MARKET COMMENTARY: Q2 2020

With the end of the second quarter of 2020, we have only reached the midpoint of what already feels for many of us like one of the longest years of our lives.

The first half of the year saw a health crisis morph into an economic crisis by virtue of a government-mandated full-stop shutdown, with the National Bureau of Economic Research (NBER) officially declaring a recession had begun in February. Global markets responded and we watched as the S&P 500 index dropped -33.47% from February 19 to March 23.[1]

In the second quarter, equities staged a remarkable recovery, with a scale and pace we haven't seen in more than two decades.[2] Stimulus from the Fed and Congress, coupled with the relaxation of some COVID-19-driven economic restrictions, aided an economic recovery and a market rebound. At quarter end, the S&P 500 finished up +20.54%, though is still down -3.08% year to date. The Dow Jones Industrial Average was up 18.51% for the quarter, and -8.43% year to date, while the NASDAQ Composite finished the quarter up +30.95%, powering it to a +12.67% return year to date.[3] Large cap growth companies, in particular, big technology stocks, have dominated, while small cap stocks have struggled to keep pace. The MSCI USA Small Cap Index, while up +27.07% for the quarter, is still down year to date -12.66%. International Developed and Emerging Markets participated in a similar fashion, albeit to a lesser degree, with the MSCI EAFE and MSCI Emerging Markets indexes posting positive returns for the quarter of +14.88% and +18.08%, while posting -11.34% and -9.78% respectively for the year to date.[4]

In fixed income markets, performance was positive across the board, and the broader fixed income indices managed positive results for the quarter with the Bloomberg Barclays US Aggregate Bond Index finishing the quarter +2.90%, and +6.14% year to date, while the Bloomberg Barclays Global Aggregate (Hedged) Index finished the quarter +2.42%, and +3.90% year to date.[5]

Factor exposures for the quarter were mixed, with Value and Minimum Volatility down across all markets and Size and Momentum contributing positively across all markets. Quality was a positive contributor in International Developed markets, but lagged in the US and the Emerging Markets. Year to date, Momentum and Quality are positively contributing across all markets.[6]

[1] Morningstar Direct, as of July 1, 2020

[2] Li, Yun "Dow Best Quarter Since 1987", CNBC, Jun 30, 2020

[3] Morningstar Direct, as of July 1, 2020

[4] Morningstar Direct, as of July 1, 2020

[5] Morningstar Direct, as of July 1, 2020

[6] Morningstar Direct, as of July 1, 2020 according to MSCI Factor Indices

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Positive returns across most risk assets delivered a respite from the wild ride of the first quarter, however the pronounced recovery across equities and credit may be running well ahead of the underlying health, social, and macroeconomic story. The increase in volatility late in June related to rising COVID-19 cases in many U.S. states should serve as a reminder that markets and the economy are at the mercy of virus-related, as well as political, news, including:

- Ongoing social unrest, as protests continue about race and inequality in the United States
- An uncertain political environment surrounding the US presidential and congressional elections in November
- Lack of clarity on the unprecedented liquidity from central banks explaining much of the rebound in asset prices from their lows in March, masking the underlying challenge facing the broader economy

In short, uncertainty abounds.

This uncertainty can lead to increased market volatility, which in turn can cause investors to react in ways that may not promote long-term investing success. It can be tempting to try and "get ahead" of the next downturn and reinvest when "things look better," but in order to successfully implement such a market timing strategy, you not only have to be able to predict events — the impact of the coronavirus, the outcome of elections and referendums, the direction of interest rates, wars, oil price shocks, etc. More importantly, you also need to know what the market was expecting, and how other market participants will react, to get your timing right…and you must get it right twice (when you sell, and when you buy back in).

Think back to Brexit, or Trump's election, for example. It was widely accepted that these events would not happen, but if they did, the markets would plunge. Not only were many wrong about the outcome itself, but they were also wrong about the market's reaction. Contrary to popular opinion, after brief bobbles, the markets soared.

"Tuning out the noise" requires concentration on tried-and-true investing principles that can help you meet your goals. Focus on what works in the long term (we recommend looking to academic research to help inform you on this), stay broadly diversified, control your costs, and keep your eyes on the long-term goals and the benchmarks you've thoughtfully established. While it may not always seem to, steadfastly adhering to this approach will serve you well over time.

MARKET COMMENTARY: Q2 2020 DISCLOSURE

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Diversification seeks to improve performance by spreading your investment dollars into various asset classes to add balance to your portfolio. Using this methodology, however, does not guarantee a profit or protection from loss in a declining market. Past performance does not guarantee future results.

Index Disclosure and Definitions

Investors cannot invest directly in an index. Indexes have no fees. Historical performance results for investment indexes do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the occurrence of which would have the effect of decreasing historical performance results. Actual performance for client accounts will differ from index performance.

S&P 500 Index represents the 500 leading U.S. companies, approximately 80% of the total U.S. market capitalization.

Dow Jones Industrial Average (DJIA) Is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The Nasdaq Composite Index (NASDAQ) measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market, and includes over 2,500 companies.

MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the US equity market. With 1,864 constituents, the index represents approximately 14% of the free float-adjusted market capitalization in the US.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the developed equity market (as defined by MSCI) equity performance, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets (as defined by MSCI). The index consists of the 25 emerging market country indexes.

Bloomberg Barclays US Aggregate Bond Index measures the performance of the U.S. investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.

Bloomberg Barclays Global Aggregate (USD Hedged) Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers. Index is USD hedged.