

## From the Executive Desk

**Dr. Edmundo J. Garza**  
Chief Executive Officer & President



Last month we experienced a full bear market, down 20%, and a full bull market, up 20%. This extreme volatility follows a little over a year of some of the lowest volatility readings in history. Volatility comes clearly into view as we read about equity market headlines, but it is less obvious in the bond market. Both markets have benchmarks that track traders' expectations of volatility over the next month: the VIX for stocks, and the MOVE Index for bonds. While the rapid decline in stocks powered equity volatility, fixed income volatility has risen proportionately higher due to the precarious footing of corporate debt repayments. Whether your attention is on one index or the other, normally a sudden bear market punishes the most highly valued investments of the late bull market, the old leaders become laggards, and new leaders emerge. This time, however, the outperformers are the same companies that did well over the last decade, while almost everything else is underperforming. In part, this can be explained by the nature of this crisis where most are staying at home and highly connected to the virtual world. Hence, investments in software as a service, e-commerce, online education and digital leisure, among others, had already seen considerable growth before the crisis, and thanks to COVID-19 some are starting to set new highs. For example, Amazon stock is expected to hit a historical high in April while the other FAANG+M (Facebook, Apple, Amazon, Netflix, Google and Microsoft) stocks are bound to recover quickly. Eventually, investors will start looking beyond the pandemic, return to the broader fundamental picture, and recognize that many of the countries, sectors and companies that were left behind during the mega-cap driven bull market of the last decade are even more attractively valued now.

## Economic Perspectives

**Myrna Rivera, CIMA<sup>®</sup>**  
Founder & Senior Investment Advisor



The International Monetary Fund is calling the worldwide lockdown "[The Worst Economic Downturn Since the Great Depression](#)". As rare as any black swan event can be, the coronavirus pandemic is first and foremost a human tragedy for the large number of lives being lost. This is a crisis like no other, and there is substantial uncertainty about its impact because a lot depends on the epidemiology of the virus, the effectiveness of containment measures, and the development of therapies and vaccines, all of which are hard to predict. Under the assumption that the levels of containment required by the pandemic will peak in the second quarter for most countries, and that they recede during the second half of the year, the IMF projects global growth in 2020 to fall by -3%. This is a downgrade of the 6.3% predicted in their January 2020 update, a major revision over a very short period. This makes the Great Lockdown the worst recession since the Great Depression, and far worse than the Global Financial Crisis. Assuming the pandemic fades in the second half of 2020 and that policy actions taken around the world are effective in preventing widespread bankruptcies, extended job losses, and system-wide financial strains, the IMF projects global growth to rebound by 5.8% in 2021. This is a truly global crisis as no country is spared. Both advanced economies and emerging markets are in recession. Growth in advanced economies is projected at -6.1%, while emerging markets, with normal growth levels well above advanced economies, are projected to have negative growth rates of -1.0%.

## Indicators (As of March 31, 2020)

### United States:

CPI: 2.3% Chg. from yr. ago  
Unemployment Rate: 3.5%  
GDP: 2.1% Comp. Annual rate of Chg. on 2019: Q4  
Ind.Prod.Index: -0.3% change from previous month

Source: [St. Louis Fed. Res.](#)

### Eurozone:

CPI: 1.3% Chg. from yr. ago  
Unemployment Rate: 7.4%  
GDP: 0.2%, Comp. Annual rate of Chg. on 2019: Q3  
Ind.Prod.Index: 0.2% change from previous month

Source: [Moody's Analytics](#)

### Japan:

CPI: 0.7% Chg. from yr. ago  
Unemployment Rate: 2.2%  
GDP: 0.4%, Comp. Annual rate of Chg. on 2019: Q3  
Ind.Prod.Index: 1.3% change from previous month

Source: [Moody's Analytics](#)

### Puerto Rico:

CPI: -0.3% Chg. from yr. ago  
Unemployment Rate: 9%  
Payroll Employment: 1.2% Chg. from yr. ago  
EDB Econ. Act. Index: -0.2% Chg. from yr. ago

Source: [P.R.E.D.B.](#)

## Market Recap

Evangeline Dávila, CIMA®  
Chief Research & Investment Officer



- Stocks:** This quarter has not been an easy one for most investors. While it was already clear that we were in the later stages of the economic cycle, nobody could have predicted at the start of this year that large parts of the global economy would be brought to an abrupt halt by the COVID-19 pandemic. As markets have moved to reflect this new reality, equities have fallen sharply, with the worst returns coming in March. The S&P500 fell 20% over the quarter and the FTSE all share declined by 25%.
- Bonds:** Bond performance helped defend portfolios, with government bonds rising in price, as central banks cut interest rates and restarted quantitative easing. However, government bond yields are likely to remain low, despite significant government spending, supported by central bank purchases. Gold also delivered positive returns during the quarter, up by nearly 5%. However, concerns about the effect of the shutdowns on corporate profits have led to corporate bond prices declining, which will have detracted from the returns of some fixed income portfolios. As should be expected, riskier, junk-rated corporate bonds have fallen, with high yield energy bonds the worst hit.
- Alternatives:** Global REITs had the worst performance for the quarter at -30.2%. Commodity prices, other than gold, fell sharply over the quarter by -23.3%. As countries around the world halted activity to try to bring the spread of the virus under control, demand for most commodities declined, hitting prices. Oil was caught in a perfect storm with an agreement between OPEC and Russia to constrain supply breaking down, just as the outlook for demand fell. This led the oil price to fall by more than 60%.

## What to Do?

Given the significant uncertainties surrounding the outlook, we continue to recommend prudent allocation to equities, credit and alternative investments along with a narrower risk assessment. With central bank and government support, highly rated large investment grade companies seem most likely to survive this shock whereas some junk-rated companies will likely not make it through this crisis. This suggests to us that a selective and up-in-quality approach continues to make sense within both credit and equities until there is greater clarity around the outlook. It is prudent now to begin envisioning a post-COVID 19 world and the long-term financial opportunities that this new world may bring.

***Hence, we continue to recommend prudent asset allocation and risk assessment, based on future capital needs for plan sponsors, institutions and individual investors. We believe that higher quality, shorter duration, yield producing assets are favored. We shall continue to explore opportunities for rebalancing as assets shift in weight relative to overall strategies. We believe rebalancing is fundamental to a well-executed long-term investment strategy, and that due diligence reviews and an adherence to a well-developed investment policy remain the most prudent course of action for long-term investors.***

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