COVID-19: Its Impact on Fixed Income and Equity Markets

FIERA CAPITAL

April 15, 2020

Index Returns

	1Q20	2019
Equity Index Returns		
S&P 500	-19.60%	31.48%
MSCI EAFE	-22.83%	22.01%
MSCI Emerging Markets	-23.60%	18.42%
Fixed Income Index Returns		
Bloomberg Barclays Intermediate Aggregate	2.49%	6.67%
Bbg. Barc 1-10 Year Municipal	-0.56%	5.63%
BofAML High Yield	-13.06%	14.40%
BofAML Fixed Rate Preferreds	-8.83%	17.71%

Source: Bloomberg

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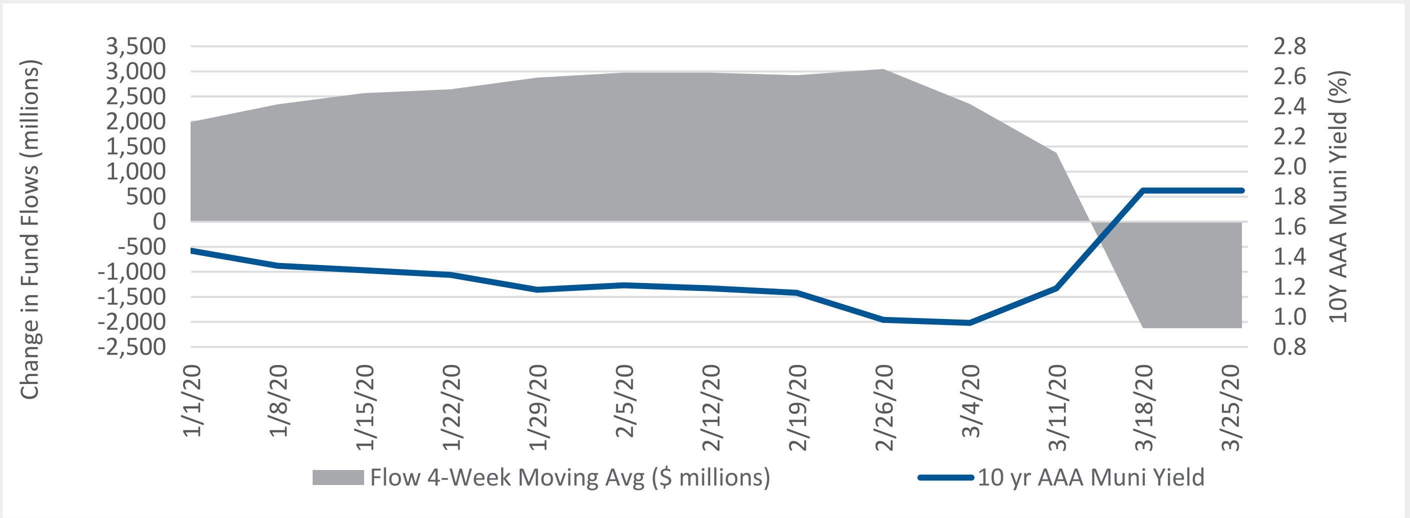
Fixed Income Overview

Municipal Market Overview

After years of consistently positive inflows into municipal bond mutual funds, an abrupt reversal of flows out of funds began in earnest in late February, driven by the great uncertainty brought about by the pandemic. These liquidation requests triggered the immediate sale of bonds from those funds in order to meet the cash needed for the redemptions. This was effectively forced selling at a time traders and market makers were looking to lighten up on their own inventories, adding to the downward pressure on prices. As a result, municipals sharply underperformed Treasuries throughout the quarter.



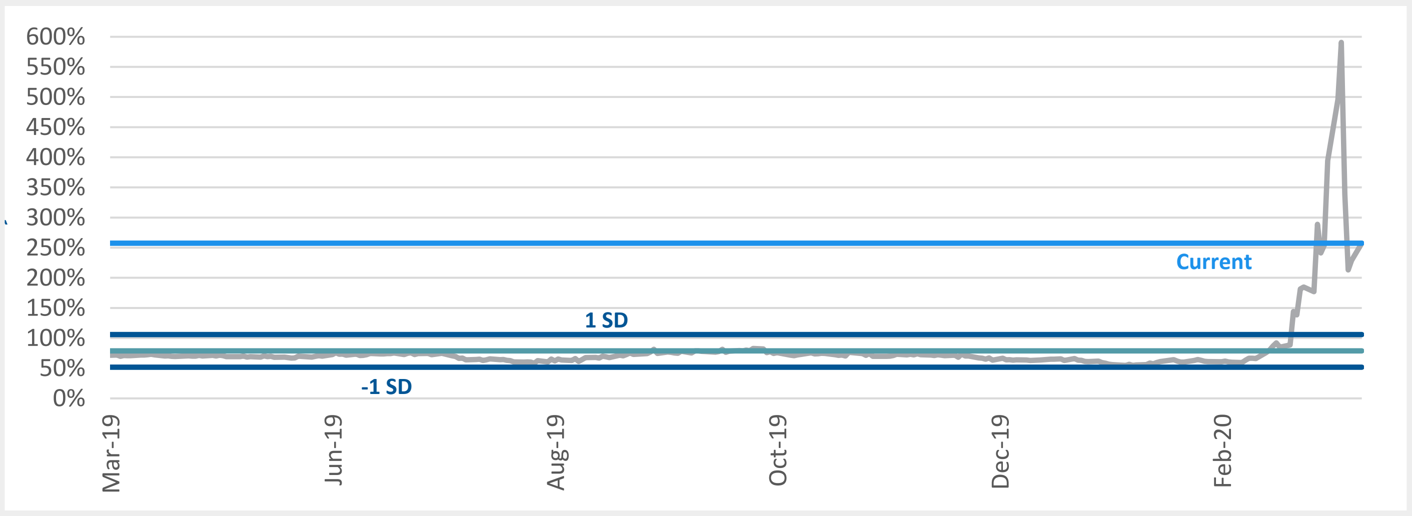
Source: Lipper, JPMorgan as of March 26, 2020

In addition to increased redemptions out of funds, the negative impacts of the COVID-19 crisis on municipalities became apparent across many sectors. State and local governments across the country reported expectations of budget pressures as the result of lower revenues and increased costs associated with responding to the crisis. Revenue sectors, such as transportation and many special tax bonds, are likely to see steep revenue declines reported in the coming months.

Recognizing the imbalance in the municipal bond market as well as the budget pressures, the Federal Reserve, with strong support from both the White House and Congress, quickly committed $500 billion to purchase securities of state and local governments. The Fed's Municipal Lending Facility program will allow for the direct buying of municipal bonds of up to two years duration, with the goal of permitting state and local governments to continue normal functioning and serve the households and businesses of their communities. The program permits the Fed to invest in the securities of all 50 states, as well as cities with more than 1 million residents, and counties with more than 2 million residents.

Even before the Federal Reserve's announcement of this program on April 9, stability had begun to return to the municipal bond market, as investors recognized that both Congress and the central bank were willing to commit a level of resources unprecedented in depth and scope to municipalities in order to stabilize and backstop them.

5 Year AAA Muni/UST Ratio



Source: Thomson and JP Morgan as of 4/3/20. Past performance is not indicative of future results. Inherent in any investment is the potential for loss.

In the first week of April, 5-year municipals were trading at approximately 2.5%, which is five times the rate of a 5-year Treasury, and ended the week with the 5-year municipal trading at 1.3% which is 2.5 times the rate of the 5-year Treasury. In a typical environment, the yield on a municipal would be approximately 70% of the Treasury yield. Both municipals and corporates at today's yields are attractive investments as both sectors are at higher yields than were available at the end of 2019. A weaker economy will initially lead to some credit deterioration but will eventually translate to lower interest rates. We continue to keep our portfolios invested and minimizing our exposure to securities whose yields are close to zero.

Fiera has always employed a rigorous process of in-depth credit analysis for each of the municipal credits purchased, even in the best of economic times. Since the financial crisis of 2008-2009, most of the higher quality, conservatively run municipalities —which are the type we buy for our clients' portfolios— recovered and rebuilt their rainy day funds in order to prepare for a challenging time such as this one. Depending on the severity of any upcoming recession, along with support from the Federal reserve and the federal government noted above, we believe these municipalities are well-positioned to weather an extended storm. Our credit research team continues to monitor, analyze and re-evaluate the financial situations of all our holdings on an ongoing basis.

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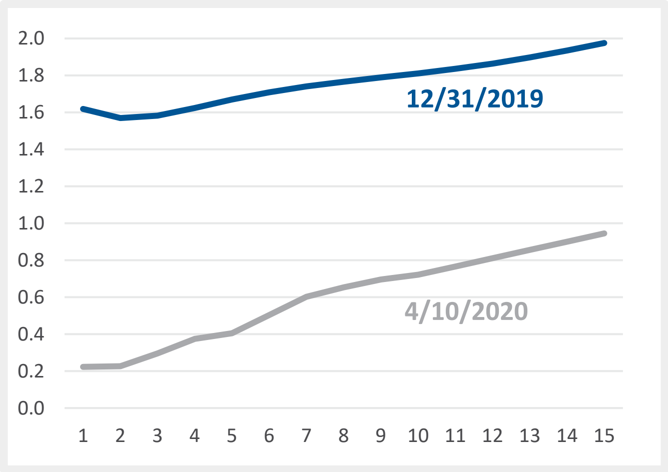
Taxable Fixed Income Overview

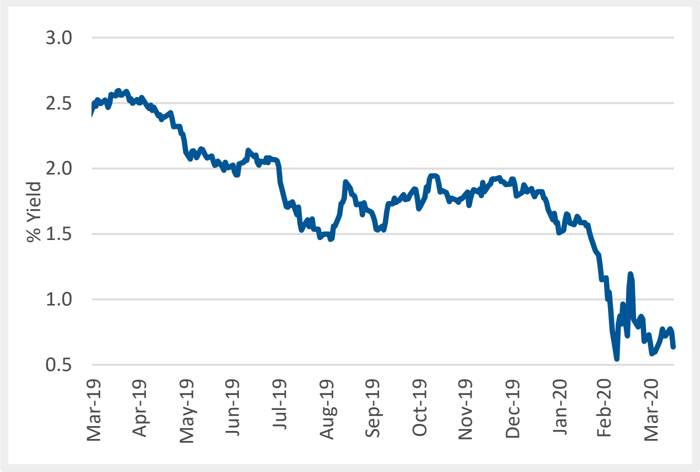
Treasury yields fell precipitously throughout the quarter, with the 10-year reaching an all-time historic low of 0.54% and the 30-year reaching just below 1%. Yields across the curve were approximately 100-140 basis points lower as the outlook for global growth weakened and front-end fell in lock step with the Federal Funds rate, which the Fed cut by 150 basis points.

Treasury Yield Curve



Source: Bloomberg as of 4/10/20

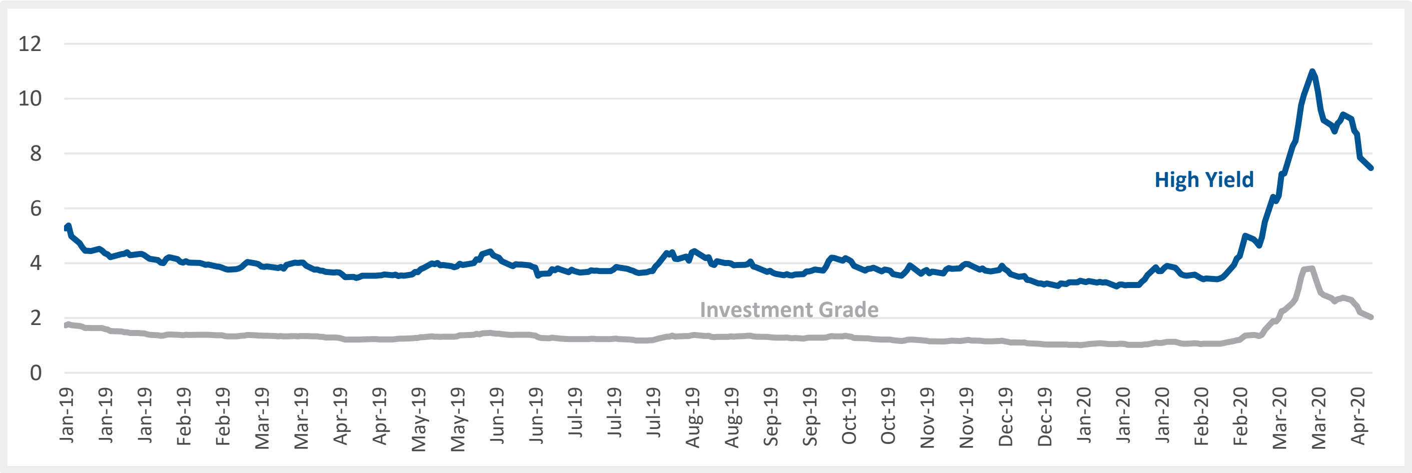
10-Year US Treasury



Source: Bloomberg as of 4/15/20

Corporate spreads widened significantly with the deteriorating outlook, with investment grade spreads reaching levels last seen in the Great Financial Crisis. High yield spreads also widened from record low levels, with spreads reaching 11%, as energy spreads, which comprise a significant portion of the high yield market, climbed above 20%. After the Fed announced its open-ended quantitative easing and its extension of purchases to the corporate market (both investment grade and high yield), spreads retraced their widening. Although we expect that downgrades and volatility will persist in lower-rated credits, we expect high quality companies to handle the crisis.

Bloomberg Barclays US Corporate Investment Grade Index and US Corporate High Yield Total Return Index Spreads



Sources: Barclays, Thomson, JP Morgan. Past performance is not indicative of future results. Inherent in any investment is the potential for loss.

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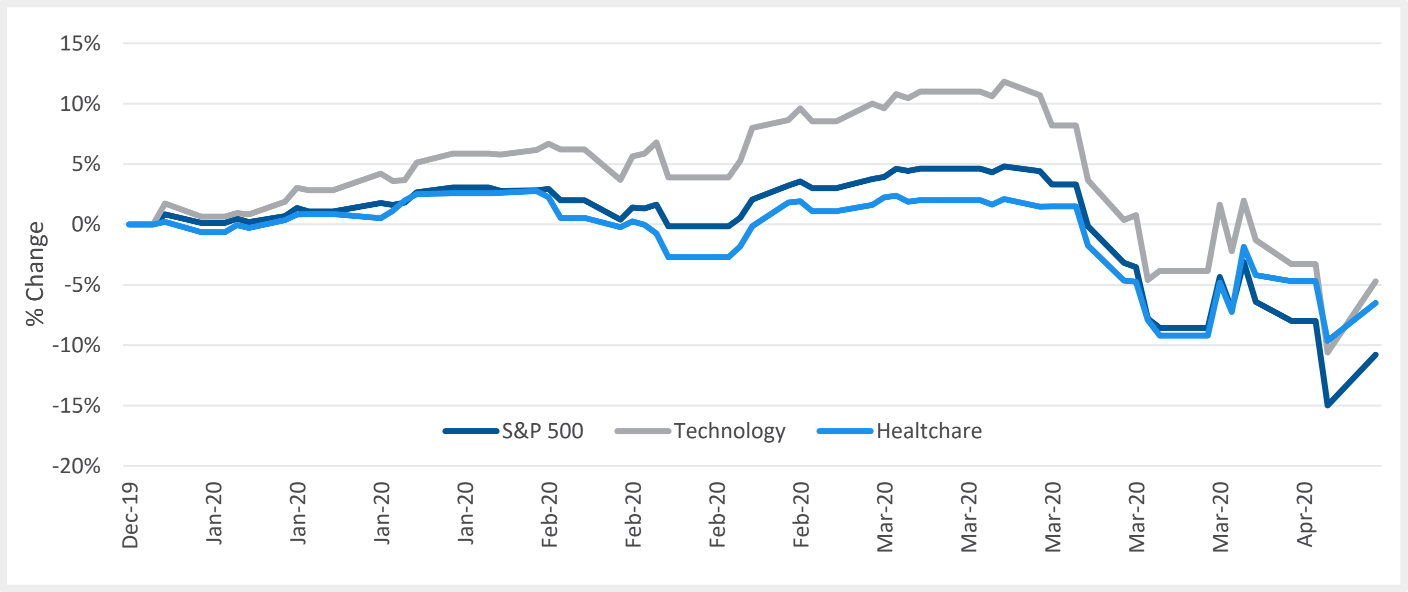
Equity Overview

Equity markets declined sharply initially, but have since recovered part of that decline in the past few weeks. At current prices, the US equity markets may have discounted unanswered questions relating to the containment of the virus as well as the depth and length of the recession. Volatility is expected to remain in the equity market during this precarious time as companies deal with this unprecedented event.

It is particularly important during this period of heightened volatility and uncertainty to maintain a diversified portfolio and stay invested in high quality issuers with strong financials and a resilient business model. Once the spread of the virus is contained, lower interest rates should lead to increased lending activity, which should help renew growth.

Given our view on the importance of staying invested in high quality issuers, we shifted our equity portfolios to have a slight overweight in large-cap technology and large-cap healthcare, as we believe large companies with strong balance sheets are best suited to weather this storm. Our overweight in healthcare stems from the view that this global pandemic will spur investment in healthcare on both the public and private side, particularly on the pharmaceutical and biotechnology subsectors. We also initiated an overweight in technology companies, as technology companies continue to have strong fundamentals with low leverage, excess cash and continued growth potential in this environment. The social distancing measures put in place have solidified the important role technology has in our lives today and will continue to have in the future.

2020 Equity Performance



*Represents percentage change from 12/31/19. Source: Bloomberg

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SOURCES:
All market data and indicators are sourced from Bloomberg.

INDEX DEFINITIONS:
S&P 500 – is a stock market index made up of approximately 500 US large cap stocks. It is often used as a common benchmark for US stock funds. The index comprises a collection of stocks of 500 leading companies and captures 80% coverage of available market capitalization. Index results assume the re-investment of all dividends and capital gains.

Standard and Poor's 500 Information Technology Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period. The parent index is SPXL1. This is a GICS Level 1 Sector group. Intraday values are calculated by Bloomberg and not supported by S&P DJI, however the close price in HP<GO> is the official close price calculated by S&P DJI. Standard and Poor's 500 Health Care Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period. The parent index is SPXL1. This is a GICS Level 1 Sector group. Intraday values calculated by Bloomberg and not supported by S&P.

MSCI EAFE Index – Is a stock market index made up of approximately 909 constituents. It is often used as a common benchmark for international stock funds. The index comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada. Index results assume the re-investment of all dividends and capital gains.

MSCI Emerging Markets Index – is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

Intermediate Agg – The Bloomberg Barclays Intermediate US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market with less than 10 years to maturity. The securitized sector is wholly included. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

ICE BofAML Fixed Rate Preferreds Index - tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market.