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Q2 2020 – Market Commentary

- Global financial markets recovered a substantial portion of the outsized losses incurred during the first three months of the year. Led by the U.S. Federal Reserve, global central banks took aggressive action to support credit markets and limit the financial contagion caused by the COVID-19 virus outbreak and ensuing economic shutdowns. These monetary policy actions combined with substantial fiscal spending packages and a gradual restart of global economic activity led to the biggest quarterly rally for risk assets since the late 1990's.
- The Fed announced in June it would hold interest rates near zero until at least the end of 2022 and purchase $120 billion of U.S. Treasury and mortgage-backed bonds per month to keep interest rates low and to support an economic recovery. Chairman Powell commented that more fiscal support would be needed given the magnitude of the economic decline and unprecedented levels of unemployment. U.S. real GDP for the second quarter is forecast to decline over 35% and after a 5% decline during the first quarter. Nearly $3 trillion of fiscal spending bills have already been passed by Congress yet a fourth tranche is currently being negotiated and most likely will exceed $1.5 trillion.
- Risk assets rallied substantially during the second quarter, led by asset classes that suffered the biggest declines during the first quarter. U.S. small caps were the biggest gainers during the second quarter, returning just over 25% but still down 13% year to date. U.S. stocks outperformed international stocks with the S&P 500 Index the best performing stock related benchmark through the first half of the year.
- The broad stock market index returns continue to be heavily influenced by a select number of mega cap tech stocks experiencing outsized performance. Investors have crowded into a narrow group of winners with the tech sector the biggest beneficiary. Other sectors also rallied but gave back some gains in late June as more COVID-19 outbreaks occurred in areas of the U.S. that had first re-opened. Speculative froth built up in the quarter as a record number of retail brokerage accounts were opened and novice traders gambled on many microcap stocks and companies in or on the verge of bankruptcy.
- Investment grade credit and high yield bonds recovered strongly during the second quarter due to the Fed's credit market support programs. Fed bond buying kept a cap on yields, which traded in a tight range as a result. The 10-year U.S. Treasury bond yield finished the quarter at 0.66%, barely changed from the 0.68% at 3/31/20, but down substantially from 1.92% at 12/31/19.
- After a historic collapse at the end of the first quarter, oil prices skyrocketed nearly 100% in the second quarter due to a combination of OPEC supply discipline, U.S. oil production shut-ins, and a modest demand recovery as economic activity restarted. Oil is still down nearly 35% year to date, reflective of the global economic shutdowns and large drop in demand due to stay-at-home orders.
- Gold continued its steady rise, as uncertainty still remains high and the U.S. dollar declined.
- Balanced portfolios recovered strongly from the first quarter collapse as both stocks and bonds delivered positive returns. The following table shows returns of major asset classes for the most recent time periods.

Performance Table [1]

	2Q20		YTD		2019		2018		2017	
S&P 500 Index (U.S. large/mega cap stocks)	20.5%	↑↑↑	-3.1%	↓	31.5%	↑↑↑↑	-4.4%	↓	21.8%	↑↑↑
Russell 2000 Index (U.S. small cap stocks)	25.4%	↑↑↑↑	-13.0%	↓↓↓	25.5%	↑↑↑↑	-11.0%	↓↓↓	14.7%	↑↑↑
MSCI EAFE Index (large cap int'l stocks)	14.9%	↑↑↑	-11.3%	↓↓↓	22.0%	↑↑↑	-13.8%	↓↓↓	25.0%	↑↑↑↑
MSCI EM Index (emerging markets stocks)	18.1%	↑↑↑	-9.8%	↓↓	18.4%	↑↑↑	-14.6%	↓↓↓	37.3%	↑↑↑↑
MSCI All Countries World Index (global stocks)	19.2%	↑↑↑	-6.3%	↓↓	26.6%	↑↑↑	-9.4%	↓↓	24.0%	↑↑↑
Bloomberg Barclays Aggregate Bond (invt. grade bonds)	2.9%	↑	6.1%	↑↑	8.7%	↑↑	0.0%	↔	3.5%	↑
Bloomberg Barclays Corp. High Yield (below invt. grade bonds)	10.2%	↑↑↑	-3.8%	↓	14.3%	↑↑↑	-2.1%	↓	7.5%	↑↑
Bloomberg Barclays Short-term Treasury (cash)	0.0%	↔	0.9%	↑	2.5%	↑	1.9%	↑	0.8%	↑
Bloomberg Barclays Municipal Bond Index	2.7%	↑	2.1%	↑	7.5%	↑↑	1.3%	↑	5.5%	↑↑
Gold	12.2%	↑↑↑	18.8%	↑↑↑	18.4%	↑↑↑	-2.9%	↓	12.5%	↑↑↑
Oil (West Texas Intermediate Crude)	98.4%	↑↑↑↑	-34.4%	↓↓↓↓	31.5%	↑↑↑↑	-25.0%	↓↓↓↓	12.5%	↑↑↑
Bitcoin	41.2%	↑↑↑↑	27.7%	↑↑↑	90.3%	↑↑↑↑↑	-75%	↓↓↓↓↓	1318%	↑↑↑↑↑↑↑
Morningstar Balanced Funds Average (50% to 70% stocks)	13.1%	↑↑↑	-3.5%	↓	19.2%	↑↑↑	-5.8%	↓↓	13.4%	↑↑↑

[1] *Data sourced from Barclays, Market Watch, MSCI, Russell and Standard & Poors*