

Second Quarter Review

August 7, 2020

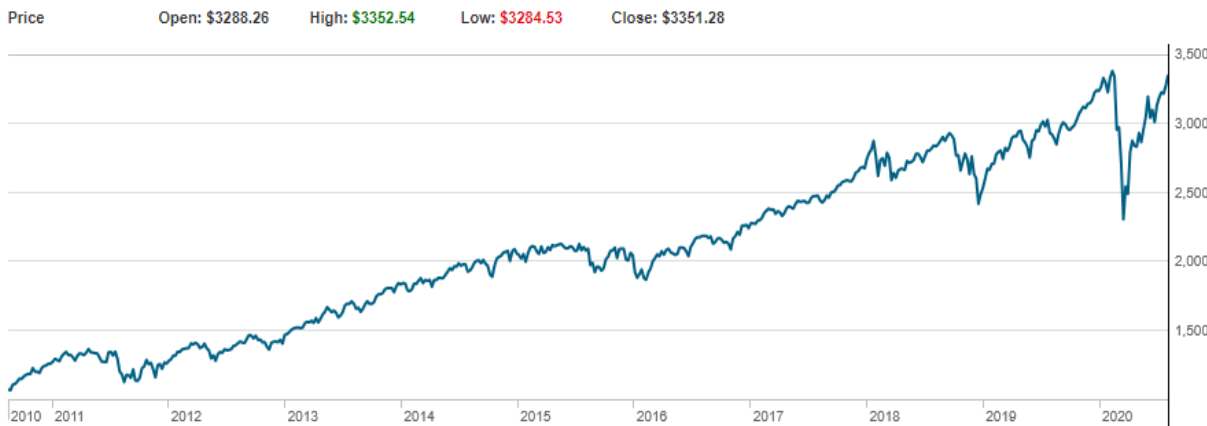
By: John D. O'Malley Jr.

The story of 2020 to date is “new market highs” leading to “record drops” and “record recoveries.” All making for prominent headlines and lots of excitement, both negative and some positive.

At the end of first quarter 2020, the market looked as if we were headed into free-fall with a pandemic raging and the market seriously jolted. As literally the world adjusted to the new COVID-19 reality, the views changed. Central banks around the world eased. Massive, seemingly unprecedented government spending programs propped up the population and the economies.

Discussions soon turned to whether this was to be a “V” shaped recovery, a “W”, a “U” or an “L.” None of us quite knew. Speculation related to the course of the disease and the economy was, and continues to be rampant. In reality, none of us in fact “knows” because the story is far from over. COVID-19 is just beginning to rise again globally. There is no cure and there is no way to know how many have been exposed and are immune. What we do know is that there have been pandemics in the past. And there will be more in the future.

If we look at a 10 year chart of the S&P 500 below, we can now see that the recovery looks somewhat like a “V.”



Sources: Charles Schwab & Co., Inc. and Market Data Express.

Another way to look at the “V” experience is through this table showing returns comparing indices from first quarter to second quarter 2020 as shown on the next page.

Summary 2020 Quarterly Comparison as of June 30, 2020:

	1st Quarter	2nd Quarter	Last 12 months
US Stock Market	-20.90%	22.03%	6.53%
International Developed Stocks	-23.26%	15.34%	-5.42%
Emerging Markets Stocks	-23.60%	18.08%	-3.39%
Global Real Estate	-29.02%	11.17%	-15.91%
US Bond Market	-3.15%	2.90%	8.74%
Global Bond Market ex US	0.51%	1.76%	4.00%

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

Some of the most risky sectors showed the best performance during the last quarter. Page 9 below shows performance of several selected leading broad market indices. Of these indexes, its clear the best place to have been positioned is in the Emerging Market Small Cap MSCI Index, with its rise of some 27.14% in the second quarter. Growth stocks continue to outperform value stocks.

In the bigger picture, this is not meaningful. An intellectual concept perhaps. Good talking points for visiting with friends perhaps. If we look at select shorter periods very different stories are told. In our work with clients, we are focused on using assets to achieve long-term goals. In the period above, if you were a 10-year investor, and you consistently invested it appears you did well. If you became uncomfortable and sold at some dip, you may not be so happy. Other ten-year periods may show negative or flat returns.

Recently the New York Times reported that economic output fell 9.5% in the second quarter and noted it was the biggest drop on record. It implied a record 32.9% decline. Yet – US stocks as represented by the S&P 500 have had a remarkable rebound. Gold and stocks don't seem to often trend in the same direction, gold being perceived by some as a safe harbor of sorts when stocks seem to risky, yet today we have relatively high values of gold and stocks simultaneously. Is the US attracting global capital as a "safe haven?" Has central bank easing and government deficit spending caused a spike in the markets? How will we ever repay the trillions of dollars in debt that have been taken on by governments globally?

Schools are not functioning normally. Work is not functioning normally. Many summer children's programs cannot find willing staff to work, leading to problems for parents getting to work themselves.

Amid all this, there is remarkable optimism. US companies frequently revised earnings expectations downward during the second quarter. According to FactSet, some 84% of the S&P 500 companies reporting earnings through July have beaten the lower revised expectations.

We believe the best approach is through sound asset allocation, consistent savings supporting goals-based financial planning with a determined long-term focus.

Quarterly Market Review

Second Quarter 2020

This report has a short article on recessions and long-term investing. It also features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets. The report also illustrates the impact of globally diversified portfolios.

Overview:

Long-Term Investors,
Don't Let a Recession Faze You

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World Stock Market Performance

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International Developed Stocks

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Fixed Income

Impact of Diversification

Long-Term Investors, Don't Let a Recession Faze You

Second Quarter 2020

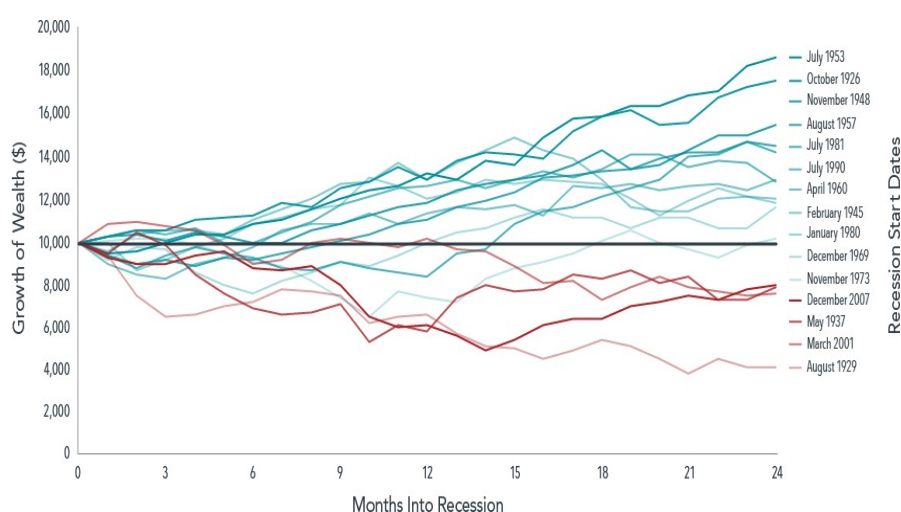
With activity in many industries sharply curtailed in an effort to reduce the chances of spreading the coronavirus, some economists say a recession is inevitable, if one hasn't already begun.¹ From a markets perspective, we have already experienced a drop in stocks, as prices have likely incorporated the growing chance of recession. Investors may be tempted to abandon equities and go to cash because of perceptions of recessions and their impact. But across the two years that follow a recession's onset, equities have a history of positive performance.

Data covering the past century's 15 US recessions show that investors tended to be rewarded for sticking with stocks. **Exhibit 1** shows that in 11 of the 15 instances, or 73% of the time, returns on stocks were positive two years after a recession began. The annualized market return for the two years following a recession's start averaged 7.8%.

Recessions understandably trigger worries over how markets might perform. But history can be a comfort for investors wondering whether now may be the time to move out of stocks.

Exhibit 1. Downturns, Then Upturns

Growth of wealth for the Fama/French Total US Market Research Index



Past performance, including hypothetical performance, is not a guarantee of future results.

In USD. Performance includes reinvestment of dividends and capital gains. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Growth of wealth shows the growth of a hypothetical investment of \$10,000 in the securities in the Fama/French US Total Market Research Index over the 24 months starting the month after the relevant Recession Start Date. Sample includes 15 recessions as identified by the National Bureau of Economic Research (NBER) from October 1926 to December 2007. NBER defines recessions as starting at the peak of a business cycle.







GLOSSARY

Fama/French Total US Market Research Index: The value-weighted US market index is constructed every month, using all issues listed on the NYSE, AMEX, or Nasdaq with available outstanding shares and valid prices for that month and the month before. Exclusions: American Depositary Receipts. Sources: CRSP for value-weighted US market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced.

1. Nelson D. Schwartz, "Coronavirus Recession Looms, Its Course 'Unrecognizable,'" New York Times, March 21, 2020; Peter Coy, "The U.S. May Already Be in a Recession," Bloomberg Businessweek, March 6, 2020.

Quarterly Market Summary



















Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
2Q 2020	STOCKS					BONDS	
	22.03%	15.34%	18.08%	11.17%		2.90%	1.76%
							
Since Jan. 2001							
Avg. Quarterly Return	2.1%	1.4%	2.7%	2.3%		1.2%	1.1%
Best Quarter	22.0% 2020 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3		4.6% 2001 Q3	4.6% 2008 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4		-3.0% 2016 Q4	-2.7% 2015 Q2

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Long-Term Market Summary

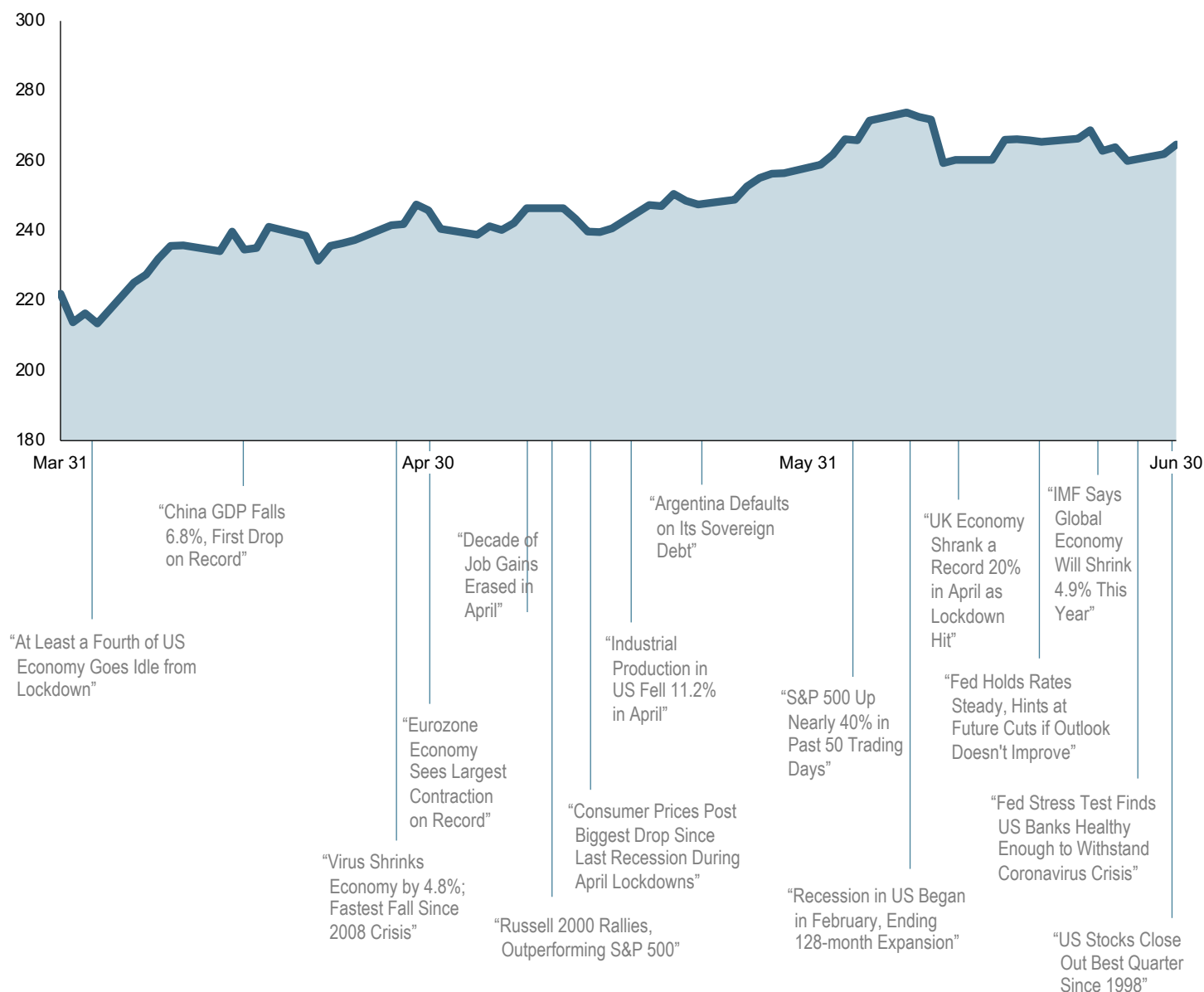
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	6.53%	-5.42%	-3.39%	-15.91%	8.74%	4.00%
						
5 Years						
	10.03%	2.01%	2.86%	1.62%	4.30%	4.49%
						
10 Years						
	13.72%	5.43%	3.27%	6.97%	3.82%	4.20%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2020



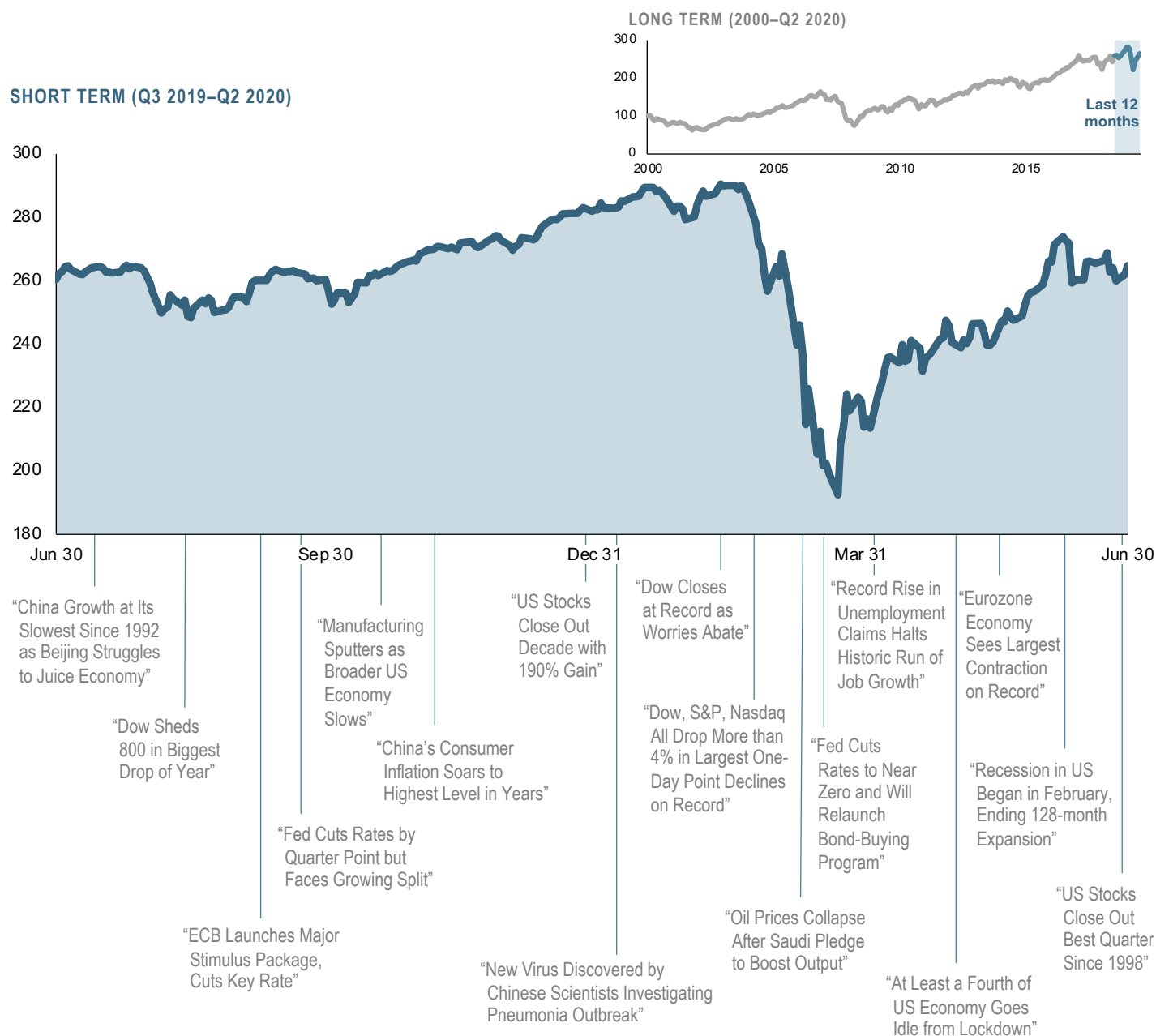
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

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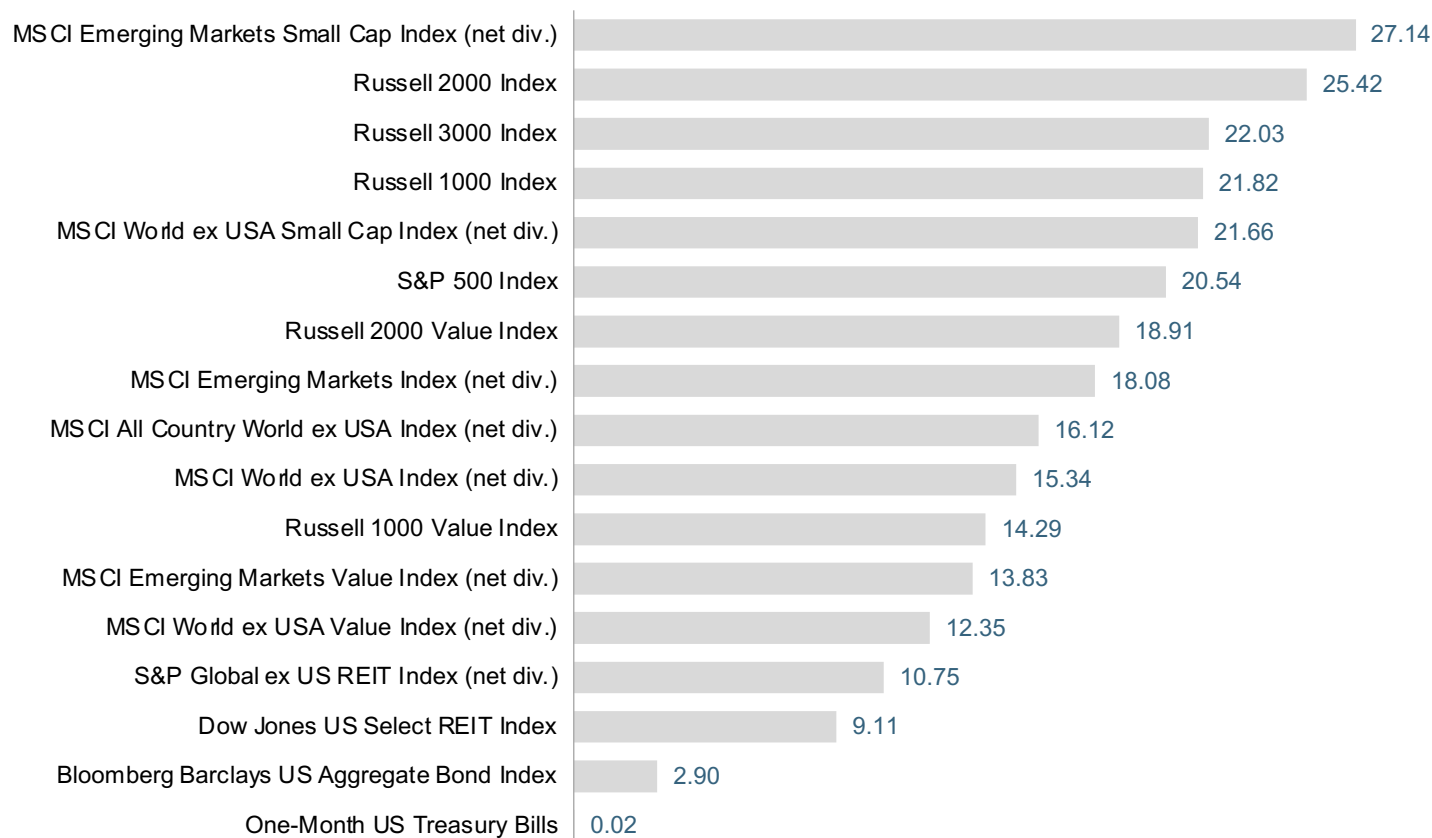
World Asset Classes

Second Quarter 2020 Index Returns (%)

Equity markets around the globe posted positive returns in the second quarter. Looking at broad market indices, US equities outperformed non-US developed markets and emerging markets.

Value stocks underperformed growth stocks, and small caps outperformed large caps.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



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US Stocks

Second Quarter 2020 Index Returns

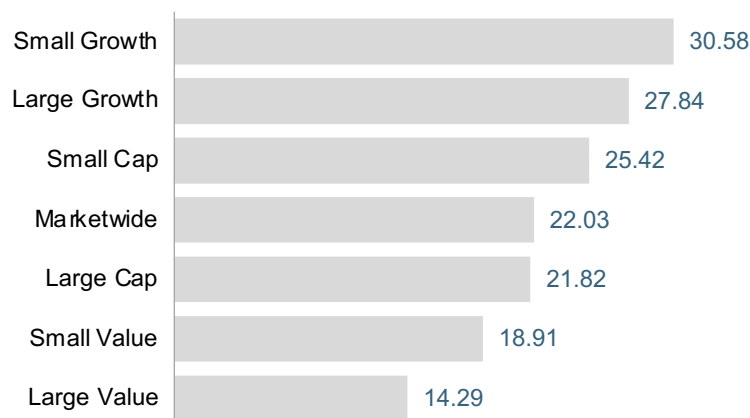
The US equity market posted positive returns for the quarter, outperforming non-US developed markets and emerging markets.

Value underperformed growth in the US across large and small cap stocks.

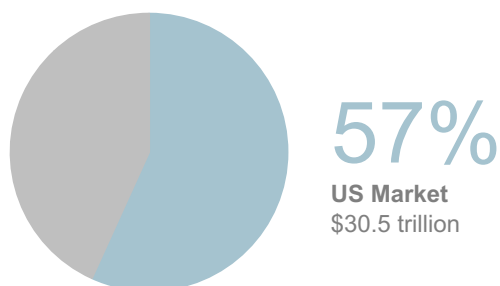
Small caps outperformed large caps in the US.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	9.81	23.28	18.99	15.89	17.23
Large Cap	-2.81	7.48	10.64	10.47	13.97
Small Growth	-3.06	3.48	7.86	6.86	12.92
Marketwide	-3.48	6.53	10.04	10.03	13.72
Small Cap	-12.98	-6.63	2.01	4.29	10.50
Large Value	-16.26	-8.84	1.82	4.64	10.41
Small Value	-23.50	-17.48	-4.35	1.26	7.82

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International Developed Stocks

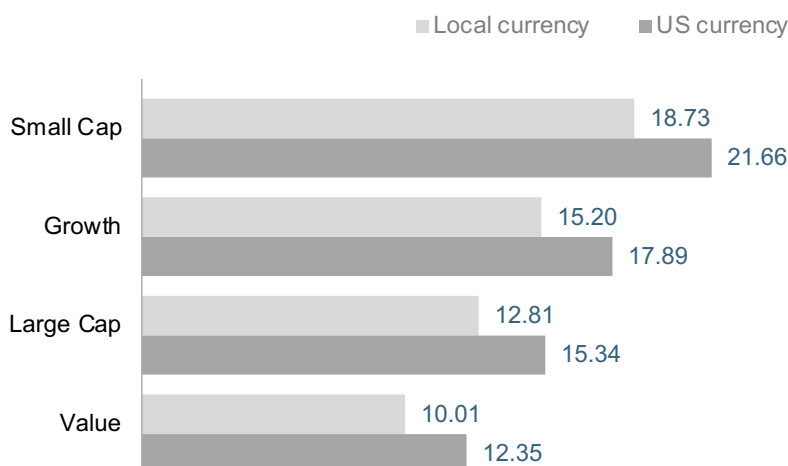
Second Quarter 2020 Index Returns

Developed markets outside the US underperformed both the US equity market and emerging markets equities for the quarter.

Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

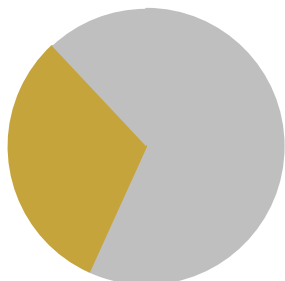
Ranked Returns (%)



World Market Capitalization— International Developed

31%

International
Developed Market
\$16.7 trillion



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-3.11	4.25	5.93	5.29	7.36
Large Cap	-11.49	-5.42	0.84	2.01	5.43
Small Cap	-12.87	-3.20	0.53	3.56	7.26
Value	-19.96	-15.14	-4.42	-1.46	3.36

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Emerging Markets Stocks

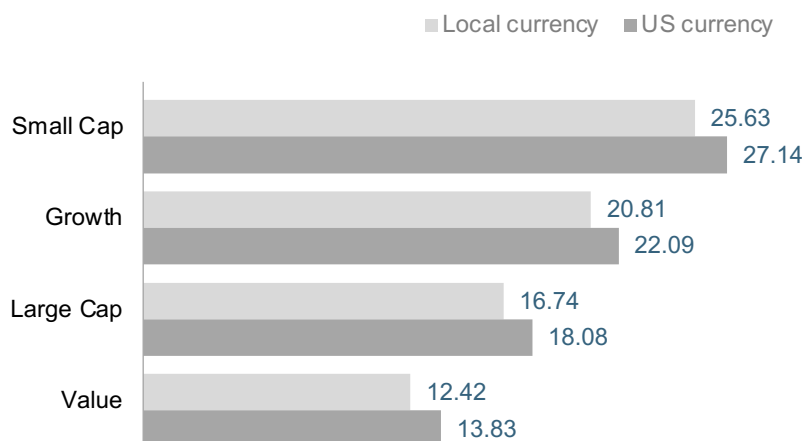
Second Quarter 2020 Index Returns

Emerging markets underperformed the US equity market but outperformed developed ex US equities for the quarter.

Value stocks underperformed growth stocks.

Small caps outperformed large caps.

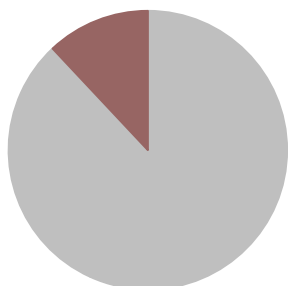
Ranked Returns (%)



World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$6.4 trillion



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-1.52	9.67	6.19	6.35	5.76
Large Cap	-9.78	-3.39	1.90	2.86	3.27
Small Cap	-12.74	-8.82	-2.95	-1.38	1.78
Value	-18.05	-15.74	-2.64	-0.80	0.66

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Fixed Income

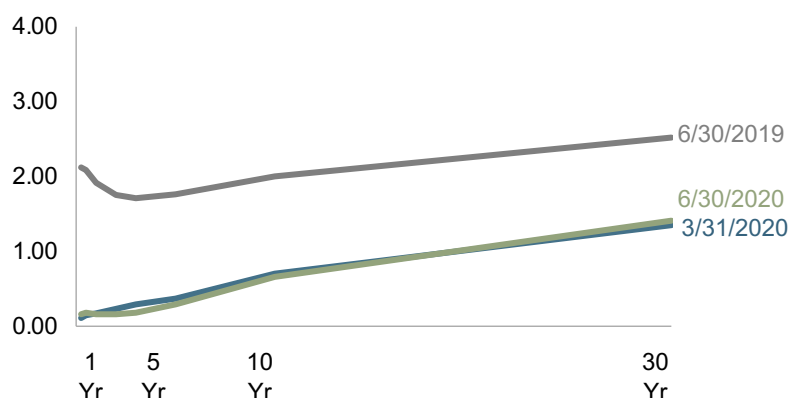
Second Quarter 2020 Index Returns

Interest rate changes were mixed in the US Treasury fixed income market in the second quarter. The yield on the 5-Year US Treasury Note decreased by 8 basis points (bps), ending at 0.29%. The yield on the 10-year note decreased by 4 bps to 0.66%. The 30-Year US Treasury Bond yield increased by 6 bps to 1.41%.

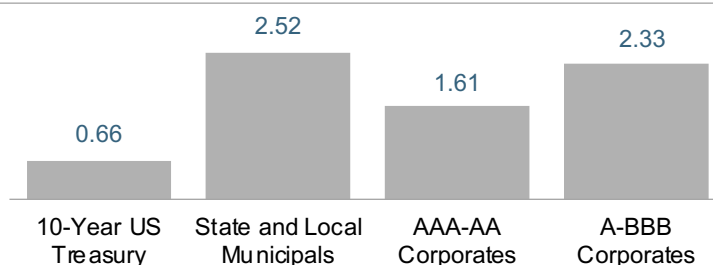
On the short end of the curve, the 1-Month T-bill yield rose by 8 bps to 0.13%, while the 1-year T-bill yield fell by 1 bp to 0.16%. The 2-year note finished at 0.16% after a yield decrease of 7 bps.

In terms of total returns, short-term corporate bonds returned 5.59% for the quarter. Intermediate corporates returned 7.63%. The total return for short-term municipal bonds was 2.38%, while intermediate-term muni bonds returned 3.19%. General obligation bonds outperformed revenue bonds.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	*Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	10.18	-3.80	0.03	3.33	4.79	6.68
Bloomberg Barclays US TIPS Index	4.24	6.01	8.28	5.05	3.75	3.52
Bloomberg Barclays US Aggregate Bond Index	2.90	6.14	8.74	5.32	4.30	3.82
Bloomberg Barclays Municipal Bond Index	2.72	2.08	4.45	4.22	3.93	4.22
FTSE World Government Bond Index 1-5 Years	1.41	2.11	2.27	1.86	1.68	0.62
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.53	2.79	3.96	3.09	2.38	1.96
Bloomberg Barclays US Government Bond Index Long	0.28	20.97	25.14	11.96	9.21	7.71
ICE BofA US 3-Month Treasury Bill Index	0.02	0.60	1.63	1.77	1.19	0.64
ICE BofA 1-Year US Treasury Note Index	-0.03	1.69	2.86	2.25	1.54	0.95

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Impact of Diversification

Second Quarter 2020

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)

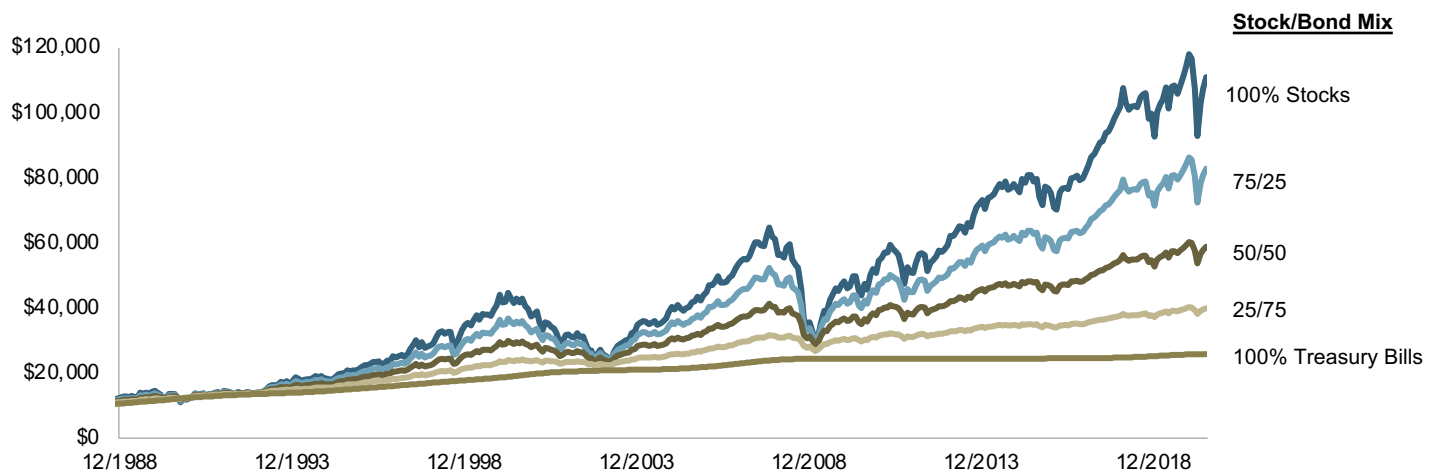
100% Stocks	19.39
75/25	14.36
50/50	9.46
25/75	4.68
100% Treasury Bills	0.02

Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV
100% Treasury Bills	0.39	1.35	1.62	1.07	0.55	0.23
25/75	-0.86	2.10	3.12	2.73	2.97	3.49
50/50	-2.34	2.57	4.48	4.29	5.31	7.00
75/25	-4.05	2.75	5.67	5.72	7.57	10.51
100% Stocks	-5.99	2.64	6.70	7.03	9.74	14.02

Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).