After an 11-year bull market, the global economy entered a “medically-induced coma” during the first quarter of 2020 thanks to growing concerns over COVID-19. U.S. equities experienced an unusually sudden and significant sell-off in March as investors grew fearful of the health and economic impacts of the virus. Implied volatility reached global financial crisis levels, surpassing the high reached in November 2008 during the depths of the global financial crisis. In mid-March, the Federal Open Market Committee cut interest rates by a full 1.00%. The U.S. government quickly crafted and implemented historic stimulus measures to combat the economic impact of the virus. Support of this magnitude has not been seen since the Great Depression of the 1930s. Real GDP grew at a 0.3% rate year-over-year in the first quarter (-4.8% quarterly annualized rate) with forecasts of Q2 GDP growth varying between -15% to -35%.

Non-U.S. equity markets suffered a similar fate, as non-U.S. developed markets and emerging markets participated in the sell-off and did not rebound as strongly late in the quarter. Where the S&P 500 ended the quarter off 19.6%, the MSCI EAFE, representing non-U.S. developed markets, was down 22.8%, and the MSCI Emerging Markets Index was down 23.6%. Furthermore, disparities between growth and value stocks continued, with value drastically underperforming growth.

Fixed income was not immune to the impacts of the virus, despite the dramatic decline in interest rates. Unless bond managers held exclusively Treasuries, most experienced losses and corporate bonds significantly declined in value. Keeping pace with the benchmark proved extremely difficult, as most bond managers chose to hold bonds offering higher yields than Treasuries. Some rebound has occurred in bond-land due to the unprecedented nature of monetary stimulus.

While April results have not been finalized, the unprecedented fiscal and monetary stimulus has buoyed the markets, resulting in strong gains across each of the TSDF portfolios. While first quarter results below show significant losses, it is important to remember that these results are already “old news” given the strong rebound in the markets.

Endowment
The Endowment Portfolio posted a -13.7% return for the 1st quarter. Losses came from most parts of the portfolio, as very few areas were immune from the swift decline in February and March. The Endowment portfolio slightly trailed its Policy Index, primarily as a result of fixed income, which as stated above, had a very difficult time keeping up with its corresponding index. Relative losses also stemmed from exposure to value-oriented managers in the non-U.S. equity portion of the portfolio. Bright spots included a number of hedge funds that helped to mitigate losses. The San Diego Foundation holds hedge funds for periods of market volatility witnessed in the first quarter. While they are not intended to produce positive returns during periods like this, they are intended to protect capital.

Non-Endowment
The Long-Term Portfolio was down -16.3% for the first quarter. Because the portfolio consists primarily of liquid securities, it did not have some of the downside protection witnessed in the Endowment Portfolios. Drivers of performance were similar, though hedge funds detracted due to the more liquid nature of the investment managers in this sleeve of the portfolio.

The Medium-Term Portfolio was down -6.8% for the first quarter. As was the case with the Long-Term Pool, Equities and Fixed Income were mostly in line with the Policy. The largest detractor was in Emerging Markets Equity, trailing the Policy by 4%. While equities only represent 30% of this portfolio, losses were experienced given the scope of the decline in stocks, as well as the decline in most fixed income instruments outside of U.S. Treasuries.

The Short-Term Portfolio was up 0.3% during the quarter. With a fourth consecutive interest rate cut, we would expect money market rates to fall, resulting in a lower yield for the portfolio moving forward. We would encourage you to speak with your donor manager if you would like to change investment portfolios.