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MONTHLY MARKET COMMENTARY | FEBRUARY 2020

Investor Concerns Go Viral

Monthly Snapshot

- Concerns about the international spread of a novel coronavirus (COVID-19) continued to dominate financial markets throughout February.
- Developed-market government bond yields tumbled as investors sought safe-haven assets amid equity-market volatility that crescendoed to the highest level since August 2015 (as measured by the CBOE Volatility Index (VIX)).
- We maintained our emphasis on strategic (long-term) investing over tactical (short-term) decision-making, as it is impossible to identify with complete accuracy how investors might react to macroeconomic shifts.

Concerns about the international spread of a novel coronavirus (COVID-19) dominated conditions in financial markets throughout February, continuing a trend that began in late January. Developed-market shares, as measured by the MSCI World Index, registered their largest decline since May 2012. The UK fared the worst among developed markets, followed by Europe and Japan performing in line with each other; the US declined by slightly less than the others. Emerging-market equities outperformed developed markets. Mainland China (where COVID-19 originated) actually finished February with a gain after sharply selling off in January; despite hosting far more COVID-19 cases to date than all other countries combined, China's infection rate slowed considerably while recoveries accelerated as the month progressed.

Developed-market government bond yields tumbled as investors sought safe-haven assets (bond yields fall when their prices rise) amid a crescendo of equity-market volatility that peaked on the last trading day of the month, when the CBOE Volatility Index (VIX) hit its highest level since August 2015. UK, European and US government bond rates declined across all maturities; long-term US Treasury yields finished the month at historic lows. Energy prices fell sharply during February in light of weakening prospects for global economic growth as governments implemented restrictions to counteract the COVID-19 outbreak that also impact productivity (such as shuttering workplaces, closing schools, quarantining exposed individuals, and imposing trade and travel barriers).

UK Prime Minister Boris Johnson shuffled his cabinet ministers and senior government officials during February, prompting Chancellor of the Exchequer Sajid Javid to resign. Javid was replaced by Rishi Sunak, a senior Treasury official and former banker.

Germany's political fortunes were less certain in February after Chancellor Angela Merkel's intended successor—Annegret Kramp-Karrenbauer, defence minister in Merkel's government and leader of the Christian Democratic Union party—unexpectedly announced that she won't compete for the top post in 2021.

In Ireland's early-February election, the left-nationalist Sinn Fein party secured a historic win—breaking the country's traditional mould of two centrist parties that has defined much of its first century as an independent state. All three parties (Sinn Fein, Fianna Fail and Fine Gael) polled between 20% and 25%, with incumbent Fine Gael having the poorest showing.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Key Measures: February 2020

EQUITY		
Dow Jones Industrial Average	-9.75%	↓
S&P 500 Index	-8.23%	↓
NASDAQ Composite Index	-6.27%	↓
MSCI ACWI Index (Net)	-8.08%	↓
BOND		
Bloomberg Barclays Global Aggregate Index	0.67%	↑
VOLATILITY		
Chicago Board Options Exchange Volatility Index PRIOR MONTH: **18.84**	40.11	↑
OIL		
WTI Cushing crude oil prices PRIOR MONTH: **$51.56**	$44.76	↓
CURRENCIES		
Sterling vs. US dollar	$1.28	↓
Euro vs. US dollar	$1.10	↓
US dollar vs. yen	¥107.89	↓

Sources: Bloomberg, FactSet, Lipper

Turkey began to allow Syrian refugees passage to Europe at the end of February—a decision that came after the Syrian military attacked Turkish troops stationed in northeastern Syria and the Turkish military responded by shooting down multiple Syrian fighter jets. The resulting flood of refugees immediately led to a renewed migrant crisis in Greece.

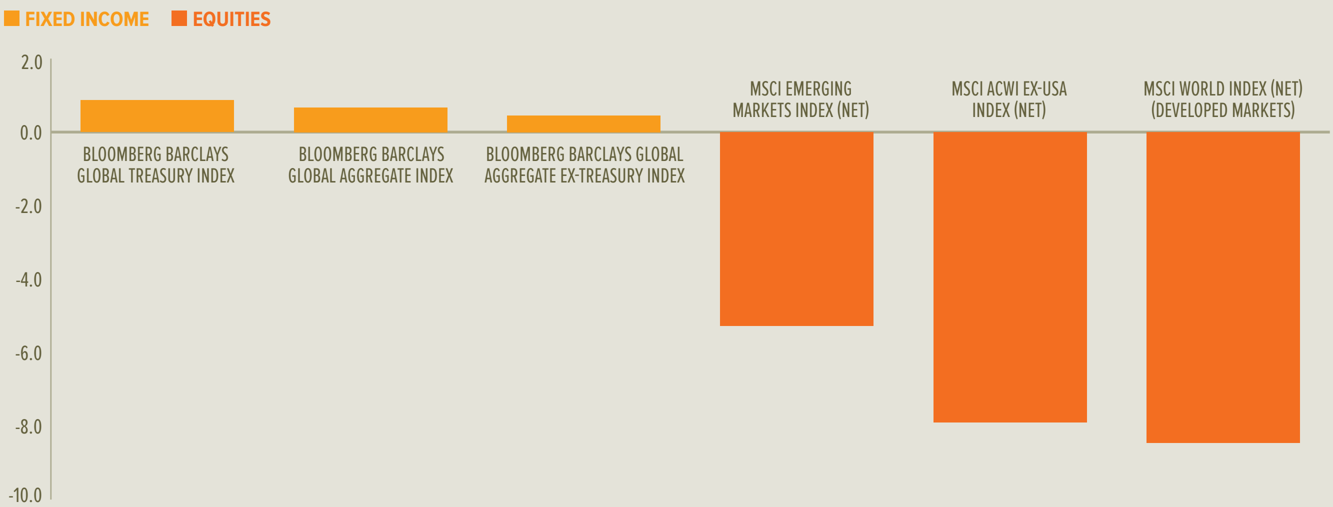
The US Department of Commerce announced new rules that would allow US President Donald Trump's administration to impose tariffs on imports from countries deemed to have artificially decreased the value of their currencies for trade advantages.

China cut tariffs in half on $75 billion worth of US products in mid-February, and also announced the suspension of additional tariffs on US industrial goods later in the month. Domestically, the regional government of Hainan, China, planned to take control of China's HNA Group, an aviation-focused conglomerate with an unsustainable debt load that was further crippled by COVID-19-induced travel stoppages.

The governments of Hong Kong, Singapore and Macau each announced direct fiscal stimulus measures during February—in the form cash payments or shopping vouchers to their respective citizens—intended to counteract the negative economic effects introduced by the COVID-19 outbreak.

The Bank of England, European Central Bank (ECB), US Federal Open Market Committee (FOMC) and Bank of Japan (BOJ) held no meetings on their respective domestic monetary policies during February. Furthermore, each central bank kept their respective benchmark rates unchanged following their January meetings. However, the FOMC announced an off-meeting cut of .50% (bringing the funds rate down to a range of 1.00 to 1.25%) on 3 March in an effort to counteract the economic drag introduced by the COVID-19 outbreak.

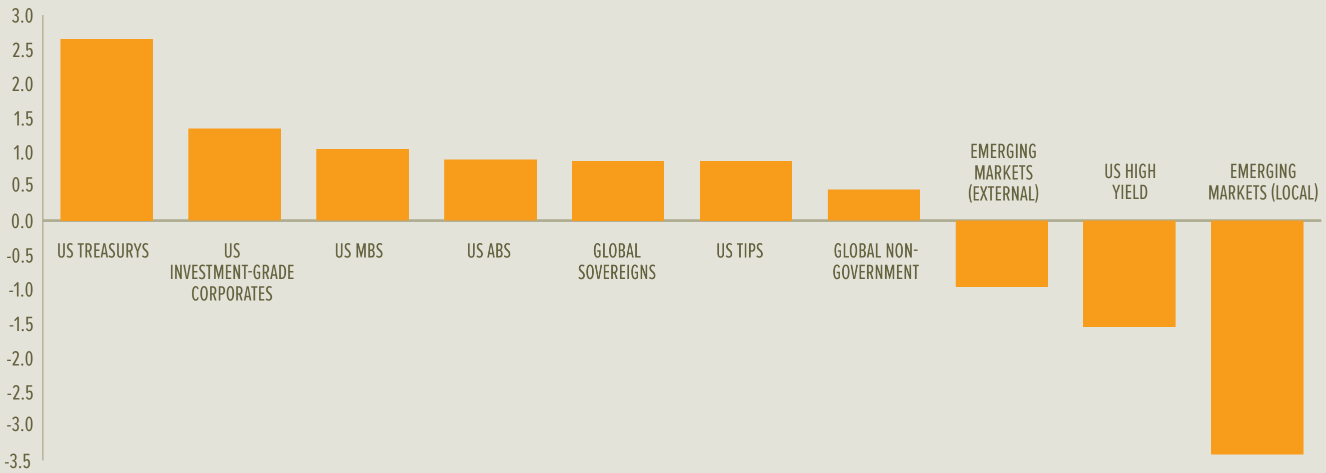
Major Index Performance in February 2020 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Major Index Performance Exhibit" in the Index Descriptions section for more information.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Fixed-Income Performance in February 2020 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

Economic Data

- A preliminary report on UK services sector activity depicted a slower but still sturdy expansion in February, while an early report on UK manufacturing showed a rebound that was beginning to show signs of healthier growth. UK retail sales jumped by 0.9% in January after sliding by 0.5% in December. The UK claimant count unemployment rate held at 3.4% in January.
- The contraction of eurozone manufacturing activity slowed in February, nearing neutral (that is, neither shrinking nor expanding). A preliminary report on eurozone services activity depicted modest improvement with services growth remaining at healthy levels. The eurozone unemployment rate held at 7.4% in January, while the economy grew by 0.1% during the fourth quarter and 0.9% during 2019; both measures of economic growth were lower than during the prior period.
- US manufacturing growth slowed nearly to a standstill during February, and an early report showed services sector activity contracted in February after expanding at healthy levels in January. Personal spending declined to 0.2% in January from 0.4% in December, and overall fourth-quarter economic growth registered a 2.1% annualised rate.

SEI's View

At the beginning of 2019, many investors were licking their wounds following a sharp global stock-market correction. Today we are confronted with a notably different market backdrop as share prices generally ended 2019 near their highs of the year. The spread of COVID-19—first within China's mainland borders and then to the rest of the world—has introduced a significant headwind to the global economy, which financial markets have acknowledged in the rapid downward repricing of assets through late January and February.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

With regard to the US economy, our expectations turned out to be mildly optimistic. But we think it's worth pointing out that quarter-to-quarter fluctuations in the country's gross domestic product (GDP) growth have remained on a relatively narrow path compared to their far more volatile historical range. One reason for the lower volatility is steady growth in US household spending. By contrast, the contribution to US GDP growth from investment, both residential and non-residential, has been in a slowing trend; the pace of business spending in the country has eased dramatically since early 2018. On the positive side, the absence of an investment boom means there should be little to no side effect; even if a recession were to develop in the next year or so, it almost certainly will not be especially painful.

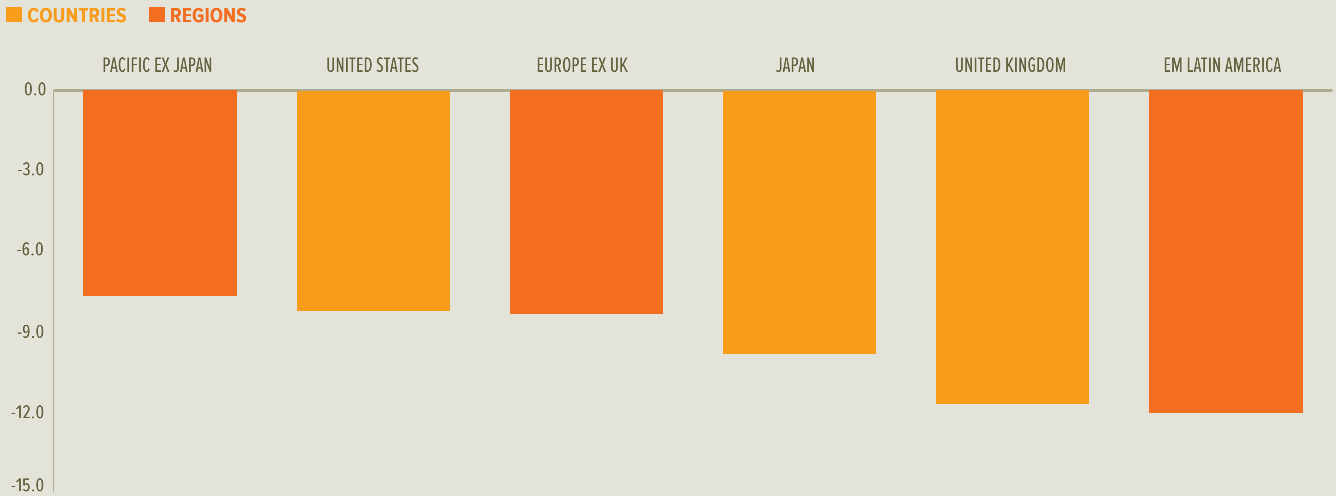
On this side of the pond, Prime Minister Boris Johnson's decision to hold a snap election paid off. He now enjoys the largest Tory majority in Parliament since 1987, when Margaret Thatcher was re-elected Prime Minister for a third term[1]. The victory eliminated the possibility of a dramatic remaking of the British economy as envisioned by the Labour party—or the chance of a hung Parliament, which could have prolonged the uncertainty surrounding Brexit.

Of course, uncertainty still remains. While the UK formally left the EU in January, the two parties still must negotiate their future trading relationship by the time fireworks once again light up the River Thames at the dawn of 2021. A no-deal Brexit would provide a substantial negative shock to merchandise trade because dealings with the EU would revert to the most-favoured-nation rules of the World Trade Organization. Trade in financial services, a category critical to the UK's economic well-being, would be saddled with increased regulations, paperwork and costs.

It continues to be our working assumption that a no-deal Brexit will be avoided, although it may take an extension of the transition period to effect a deal that minimises the disruption. With that said, Boris Johnson already announced his intention to exit the transition period at the 31 December 2020 deadline.

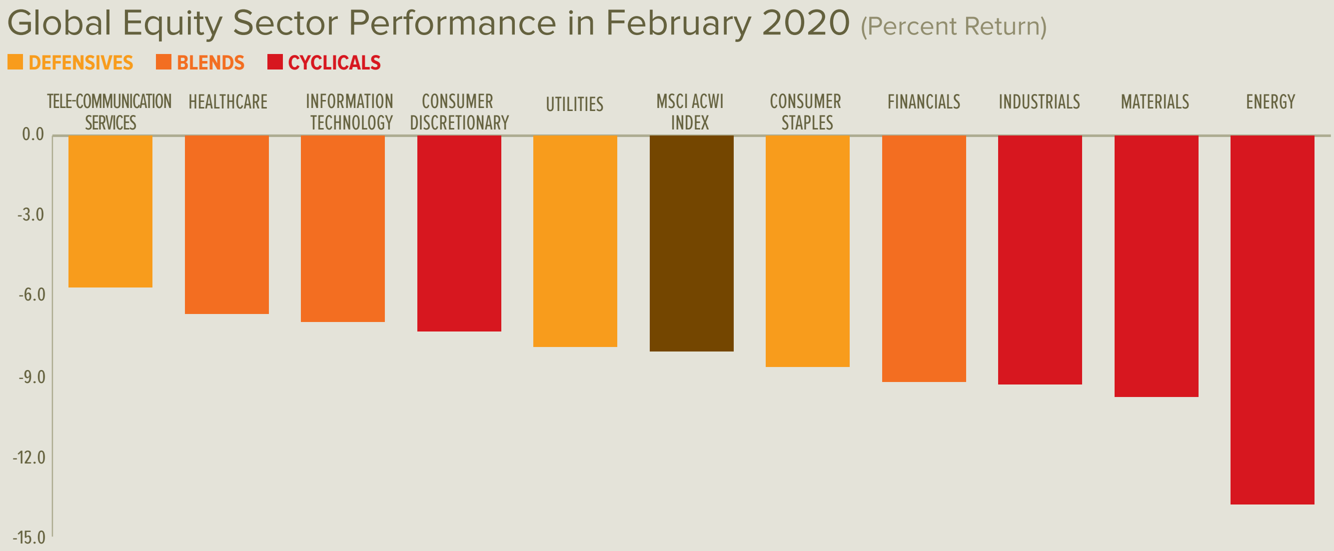
[1] Thatcher Majority "Election results 2019: Boris Johnson returns to power with big majority" BBC News. 13 December 2019.

Regional Equity Performance in February 2020 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.



Sources: FactSet, Lipper. MSCI ACWI Index Sector Components (Cyclicality determined by SEI).

For Europe, we accurately anticipated a further slowdown in economic growth over 2019. We think it may now make sense to look past the current gloom when it comes to Europe. The lessening of trade tensions should provide export-dependent Europe with a moderate boost in 2020.

Government policy also is geared toward encouraging growth. There are signs that ECB policy is having some positive impact. The banking system is slowly recuperating. Lending to households and businesses has been in a modestly accelerating trend over the past few years. There also is more serious discussion nowadays about easing fiscal policy. Even Jens Weidmann, President of the Deutsche Bundesbank, member of the Governing Council of the ECB, and a long-time hawk, has recently felt comfortable backing calls for government spending. Perhaps there's hope that fiscal policy will turn into a tailwind for eurozone growth instead of a steady headwind.

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Our expectation that emerging-market economies would enjoy a decent 2019 didn't pan out. First, we thought an economic turnaround in China was just around the corner. The country had been pushing through various monetary, fiscal and structural reform measures aimed at jumpstarting economic growth, and we assumed that the Chinese government would go back to the debt well if needed. This happened only to a limited extent.

We have frequently made the argument that an all-encompassing trade war between China and the US would be in neither countries' interest. The economic and political reverberations would simply be too painful. And so, the agreement on a "phase-one" deal at least helps lower the temperature and halts the tit-for-tat tariff escalations. We expect the truce will hold through the 2020 US presidential election.

Looking at the big picture for the year ahead, we anticipate continued growth for the US and global economies, but at a sluggish pace. This should keep inflation under control and encourage central banks to remain accommodative. Quantitative easing also should help keep fixed-income yields relatively steady even as government deficit spending picks up. Altogether, this scenario should be positive for risk assets.

Early signs of improvement are already apparent, which should boost the economic prospects of trade-dependent economies, notwithstanding the pressures created by efforts to contain the COVID-19 outbreak.

We've summarised the major themes and outstanding questions that could cause markets to behave in ways that run counter to our positioning in 2020:

- The US is converging with the rest of the world as US economic and profits growth decline. Given the disparity in stock-market valuations, international markets can be expected to outperform US equities.

- The partial US/China trade-war truce and a steady progression of fiscal and monetary stimulus measures over the past two years should pay off in 2020. Early signs of improvement are already apparent, which should boost the economic prospects of trade-dependent economies, notwithstanding the pressures created by efforts to contain the COVID-19 outbreak.

- The US dollar should reverse convincingly to the downside. The Fed's pivot toward an aggressive approach to supporting the overnight lending market has the potential to significantly increase the global supply of dollars, and its emergency interest-rate cut in early March should also put downward pressure on the dollar's value relative to other currencies. Since we believe the dollar is overvalued on a fundamental basis, its depreciation is a high-conviction call. This would be a tailwind for non-US economies and financial markets.

- The value style should prevail. Modest improvement in global economic growth, a tendency for inflation and interest rates to move higher and the record disparity in valuation between the most- and least-expensive stocks should lead to a stronger result for value-oriented active managers.

- We foresee less Brexit uncertainty, assuming a trade deal can be reached between the EU and UK. We expect rationality to prevail, but a no-deal Brexit remains a residual risk. As the year-end 2020 transition deadline nears, UK and European markets could experience renewed volatility if the negotiations appear to be foundering on irreconcilable differences.

- Presidential politics could roil equity markets in the US and elsewhere. A sense of which Democratic nominee will face Donald Trump in the coming US presidential election should get clearer in March, when 25 states and Puerto Rico go to the polls; California and Texas, plus 12 other states, will have held their primary elections on Super Tuesday, 3 March.

Even at low interest rates, we would consider a forward-earnings multiple on the S&P 500 Index of more than 20 times as a danger sign. In our view, another stellar year for US equities in 2020 would be a source of concern rather than celebration. Equities and other risky assets are not well-correlated with the fundamentals in the short run. Investor expectations can change much more quickly and far more dramatically than the fundamentals. Indeed, as seen in the past two years, changes in investor expectations can sometimes completely negate the change in the fundamentals.

With that in mind, we will retain our emphasis on strategic investing over tactical moves. We will also continue to take stock of the economic and financial developments around the globe and provide our thoughts on where global growth and interest rates are headed. That's actually the easy part, as the experience of the last few years illustrates. Figuring out how investors might react to the shifts in macroeconomic conditions is almost always the much harder exercise.

Standardised Performance

		1 year to 29-Feb-20	1 year to 28-Feb-19	1 year to 28-Feb-18	1 year to 28-Feb-17	1 year to 29-Feb-16
KEY MEASURES						
Dow Jones Industrial Average		0.44%	5.95%	23.10%	29.33%	-6.55%
S&P 500 Index		8.19%	4.68%	17.10%	24.98%	-6.19%
NASDAQ Composite Index		14.94%	4.71%	26.18%	29.37%	-7.07%
MSCI ACWI Index (Net)		3.89%	-0.84%	18.79%	22.07%	-12.32%
Bloomberg Barclays Global Aggregate Index		7.92%	-0.57%	6.01%	0.59%	0.84%
MAJOR INDEX PERFORMANCE						
Bloomberg Barclays Global Aggregate ex-Treasury Index		8.31%	0.42%	5.06%	2.38%	-0.89%
Bloomberg Barclays Global Aggregate Index		7.92%	-0.57%	6.01%	0.59%	0.84%
Bloomberg Barclays Global Treasury Index		7.58%	-1.39%	6.82%	-0.89%	2.30%
MSCI ACWI ex-USA (Net)		-0.69%	-6.46%	21.63%	19.31%	-17.37%
MSCI Emerging Markets Index (Net)		-1.88%	-9.89%	30.51%	29.46%	-23.41%
MSCI World Index (Net)		4.63%	0.43%	17.36%	21.26%	-11.00%
FIXED-INCOME PERFORMANCE						
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index	7.86%	2.20%	-0.32%	2.85%	0.00%
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index	8.31%	0.42%	5.06%	2.38%	-0.89%
Global Sovereigns	Bloomberg Barclays Global Treasury Index	7.58%	-1.39%	6.82%	-0.89%	2.30%
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index	15.81%	2.63%	2.20%	6.42%	-1.49%
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index	5.71%	3.12%	0.63%	1.14%	2.01%
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage-Backed Securities Index	7.45%	3.58%	0.16%	0.44%	2.51%
US Treasurys	Bloomberg Barclays U.S. Treasury Index	12.15%	3.23%	-0.56%	-1.24%	2.88%
US High Yield	ICE BofAML US High Yield Constrained Index	5.91%	4.26%	4.12%	22.30%	-8.51%
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index	9.68%	3.05%	4.39%	12.05%	1.11%
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index	3.73%	-5.38%	14.43%	12.42%	-12.50%
REGIONAL EQUITY PERFORMANCE						
United Kingdom	FTSE All-Share Index	-5.34%	-1.82%	15.59%	9.66%	-16.42%
EM Latin America	MSCI Emerging Markets Latin America Index (Net)	-11.89%	-5.21%	21.10%	47.53%	-30.17%
Europe ex UK	MSCI Europe ex UK Index (Net)	1.87%	-6.95%	23.13%	12.72%	-15.21%
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)	-3.40%	-0.67%	16.07%	29.00%	-20.24%
United States	S&P 500 Index	8.19%	4.68%	17.10%	24.98%	-6.19%
Japan	TOPIX, also known as the Tokyo Stock Price Index	-0.56%	-10.91%	23.30%	22.01%	-8.04%
GLOBAL EQUITY SECTOR PERFORMANCE						
MSCI ACWI Index		3.89%	-0.84%	18.79%	22.07%	-12.32%
MSCI ACWI Consumer Discretionary Index		5.08%	-1.62%	23.52%	16.51%	-8.95%
MSCI ACWI Consumer Staples Index		3.43%	0.85%	5.51%	8.94%	-1.18%
MSCI ACWI Energy Index		-21.56%	2.45%	6.51%	26.23%	-24.90%
MSCI ACWI Financials Index		-2.38%	-9.16%	21.30%	35.38%	-18.50%
MSCI ACWI Healthcare Index		5.34%	7.85%	12.35%	10.63%	-9.46%
MSCI ACWI Industrials Index		-0.67%	-3.06%	19.48%	23.20%	-10.59%
MSCI ACWI Information Technology Index		22.80%	1.18%	37.38%	32.61%	-8.49%
MSCI ACWI Materials Index		-7.08%	-7.48%	21.16%	37.40%	-24.63%
MSCI ACWI Telecommunication Services Index		7.85%	1.10%	2.21%	5.45%	-6.72%
MSCI ACWI Utilities Index		8.73%	14.50%	3.20%	10.49%	-5.40%

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Glossary of Financial Terms

Federal-funds rate: The federal-funds rate is the interest rate at which a depository institution lends immediately-available funds (balances at the US Federal Reserve) to another depository institution overnight in the US.

Index Descriptions

S&P 500 Index: The S&P 500 Index is an unmanaged market-capitalisation-weighted index comprising 500 of the largest publicly-traded US companies and is considered representative of the broad US stock market.

Corresponding Indexes for Key Measures Exhibit

Dow Jones Industrial Average	The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of The Wall Street Journal.
NASDAQ Composite Index	The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system, representing a subset of the US equity market.
MSCI ACWI Index	The MSCI ACWI Index is a market-capitalisation-weighted index composed of over 2,000 companies, and is representative of the market structure of 46 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in US dollars.
Bloomberg Barclays Global Aggregate Index	The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Chicago Board Options Exchange Volatility Index (VIX)	The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

Corresponding Indexes for Major Index Performance Exhibit

MSCI ACWI ex-USA Index	The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the US.
MSCI Emerging Markets Index	The MSCI Emerging Markets Index is a free float-adjusted market-capitalisation-weighted index designed to measure the performance of global emerging-market equities.
MSCI World Index	The MSCI World Index is a free float-adjusted market-capitalisation-weighted index that is designed to measure the equity market performance of developed markets.
Bloomberg Barclays Global Aggregate Index	The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Bloomberg Barclays Global Aggregate ex-Treasury Index	The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total return performance of ex-Treasury major world bond markets.
Bloomberg Barclays Global Treasury Index	The Bloomberg Barclays Global Treasury Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Index that are Treasury securities.

Corresponding Indexes for Fixed-Income Performance Exhibit

US High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage Backed Securities Index
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index
US Treasurys	Bloomberg Barclays U.S. Treasury Index
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex UK	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

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Data refers to past performance. Past performance is not a reliable indicator of future results.

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