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Monthly Global Markets Update

March 2020

Our investment experts share their perspectives on market events, economic data and developing themes in our monthly review of the global capital markets.

EQUITY HIGHLIGHTS

- Returns were negative across the equity opportunity set in February as the coronavirus continued to be the focus for the markets. Emerging Markets and U.S. Large Cap Growth equities fared best in February with the MSCI EM Growth Index and MSCI EM Value Index returning -4.48% and -6.51%, and the Russell Top 200 Growth Index returning -6.79%. The worst performers in the opportunity set were the Russell Mid Cap Value Index which returned -9.90%, the MSCI World Ex. U.S. Small Cap Index which returned -9.76% and the Russell 2000 Value Index which returned -9.72%.
- Save for the U.S. Large Blend category, the month of February saw active equity funds continue the trend of outperformance relative to their passive counterparts. Average outperformance year-to-date in the opportunity set for active funds relative to passive funds was 1.34% as February 29.
- U.S. growth outperformance on a rolling five-year basis relative to value reached its widest margin since December 2007 in February. Growth's outperformance has been driven partially by a prolonged low economic growth environment and significant outperformance from large cap information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to improvement in value relative performance.

FIXED INCOME HIGHLIGHTS

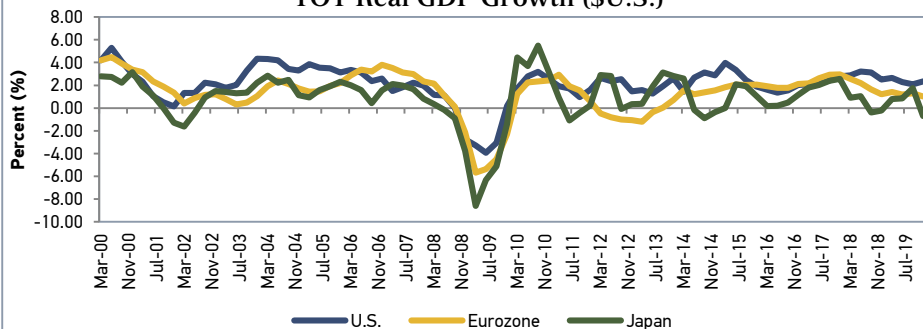
- Performance was largely positive across the fixed income opportunity set as concern related to the coronavirus led yields lower in the month of February. The Bloomberg Barclays U.S. Government Index led the way with a return of 2.62% followed by the Bloomberg Barclays U.S. Aggregate Index which returned 1.80%, and the Bloomberg Barclays U.S. TIPS Index which returned 1.38%. The worst performers during February were the Bloomberg Barclays U.S. High Yield Index which returned -1.41%, the Bloomberg Barclays Emerging Markets USD Aggregate Index which returned -0.20% and the Bloomberg Barclays Global Treasury Ex. U.S. Index which returned 0.97%.
- Ten-year government bond yields moved lower across the opportunity set in February. The most substantial decrease in yields within the opportunity set occurred in the U.S. and Germany where yields moved lower by 37 basis points and 18 basis points, respectively. Italy, France and the U.K. round out the opportunity set and saw yield decreases of 16 basis points, 13 basis points and 12 basis points, respectively.
- Municipal/Treasury ratios moved higher across the opportunity set in February. The Municipal/Treasury ratios for the two-, three- and five-year maturities are now above their historic averages while the seven- and ten-year ratios remain below their historic averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
MSCI ACWI IMI	-9.40%	Barclays US Aggregate	3.76%	US Fund Multialternative	-2.67%	6-month	1.11%	Prime Rate	4.25%
Russell 3000	-8.29%	Barclays Gbl Treas xUS Hdg	2.74%	DJ Equity All REIT	-5.80%	1-year	0.97%	LIBOR (3 Mo)	1.46%
S&P 500	-8.27%	Barclays US TIPS	3.51%	Bloomberg Commodity	-12.03%	3-year	0.85%	Oil Price (\$/barrel)	\$44.76
MSCI EAFE	-10.94%	Barclays US High Yield	-1.38%			5-year	0.89%	Gold (\$/t oz)	\$1,566.70
MSCI EM	-9.69%	Barclays EM Aggregate	1.34%			10-year	1.13%		
						30-year	1.65%		

Data as of 02.29.2020; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

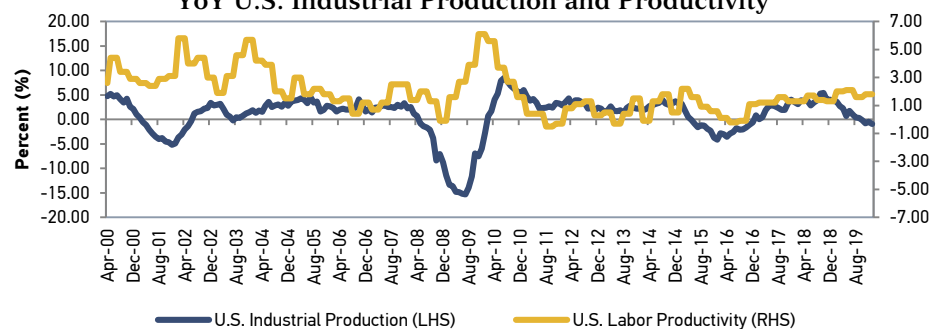


YOY Real GDP Growth (\$U.S.)



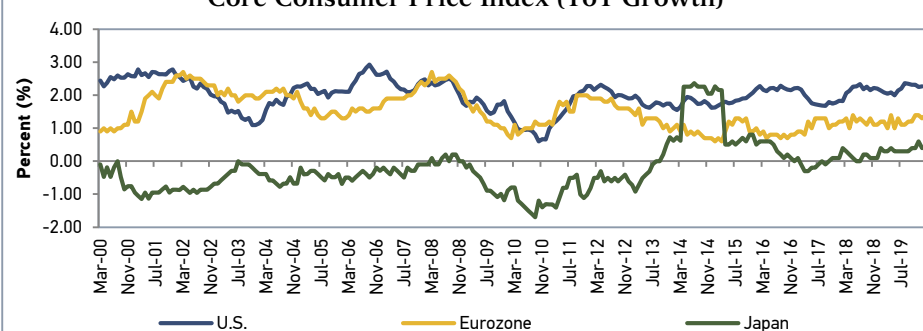
Data as of 12.31.2019; Source: FactSet

YoY U.S. Industrial Production and Productivity



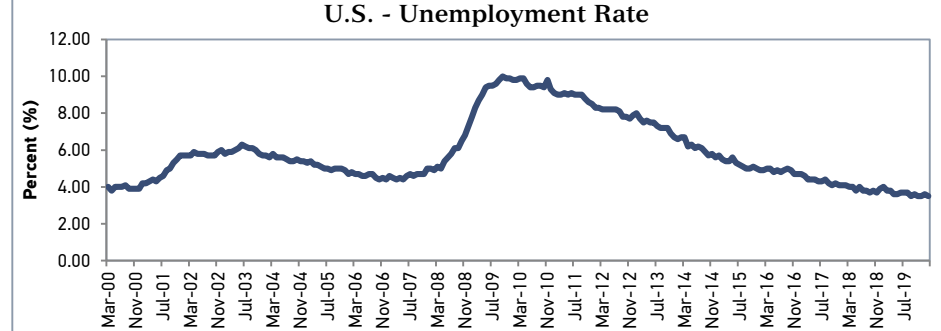
Industrial Production data as of 01.31.2020. Labor Productivity data as of 12.31.2019; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. and Japan data as of 01.31.2020, Eurozone data as of 02.28.2020; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

U.S. - Unemployment Rate



Data as of 02.28.2020; Source: FactSet

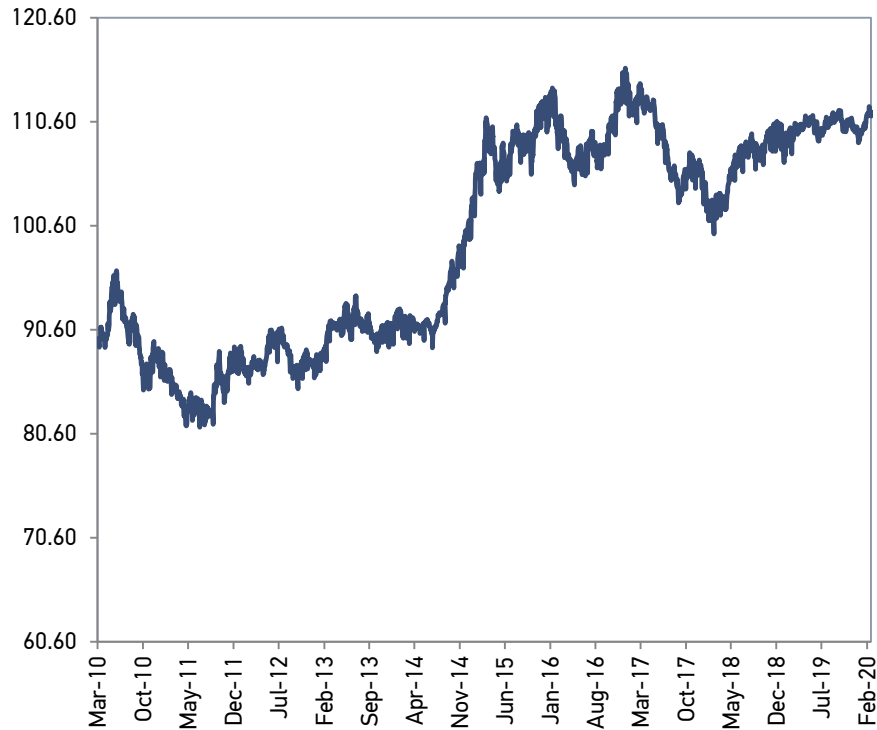
- Ahead of negative coronavirus effects, growth in the U.S. and Europe has continued to be steady and positive. Growth in Japan decelerated considerably in the fourth quarter, partially due to an increase in sales taxes.
- U.S. productivity growth rebounded in the fourth quarter to a solid 1.8% year-over-year rate. Industrial production growth remained weak in January.
- Core U.S. inflation as measured by the CPI remains elevated at 2.27% on a year-over-year basis. Inflation in Europe and Japan remains moderate but positive.
- Job growth remained strong in February bringing the unemployment rate down to 3.5%.



Leading	Initial Jobless Claims	<ul style="list-style-type: none">In the week ending February 28, the four-week moving average of Initial Jobless Claims was 213,000 an increase of 3,250 from the previous week's revised average.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 50.1% in February a 0.8 percentage point decrease over the previous reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 49.8% in February a 2.2 percentage point decrease over the previous reading.ISM Non-Manufacturing registered 57.3% in February a 1.8 percentage point increase over the previous reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits rose 9.2% in January and have risen 17.8% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index rose in February to 130.7 compared to 130.4 in January.
	Nonfarm Payrolls	<ul style="list-style-type: none">Total Nonfarm Payroll employment gained 273,000 in February while the unemployment rate fell to 3.5%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production fell 0.3% in January and is down 0.8% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income rose 0.5% in January and is up 2.2% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none">This ratio was -0.3% in January and 0.6% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.
	Inflation	<ul style="list-style-type: none">CPI (All Items) rose 0.1% in January and is up 2.5% over the trailing one year period.CPI (Core) rose 0.2% in January and is up 2.3% over the trailing one year period.



**Nominal Trade-Weighted U.S. Dollar
Major Currencies**



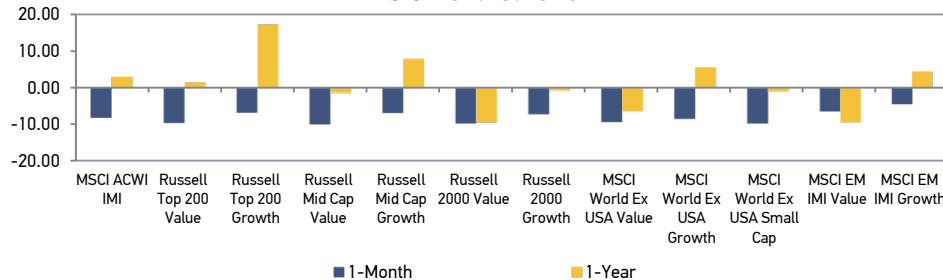
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 1.1% through February and the index is up 2.4% year-to-date. The dollar rose 0.9% versus the Euro in February.

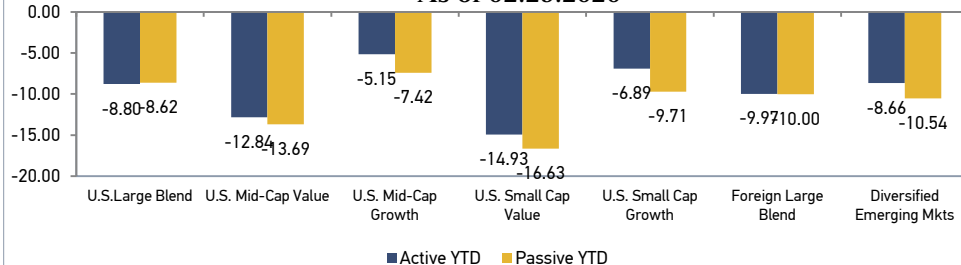


Equity Market Performance
As of 02.29.2020



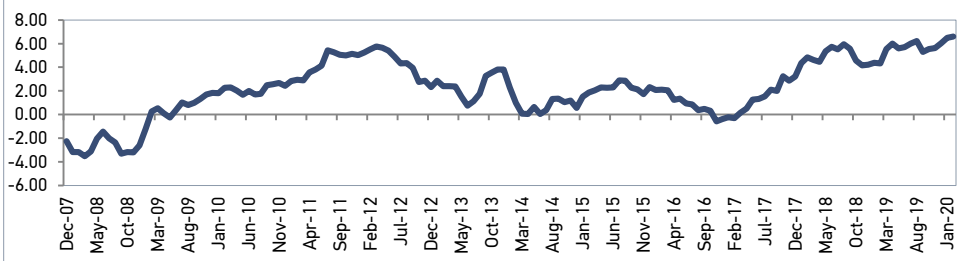
Source: Morningstar, Russell Investments

Active vs. Passive
As of 02.29.2020



Source: Morningstar, Russell Investments
Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

Rolling 5-Year Return Differential
Russell 3000 Growth minus Russell 3000 Value



Data as of 02.29.2020; Source: Morningstar

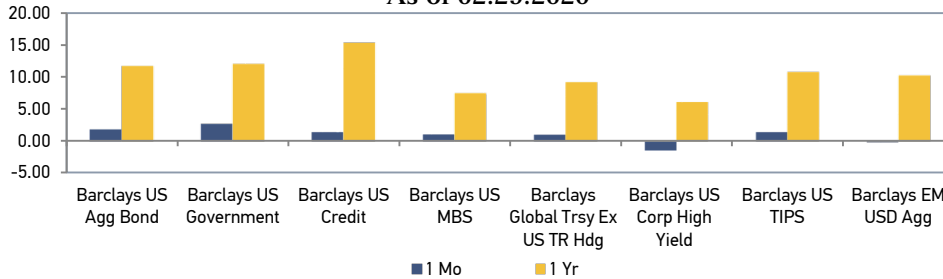
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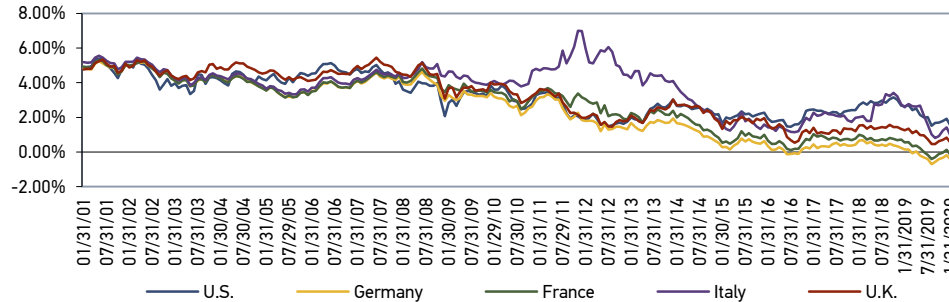


Bond Market Performance
As of 02.29.2020



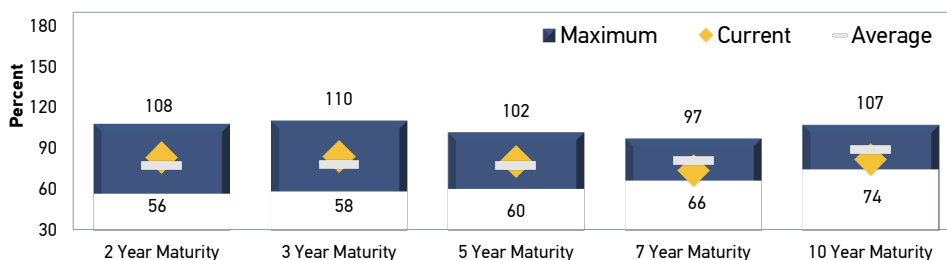
Source: Morningstar, Barclays

10-Year Government Bond Yields



Data as of 02.28.2020; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 02.29.2020



Source: Thompson Reuters; Sterling Capital Management Analytics.

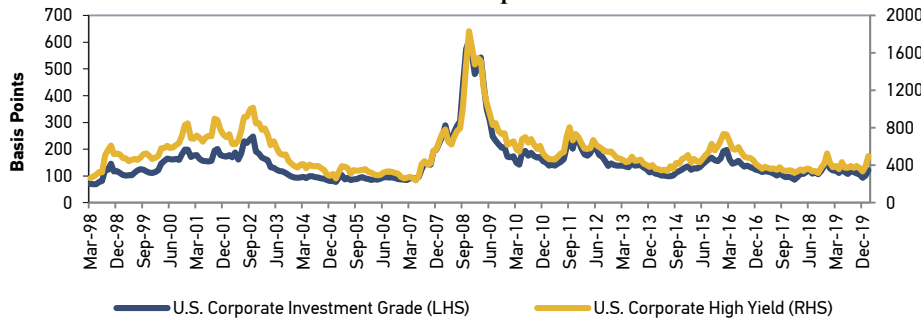
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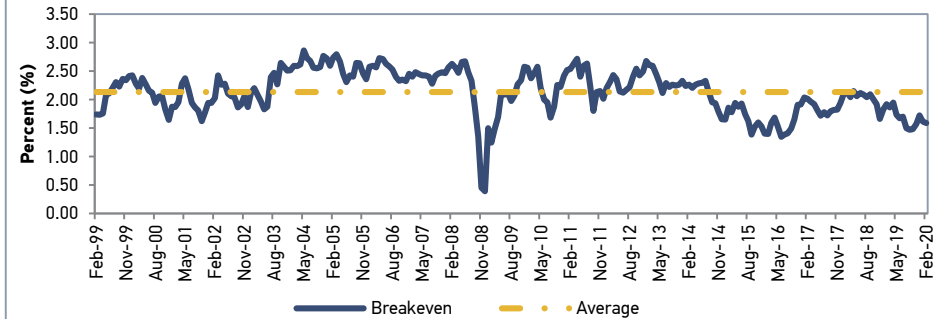


20-Year U.S. Corporate OAS



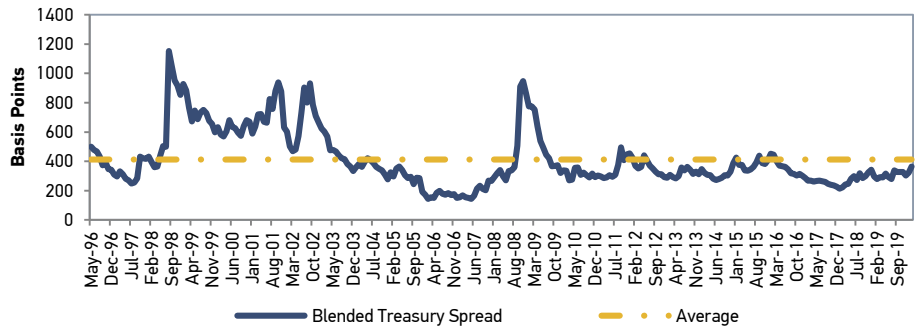
Data as of 02.29.2020; Source: FactSet

10-Year TIPS Breakeven



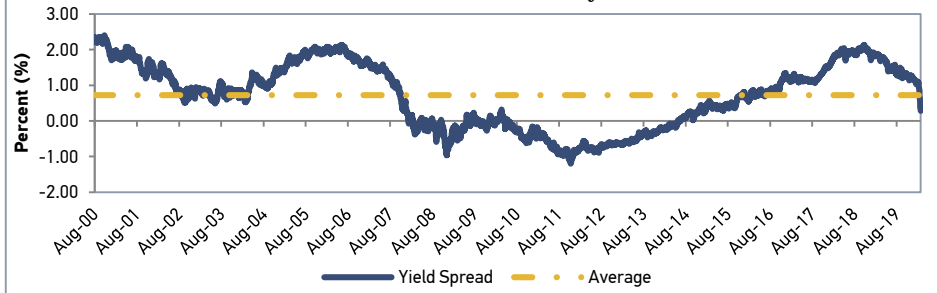
Data as of 02.29.2020; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 02.28.2020; Source: Barclays

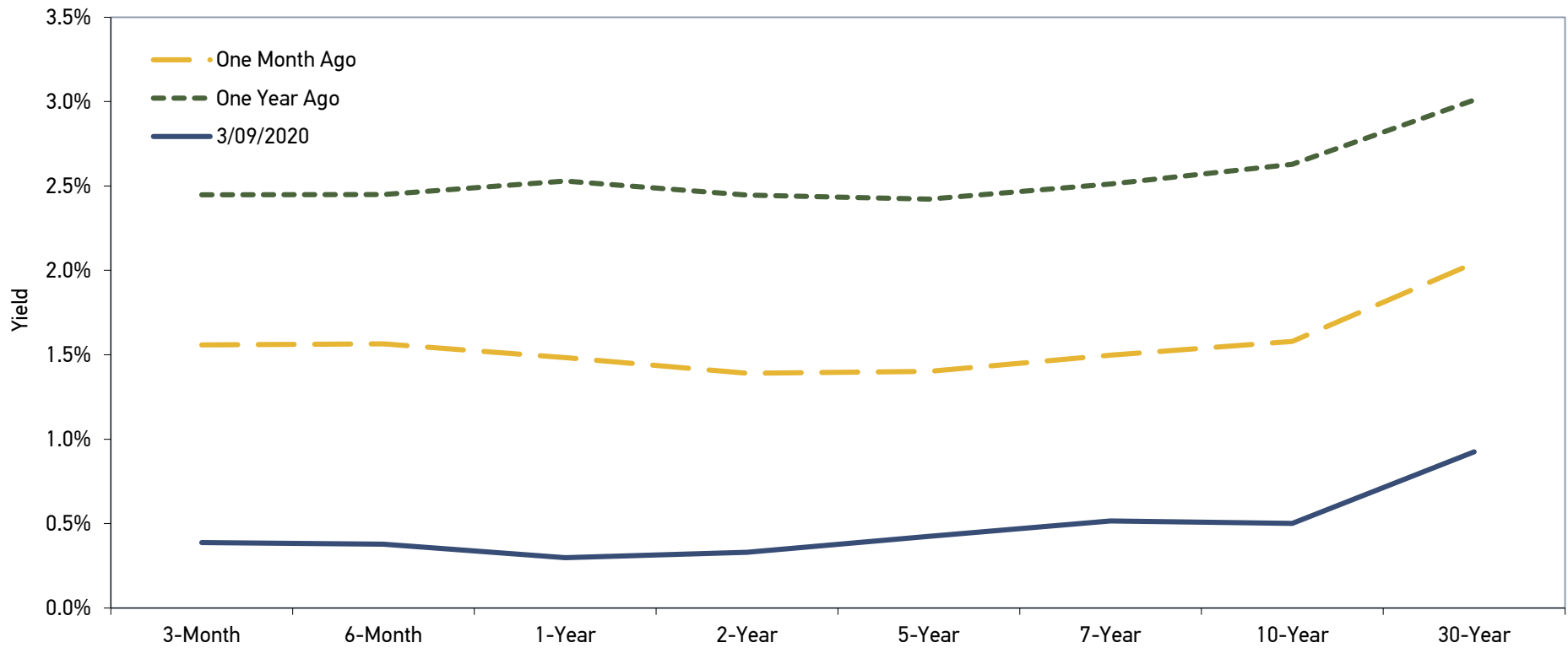
Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 03.09.2020; Source: Barclays

- The growing coronavirus epidemic significantly impacted interest rates and credit spreads across fixed income markets in February.
- Investment Grade and High Yield corporate bond spreads widened significantly in February.
- Market inflation expectations as measured by TIPS breakeven rates moved lower.
- Emerging Market credit spreads moved significantly higher in February but continue to be below the long run average. The yield spread of U.S. to Global Treasuries continued to move lower in February and has crossed below the historical average.

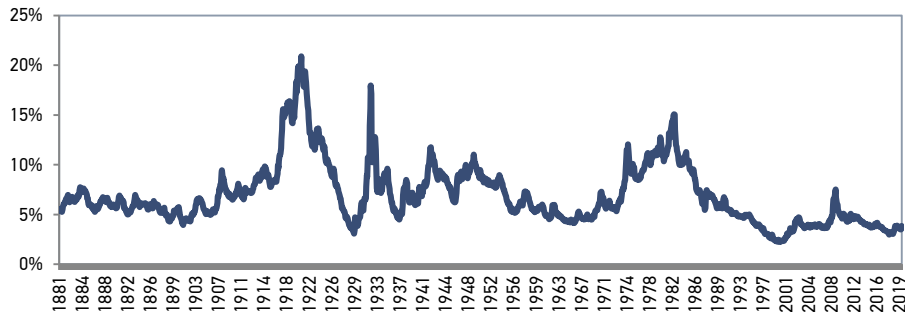
Note: Please see Appendix for important definitions.



- As of 03.09.2020, yields moved lower across the curve compared to the previous month. The most pronounced decreases occurred on the front end of the curve with the 3 month yield moving lower by 1.17% and the 6 month and 1 year yields moving lower by 1.19%.

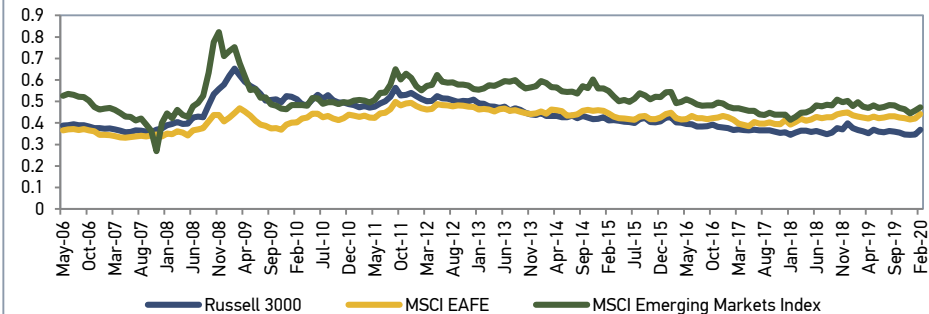


U.S. Cyclically Adjusted Earnings Yield



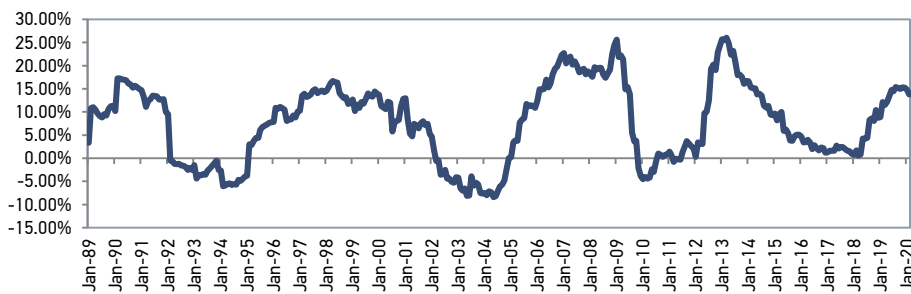
Data as of 02.29.2020; Source: Bloomberg, Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



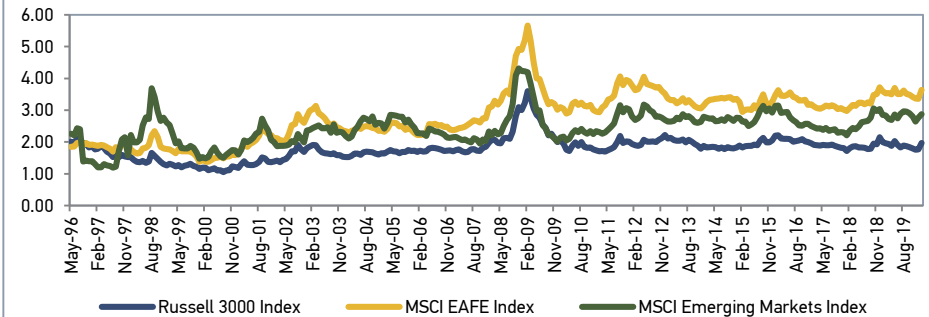
Data as of 02.28.2020; Source: Russell, MSCI

**U.S. 3 Year Real Revenue Growth
Russell 3000 Non-Financials**



Data as of 02.28.2020; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 02.28.2020; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield moved higher in February but remains at a low level relative to history. Long-term real U.S. sales growth strengthened in 2019 but has begun to turn lower in 2020.
- In February, the revenue to firm value ratio continued to move higher across U.S. and international markets.
- Global equity dividend yields moved significantly higher in February. International Developed yields continue to provide a significant income advantage over the U.S.

Appendix



Core Consumer Price Index: Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

Option Adjusted Spread (OAS): A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

Revenue to Firm Value: Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

TIPS Breakeven: The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

U.S. 3 yr. Real Revenue Growth, Russell 3000 Non-Financials: For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

U.S. Cyclically Adjusted Earnings Yield: The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

YOY US Productivity Growth: The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.



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