unemployment reached 10.0% at its peak.

Given the rapid recovery of the stock market and expectations for ongoing economic weakness, future stock returns will be challenging at best. S&P reports expected forward earnings on the S&P 500 at $132 for a P/E of 22.0, much higher than the P/E of 19.0 in February when the market was at all-time highs. The unanswered question, though, is when, if ever, will stocks fall to a more attractive level?

Table 1: Benchmark Index Performance as of April 30, 2020

Benchmark Index	*1 Mo*	*YTD*	*12 Mo*	*5 Yr Ann*
U.S. Equities	12.9%	-10.3%	-0.7%	8.6%
International Equities	8.2%	-17.9%	-11.8%	-0.1%
Fixed Income	1.8%	5.0%	10.8%	3.8%
US Real Estate	8.2%	-20.9%	-14.7%	2.2%

Chart 1: 2020 Year-to-Date Market Index Performance