MARKET SUMMARY

The MSCI World Index started the quarter at all-time highs and ended in a bear market as the COVID-19 pandemic halted economic activity across the globe. As COVID-19 continues to spread beyond China’s border to impact every major economy, governments implemented travel restrictions, non-essential business closures, and work from home orders. The dominant market narrative shifted from short term regional slowdown to worldwide economic shutdown by quarter’s end. With negative sentiment fully entrenched, the MSCI World returned -21.1% in the quarter as every sector in the index fell. At the epicenter of the pandemic is the US, where the bipartisan $2 trillion stimulus package known as The CARES Act passed to help citizens, businesses, and local governments deal with the impact of the virus. The Federal Reserve cut the fed funds rate twice to 0-25 bps and announced unlimited Quantitative Easing (QE) while the European Central Bank announced its own €750 Bn QE program. Across the globe, similar stimulus packages and rate cuts were passed by governments in China, Japan, Italy, the UK, the European Union, South Africa, and Australia to assist citizens adversely impacted by the shelter-at-home mandates and to shore up struggling companies. The energy sector declined the most in the quarter, dropping by 45% as it faced both a demand shock from travel restrictions and a supply shock from a collapse in the OPEC+ agreement between Saudi Arabia and Russia. The financials, materials, industrials, and real estate sectors were the largest decliners after energy while health care, technology, and consumer staples held up better.

PORTFOLIO REVIEW

Fayez Sarofim & Co.’s strategy outperformed the MSCI World Index in the quarter driven by the impact of sector allocation and stock selection as our strategy sought a defensive stance against market volatility. Stock selection in the strategically underweighted financials sector contributed positively to relative results highlighted by S&P Global which benefited from increased activity around market volatility. Stock selection in the consumer discretionary sector added positive to results for the period, with Amazon bucking the sector trend with positive returns as business closures and work from home mandates made online shopping more attractive. Strategic overweighting of the technology sector contributed positively to results as did selection in the period as the sector saw a relatively smaller decline of 12% versus the index’s 20% decline with Microsoft benefiting from the work-from-home mandate while Nintendo enjoyed a boost to videogame consumption. The strategic overweight in consumer staples was a large contributor to results as stay-at-home mandates drove sales from consumer-packaged goods stalwarts Nestle and PepsiCo. Stock selection in the health care sector and contributed positively to results as Novo Nordisk announced two COVID-19 related initiatives and Roche’s oral diabetes drug propelled the companies to outperform their peers in the sector. Although energy was the worst performing sector, our holdings positively contributed to relative performance. Integrated Oils Chevron and Total SA were better positioned to weather a low price environment for oil. We have avoided shale pure plays and oilfield services firms that are more exposed to the current supply and demand shocks. Strategic underweighting the utilities sector hindered results for the period as the sector experienced a relatively smaller decline. Regionally, stock selection in the US, France, and Canada contributed positively to results. Overweight regional allocations in Switzerland, Denmark, and the UK proved beneficial to relative results while underweighting Japan negatively impacted results.

TOP CONTRIBUTORS

The top contributors to relative returns include Amazon, Novo Nordisk, Nintendo, Roche, and Microsoft.

TOP DETRACTORS

The top detractors from relative performance include Apple, ExxonMobil, Chevron, Facebook, and Safran.
INVESTMENT OUTLOOK

Negative sentiment from the pandemic is firmly entrenched and weighing on markets as uncertainty around record unemployment, prolonged business closure, and rising infection rates dominate headlines. There will be disruptions to economic activity for the next few quarters as governments attempt to stop the spread. We can expect continued volatility as revenue and earnings are cut and industries face insolvency without government assistance. We believe that our strategy is capable of withstanding periods of market stress. While bouts of volatility can result in investors selling our strategy holdings due to their liquidity, we believe that high-quality companies tend to hold up better in challenging market environments. Fayez Sarofim & Co.’s long-practiced investment approach focuses on what it believes are such companies. Our strategy targets what we view as global industry leaders who have solid balance sheets and strong pricing power and who have, in our view, the capability to consistently deliver revenue and earnings growth across business cycles. Furthermore, we aim to invest with seasoned management teams who have in our view demonstrated strong records of returning cash to shareholders and who we believe are well-equipped to extend those records in difficult and volatile times.

LEARN MORE

For more information about Fayez Sarofim & Co. Global Equity ADR separately managed accounts, please call BNY Mellon Securities Corporation at 1-877-334-6899.

RISKS

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

Recent market risks include pandemic risks related to COVID-19. The effects of COVID-19 have contributed to increased volatility in global markets and will likely affect certain countries, companies, industries and market sectors more dramatically than others. To the extent the Strategy may overweight its investments in certain countries, companies, industries or market sectors, such positions will increase a client’s exposure to risk of loss from adverse developments affecting those countries, companies, industries or sectors.

The MSCI World Index is a free-float adjusted, market capitalization-weighted index that is designed to measure the equity market performance of developed markets. Investors cannot invest directly in any index.

The holdings listed should not be considered recommendations to buy or sell a particular security. Other holdings may not have performed as well as some of those listed herein.

The strategy is offered by Fayez Sarofim & Co. (“Sarofim”) and is not a product of BNY Mellon. BNY Mellon Securities Corporation performs certain promotional services on behalf of Sarofim and has included the strategy in this presentation.

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MARK-113617-2020-04-15
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