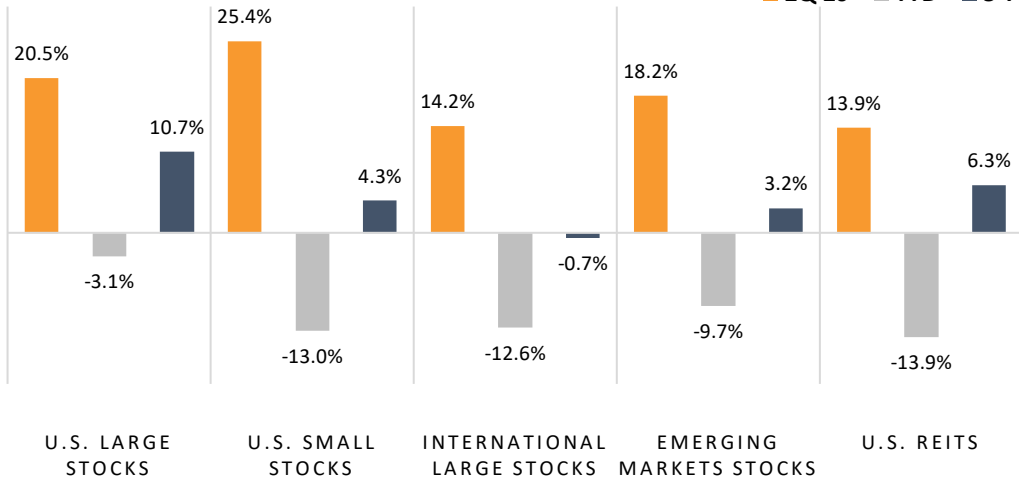


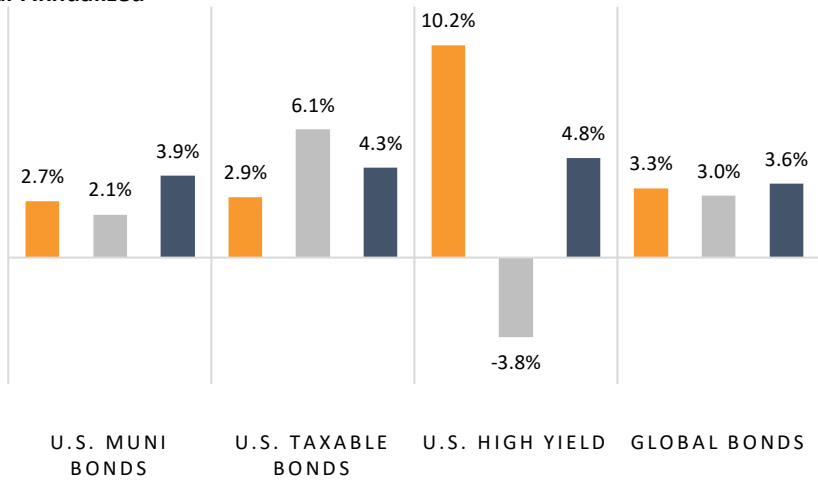


# 2Q'20 Market Review

## EQUITY MARKETS



## FIXED INCOME MARKETS



- Even as the global economy entered a recession from the impacts of COVID-19, equity markets rallied globally in Q2'2020 and recouped much of the ground lost in the first quarter selloff. As investors focused on a post-COVID world, technology companies came largely in focus which surprisingly pushed the tech dominated NASDAQ Composite back to all-time highs. The first half of 2020 reinforced the fact that while markets are influenced by the broader economy, they certainly are not directly linked.
- U.S. Large Stocks** rallied **+20.5%** in Q2 driven by technology and the cyclical sector. Surprisingly, defensive sectors like health care and consumer staples that tend to do better during recessions were among the worst performers on a relative basis (as detailed in the 2Q'2020 Asset Class, Sector and Style Returns page).
  - Valuations remain a giant question mark as many companies withdrew full-year estimates during their Q1 earnings calls, leaving analysts left to guess on forward estimates. On a trailing basis, the market ended Q2 at 22.2x earnings.
- Alongside the large stock cyclical sectors, **U.S. Small Stocks**, which also tend to be more cyclical, outpaced U.S. Large Stocks and were up **+25.4%** in Q2.
- Although global trade remained muted, slight U.S. dollar weakness boosted international markets, with **Emerging Markets Stocks** leading the way, up **+18.2%**, while **International Large Stocks** lagged their developing counterpart slightly, up **+14.2%**.
- U.S. REITs** (real estate investment trusts) lagged all major equity classes in the quarter as questions linger around the supply/demand characteristics of commercial real estate in a post-COVID world. For the quarter, the asset class was up **+13.9%**.

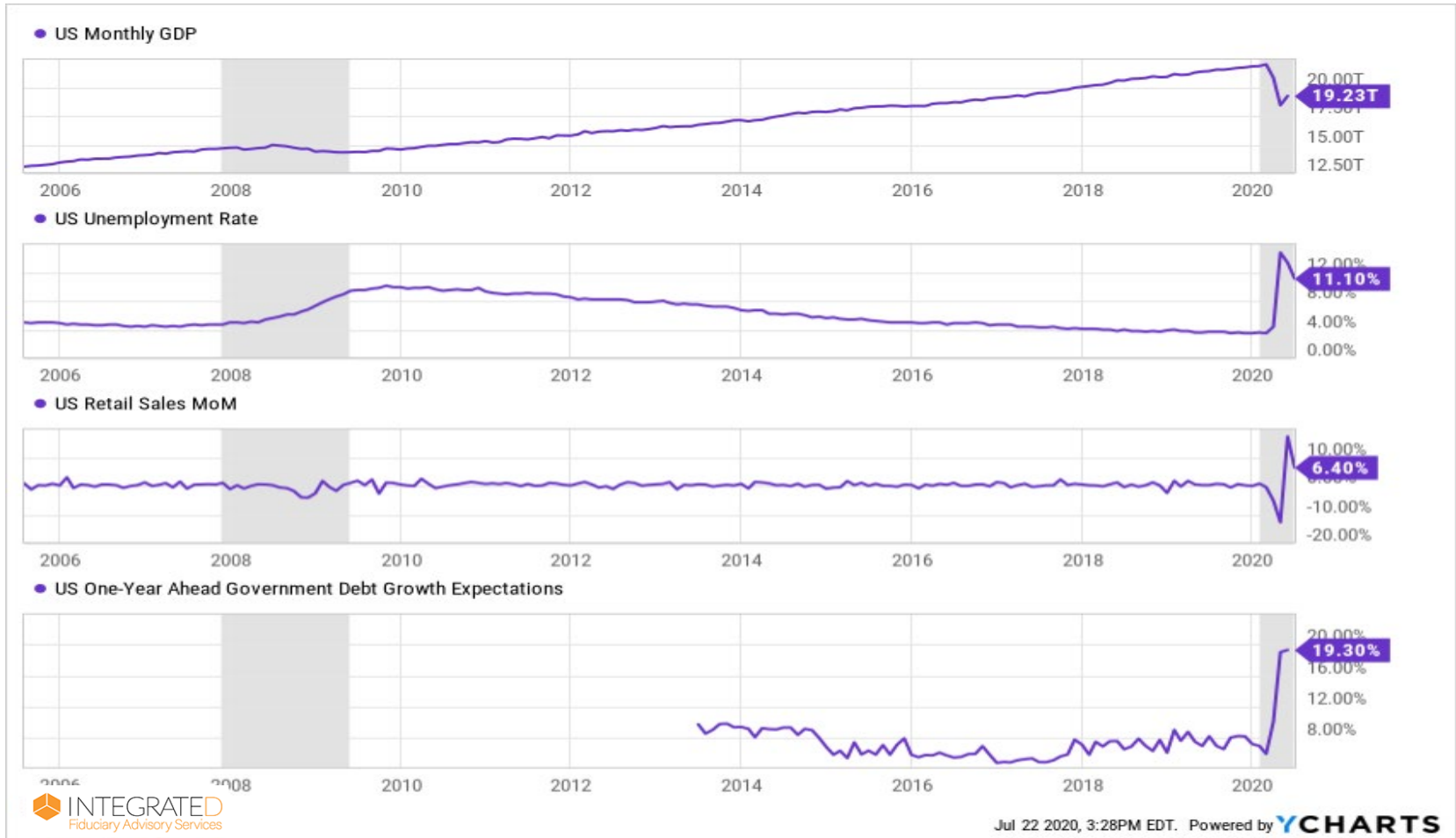
- Like in Q1'2020, exposure to fixed income again was rewarded in Q2 as the Fed continues to backstop the fixed income markets. As part of the Fed's easing, reserve requirements were lowered to zero, but actual reserves skyrocketed to all-time highs, indicating financial institutions have little incentive to lend in this environment, even with deposits increasing.
- With yields continuing to fall and the Federal Reserve committing to the purchase of corporate bonds and corporate bond ETFs, **U.S. Taxable Bonds** saw continued gains for Q2, up **+2.9%**. The severe dislocation that occurred in Q1 put municipal bonds into a surprising performance gap relative to taxable bonds. With price normalization occurring and continued demand from investors, **U.S. Muni Bonds** were up **+2.7%** in Q2.
  - COVID has led to an interesting development in the municipal market, as new issuance of taxable municipal bonds doubled from its average annual run rate YTD. Moving forward, issuers may choose to borrow on a taxable basis more often, primarily because of the flexibility in the use of the proceeds. As an example, taxable muni proceeds can be used for working capital and to bolster unfunded pension plans whereas traditional municipal debt cannot.
- U.S. High Yield** saw strong returns in Q2, up **+10.2%** as stimulus efforts eased concerns of a default crisis, even as defaults rose in the quarter.

\*Annualized daily returns as of 6/30/2020

Source: YCharts; underlying indices are S&P 500® TR Index, Russell 2000® TR Index, MSCI EAFE TR, MSCI Emerging Markets Index TR, Dow Jones US Real Estate Index TR, Barclays Municipal Bond Index, Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Bond Index and the Barclays Global Aggregate Bond Index. Market conditions and trends will vary. Past performance is no guarantee of future results. Investments cannot be made in an index.



# Integrated Q2'2020 TOI: COVID-19's Impact



- The impact of a collaborative health effort that intentionally put the global economy into a depression is likely to have profound impacts for some time. This is not a normal business cycle. The transition to restarting the economy safely has been made, and recent data shows that we are returning to some form of normalcy. The above charts shows the abrupt economic impact from COVID-19 as well as how far we have to go to get back to pre-COVID levels.

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# 2Q'2020 Asset Class, Sector and Style Returns

Sector Snapshot		6/30/20
Sector	QTD Return	
Energy	30.25%	
Consumer Cyclical	30.21%	
Technology	30.01%	
Materials	25.11%	
Comm. Services	22.15%	
Industrials	16.42%	
Health Care	12.97%	
Real Estate	12.29%	
Financials	11.14%	
Consumer Defensive	7.66%	
Utilities	1.84%	

Equity Style Snapshot			6/30/20
QTD	Value	Blend	Growth
Large	12.73%	21.42%	29.06%
Mid	18.61%	24.97%	30.61%
Small	20.75%	26.66%	32.91%

Asset Class Summary							6/30/20
Asset Class	1 Month	QTD	YTD	1 Year	3 Year	5 Year	
U.S. Large Stocks	1.99%	20.54%	-3.08%	7.51%	10.73%	10.73%	
U.S. Small Stocks	3.53%	25.42%	-12.98%	-6.63%	2.01%	4.29%	
International Large Stocks	3.22%	14.17%	-12.59%	-7.37%	-1.85%	-0.68%	
International Small Stocks	3.30%	22.98%	-12.61%	-3.99%	0.20%	2.89%	
Emerging Markets Stocks	7.40%	18.18%	-9.67%	-3.05%	2.27%	3.24%	
U.S. REITs	2.46%	13.91%	-13.87%	-6.85%	3.40%	6.28%	
U.S. Taxable Bonds	0.63%	2.90%	6.14%	8.74%	5.32%	4.30%	
U.S. Muni Bonds	0.82%	2.72%	2.08%	4.45%	4.22%	3.93%	
U.S. High Yield	0.98%	10.18%	-3.80%	0.03%	3.33%	4.79%	
Global Bonds	0.89%	3.32%	2.98%	4.22%	3.79%	3.56%	

Equity Style Summary							6/30/20
Region	1 Month	QTD	YTD	1 Year	3 Year	5 Year	
Large Growth	4.78%	29.06%	11.36%	24.84%	18.08%	14.97%	
Large Blend	2.20%	21.42%	-2.16%	8.39%	11.04%	10.80%	
Large Value	-0.97%	12.73%	-15.46%	-7.45%	3.89%	6.47%	
Mid Growth	2.78%	30.61%	4.43%	11.56%	12.92%	10.18%	
Mid Blend	1.97%	24.97%	-7.20%	-0.20%	6.47%	7.01%	
Mid Value	1.01%	18.61%	-18.59%	-11.85%	-0.01%	3.64%	
Small Growth	3.01%	32.91%	0.75%	7.80%	11.81%	9.23%	
Small Blend	2.53%	26.66%	-11.44%	-5.65%	3.98%	5.38%	
Small Value	2.07%	20.75%	-21.37%	-16.54%	-2.58%	2.00%	



# 2Q'2020 Market Indicators

Market Indicators as of 06/30/20							
Name	Last Quarter	1 Month Ago	1 Mo. % Change	1 Year Ago	1 Year % Change	Freq.	
<b>Key Interest Rates</b>							
1 Month Treasury	0.13%	0.13%	▲ 0.0%	2.18%	▼ -94.0%	Daily	
2 Year Treasury	0.16%	0.16%	▲ 0.0%	1.75%	▼ -90.9%	Daily	
10 Year Treasury	0.66%	0.65%	▲ 1.5%	2.00%	▼ -67.0%	Daily	
30 Year Mortgage	3.13%	3.24%	▼ -3.4%	3.84%	▼ -18.5%	Weekly	
US Corporate AAA	1.63%	1.69%	▼ -3.6%	2.75%	▼ -40.7%	Daily	
US Corporate BBB	2.68%	3.02%	▼ -11.3%	3.56%	▼ -24.7%	Daily	
US Corporate CCC	14.46%	16.74%	▼ -13.6%	11.78%	▲ 22.8%	Daily	
Effective Federal Funds	0.08%	0.05%	▲ 60.0%	2.40%	▼ -96.7%	Daily	
<b>U.S. Economy</b>							
Consumer Sentiment	78.10	71.80	▲ 8.8%	98.20	▼ -20.5%	Monthly	
Unemployment Rate	11.10%	14.70%	▼ -24.5%	3.70%	▲ 200.0%	Monthly	
Inflation Rate	0.65%	0.33%	▲ 96.2%	1.65%	▼ -60.8%	Monthly	
Manufacturing PMI	52.60	41.50	▲ 26.7%	51.70	▲ 1.7%	Monthly	
Non Manufacturing PMI	57.10	41.80	▲ 36.6%	55.10	▲ 3.6%	Monthly	
Retail Sales	476,881	382,734	▲ 24.6%	454,256	▲ 5.0%	Monthly	
Building Permits	1,241	1,066	▲ 16.4%	1,273	▼ -2.5%	Monthly	

Source: YCharts, Inc.

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