



Empowering clients through education to make informed decisions
& find comfort with those decisions

In this Q1 recap: COVID-19 hits the United States, followed by heavy economic volatility, government stimulus, and an as-yet untold human cost.

Quarterly Economic Update

A review of Q1 2020, Presented by Kirk Barr Young

THE QUARTER IN BRIEF

The spread of COVID-19 sent stocks tumbling in the first quarter, as health and economic costs of the pandemic began to mount. Stocks remained under pressure despite the Federal Reserve's lowering of short-term interest rates and the government's stimulus efforts through the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act. The DJIA sank 23.2% and the S&P 500 dropped 20% on the quarter. The volatility following the novel coronavirus has left all but a handful of sectors in a prolonged period of uncertainty. With millions of Americans staying at home in an effort to "flatten the curve" of COVID-19's impact on people, businesses are coping with closing for the duration, altering practices, or facing staffing issues. ¹

DOMESTIC ECONOMIC HEALTH

The Federal Reserve cut interest rates to zero on March 15 and announced several monetary actions designed to support households and businesses. However, markets were unfazed by the Fed's aggressive move, electing to instead focus on the contraction of economic growth that many are expecting. Millions of Americans have applied for unemployment, with a spike of 3.3 million seen in March. Layoffs and furloughs are foreseen throughout early Q2. ^{2,3}

The Consumer Price Index (CPI) registered an annualized advance of 2.4% in February, ahead of the COVID-19 volatility in the United States. Inflation was ahead 0.1% in the same period. Consumer spending was at 0.2% in the middle of the quarter, with the University of Michigan's Consumer Sentiment Index at 101.0. Retail sales were at 4.35%, annualized. The Institute of Supply Management (ISM) Purchasing Managers Index (PMI) up nearly two points to 57.3, mid-quarter. All these figures may be revised dramatically in the second quarter as more data is compiled about the economic cost of the pandemic. ^{4,5}

GLOBAL ECONOMIC HEALTH

The main story in China for the first quarter of 2020, affecting nearly every aspect of the Chinese economy, has been the COVID-19 outbreak. Anticipating the rough road ahead, a number of international financial institutions have revised their growth estimates for China downward, leaving some to predict the worst year in decades. Despite this, the Caixin/Markit Manufacturing PMI came in at 50.1 in March, just within the realm indicating growth, and up from February's 40.3. As the quarter came to a close, U.S. lawmakers were questioning the accuracy of China's reported number of COVID-19 cases as the U.S. grappled with the pandemic. ^{6,7}

European countries are also facing hardship, with Italy and Spain seeing a higher-than-average number of cases. The European Commission predicts a recession, with the overall gross domestic product (GDP) sinking 1% for 2020. This follows 1% of growth for the GDP in the final quarter of 2019. Facing heavy unemployment, the European Commission set up a 100 billion euros (\$110 billion in U.S. dollars) program to help keep workers employed, while also pledging to purchase as much as 750 billion euros to keep markets at ease through the purchase of financial assets. ^{8,9,10}

WORLD MARKETS

The arrival of COVID-19 signaled volatility around the globe. The numbers at the end of the quarter include: the U.K.'s FTSE 100 (-13.81%), the German Dax (-16.44%), the French CAC 40 (-17.21%),

Japan's Nikkei 225 (-10.53%), Australia's All-Ordinaries (-21.51), Mexico's Bolsa (-16.38%), Brazil's Bovespa (-29.90), China's Shanghai Composite (-4.51), Hong Kong's Hang Seng (-9.67), South Korea's Kospi Composite (-11.69), and Russia's RTS (-21.95).^{11,12}

The MSCI EAFE Index (which measures performance across developed stock markets outside North America) took a 14.77% fall at the end of Q1.¹³

COMMODITIES MARKETS

The oil market dominated the commodities headlines during the first quarter. The failure of Russia to join Saudi Arabia in supporting lower oil production targets left Saudi Arabia fuming and responding with an announcement of its intention to raise oil output. Oil prices plummeted on the news, contributing to the stock market's woes. While lower oil prices represent a boon to consumers in the form of lower gasoline prices and a relief to companies with high energy consumption (e.g., airlines, chemical), they also pose a risk to the American energy industry.

Should low oil prices persist, it may lead to lower capital expenditures, labor force reductions, and troubles in the credit markets as less-capitalized companies struggle to meet their debt obligations. As the quarter came to a close, there was some speculation that President Trump would take a larger role in working with Russia and Saudi Arabia on production targets.

Elsewhere, WTI crude closed out the quarter at \$20.34 a barrel. Gold finished the quarter at \$1,572 an ounce on the NYMEX; silver, at \$13.98 an ounce.^{14,15}

REAL ESTATE

Across the first quarter, new home sales moved from -0.4% for December to 7.9% in January and down again to -4.4% in February. Existing home sales for February rose 6.5%, compared to a 1.3% decrease for January and a 3.6% increase in December 2019. Housing starts declined over Q1 starting at 16.9% for December, -3.6% for January, and -1.5% for February.⁴

Mortgage rates started the first quarter (January 2) at 3.72% for 30-year mortgages, 3.16% for 15-year mortgages, and 3.46% for 5/1-year mortgages. At the end of the quarter (March 26), the 30-year mortgages were at 3.5%, 2.92% for 15-year mortgages, and 3.34% for 5/1-year mortgages.¹⁶

30-year and 15-year, fixed-rate mortgages are conventional home loans, generally featuring a limit of \$484,350 (\$726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

TIP OF THE QUARTER



Online tax calculators are handy, but keep in mind that they typically only calculate your federal tax rate. Most don't take state or FICA taxes into account. Also, calculators are not designed to be a replacement for real-life advice, so make sure to consult your tax, legal, or accounting professional before modifying your tax strategy.

LOOKING BACK, LOOKING FORWARD

This first quarter of 2020 was one of the worst for stocks in U.S. history. The Dow Jones Industrial Average (DJIA) closed at 21,917.16 for the quarter. The Standard and Poor's 500 (S&P 500) ended Q1 at 2,584.59, while the NASDAQ Composite Index closed at 7,700.10. ¹⁷

MARKET INDEX	Y-T-D CHANGE	Q1 CHANGE	2019
DJIA	-23.20	-23.20	+22.34
NASDAQ	-14.18	-14.18	+35.23
S&P 500	-20.00	-20.00	+28.88

YIELD	3/31 RATE	3 MO AGO	1 YR AGO
10-YR TIPS	0.70	1.92	2.41

Sources: barchart.com, wsj.com, bigcharts.com, treasury.gov - 3/31/20

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

It is difficult to see, in the middle of the COVID-19 epidemic, exactly what the full impact will be. Suffice it to say, the cost in human terms has been staggering so far and seems certain to affect at least part of the coming quarter. As people and businesses adapt to extended periods of quarantine, the only thing that seems clear is that no aspect of American life will be unchanged. CARES Act stimulus checks are on the way for millions of Americans. The Federal Reserve has lowered interest rates. Further measures are being considered at the state and federal level. The only two things that seem truly certain are that action is being taken and that we'll all breathe a sigh of relief once this crisis subsides.

QUOTE OF THE QUARTER



“If we are to learn to improve the quality of the decisions we make, we need to accept the mysterious nature of our snap judgments.”

MALCOLM GLADWELL

Kirk Barr Young may be reached at 407-622-0018 or cvandermark@barrllc.com www.BARRLLC.com

Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

Securities offered through Triad Advisors, LLC, Member FINRA/SIPC. Advisory services offered through BARR Financial Services LLC. Triad Advisors and BARR Financial Services LLC are unaffiliated entities.

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. The information herein has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All market indices discussed are unmanaged and are not illustrative of any particular investment. Indices do not incur management fees, costs, or expenses. Investors cannot invest directly in indices. All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx[®], and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The CBOE Volatility Index[®] is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The S&P SmallCap 600[®] measures the small-cap segment of the U.S. equity market. The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

CITATIONS:

- 1 - CNN.com, March 31, 2020.
- 2 - Reuters, March 31, 2020.
- 3 - MarketWatch, April 1, 2020.
- 4 - Investing.com, April 1, 2020.
- 5 - MarketWatch, April 1, 2020.
- 6 - CNN.com, April 1, 2020.
- 7 - MarketWatch, March 31, 2020.
- 8 - Bloomberg, March 13, 2020.
- 9 - CNBC.com, April 1, 2020.
- 10 - New York Times, April 2, 2020.
- 11 - New York Times, March 31, 2020.
- 12 - Barchart.com, March 31, 2020.
- 13 - MarketWatch.com, March 31, 2020.
- 14 - Barchart.com, April 2, 2020.
- 15 - BusinessInsider.com, April 2, 2020.
- 16 - FreddyMac.com, April 2, 2020.
- 17 - Bloomberg.com, March 31, 2020.



Kirk Barr Young, CFP[®], ChFC, RFC, CLU, CEP, CSA, CDFA
kyoung@BARLLC.com

BARR Financial Services LLC
Registered Investment Advisor
2160 North Park Avenue, Winter Park, FL
Phone 407-622-0018
www.BARLLC.com

Securities offered through Triad Advisors, LLC, Member FINRA/SIPC. Advisory services offered through BARR Financial Services LLC. Triad Advisors and BARR Financial Services LLC are unaffiliated entities.