Quarterly Market Commentary

Second Quarter 2020

A Record-Setting Quarter

Global equity markets continued their rebound from the dismal first quarter of 2020 and by the time the second quarter closed, the major U.S. indices had marched to record quarterly gains, including:

- The DJIA recording its best quarter since the first quarter of 1987, with a gain of 17.8%
- The S&P 500 recording its best quarter since the fourth quarter of 1998, leaping 19.9%
- NASDAQ recording its best quarter since the fourth quarter of 1999, soaring 30.6%

It should be noted that the second quarter rally came after a dismal first quarter and the contrast between the two quarters is dramatic, as the first quarter saw:

- The DJIA turn in its worst quarter in history with a 23.2% drop
- The S&P 500 turn in its worst quarter since the 2008 with a 20% drop
- NASDAQ turn in its worst quarter since 2018, with a 14.2% drop

Despite the barrage of negative economic news in the second quarter, Wall Street was optimistic as the economy gradually reopened for business.

- Volatility, as measured by the VIX, trended slightly up during June, but in the second quarter the trend was downward, as it started April at about 57 and ended June at 31
- West Texas Intermediate Crude also trended up during the second quarter, despite a significant drop in early April. At the beginning of the quarter oil was trading just barely above $20/barrel but by the end of June it was just shy of $40/barrel

Market Performance Around the World

After devastating losses to markets around the world in March, big rebounds in April, and modest gains in May, June brought gains for most global investors. In fact, of the 37 developed markets tracked by MSCI, most were positive in June, with a few exceptions: Norway, Japan and Israel.

Index Returns	Q2 2020
US S&P 500	19.9%
MSCI Emerging Markets	18.2%
MSCI Asia ex-Japan	16.8%
MSCI Europe ex-UK	15.1%
Japan TOPIX	11.3%
UK FTSE All-Share	10.2%

**Source: MSCI. Past performance cannot guarantee future results*

For the second quarter, however, every single one of the 35 MSCI regional indices and 37 country indices were positive. And the best regional performer for the quarter went to the MSCI North America Index – which includes large- and mid-cap stocks from the U.S. and Canada. Australia and New Zealand took the honors for best country performance for the quarter, with returns of 28.61% and 27.97%, respectively.

Wall Street Climbed a Wall of Worry

While the first quarter of 2020 was pockmarked with unprecedented and immediate stoppage of economic activity as businesses shut down and people stayed at home, every month of the second quarter of 2020 saw businesses slowly start to reopen, albeit not as fast as they shut down.

Accordingly, the second quarter was really a tale of two data sets, as the country was besieged by negative (and backwards-facing) economic data while Wall Street marched forward to record-setting performance numbers.

Take just the last two weeks in the quarter, for example. It seemed that for every piece of negative economic news, investors received some surprising economic news as well, including:

- On June 16th, the Census Bureau announced that the advance estimates of U.S. retail and food services sales for May 2020 increased 17.7% from the previous month
- Retail trade sales were up 16.8% from April 2020 and non-store retailers were up 30.8% from May 2019
- On June 17th, the U.S. Bureau of Labor Statistics reported that the Consumer Price Index for All Urban Consumers declined 0.1% in May on a seasonally adjusted basis, the first time in over 60 years that core CPI had dropped for three consecutive months
- On June 22nd, the National Association of Realtors announced that existing-home sales dropped 9.7% month over month in May, which was the third consecutive month of declines
- Also on June 22nd, the NAR reported that existing-home sales fell a staggering 26.6% from a year ago as of the end of May
- On June 29, the NAR published its Pending Home Sales Index, a forward-looking indicator of home sales based on contract signings, and it rose 44.3% to 99.6 in May, chronicling the highest month-over-month gain in the index since National Association of Realtors started this series in January 2001

Asset Class & Style Performance

The first quarter of 2020 was difficult for almost all investors and the second quarter was almost the complete opposite, with most of the major asset classes and styles turning in very respectable – and most importantly green – numbers across the board.

For the quarter, Growth names and Small Caps came roaring back and far outpaced the others, while Growth continued its dominance versus Value and extended its YTD differences by about 22%. Interestingly enough, Emerging Markets turned in a terrific quarter.

Index Returns	*2019*	*YTD*	*Q2 2020*
Global REITS	24.4%	-22.6%	10.8%
Value	22.7%	-17.4%	12.9%
DM Equities	28.4%	-5.5%	19.5%
Growth	34.1%	6.6%	25.6%
Commodities	7.7%	-19.4%	5.1%
Global Agg	6.8%	3.0%	3.3%
Small Cap	26.8%	-12.7%	24.7%
MSCI EM	18.9%	-9.7%	18.2%

Source: Barclays, Bloomberg, FactSet, FTSE, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT All REITs; Cmdty: Bloomberg UBS Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in local currency. Past performance is not a reliable indicator of current and future results.

Sector Performance

The overall trend for sector performance since the end of the first quarter has been mixed, as performance leaders and laggards have rotated all year. Focusing on the end of the first quarter, for example, investors saw that every single one of the 11 S&P 500 sectors turned in negative numbers, whereas April saw all of them positive and May saw most of them positive.

The month of June, on the other hand, saw more than half of them painted red and less than half of them painted green.

Reviewing the sector returns for the second quarter and YTD through June 30, 2020, we saw that:

- Every single one of the 11 S&P 500 sectors was painted green for the second quarter of 2020
- The Utilities sector was the worst performer for the second quarter as it barely crept into positive territory
- The differences between the best performing and worst performing sectors in Q2 were once again dramatic, with three sectors (Consumer Discretionary, Information Technology and Energy) up more than 25x the Utilities sector
- On a YTD basis, the differences between the best and worst performing sectors is just as dramatic, with a difference of over 50% as Information Technology sector is up over 14% YTD and Energy is down a whopping 37%
- Speaking of Energy, this sector has been on a wild ride in 2020 as it gained more than 30% in the second quarter and is still down almost 40% YTD

Here are the sector returns for shorter time periods:

Sectors	*YTD*	*2Q2020*
Healthcare	-1.72%	17.88%
Consumer Discretionary	6.60%	33.06%
Industrials	-15.50%	16.66%
Financials	-24.62%	10.25%
Information Technology	14.21%	33.05%
Materials	-8.04%	27.50%
Energy	-37.02%	32.13%
Consumer Staples	-7.05%	9.32%
Communications Services	-0.97%	23.28%
Utilities	-12.61%	1.36%
Real Estate	-9.96%	11.64%

This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results. Source: Standard and Poor's

Keep the Record Numbers in Perspective

When the final bell rang at 4 pm EST on Tuesday, June 30th, Wall Street rejoiced in the fact that the major U.S. stock market indices had turned in three straight positive months, leading to record quarterly gains. And it was true, the major U.S. indices did turn in record quarterly gains, with the DJIA recording its best quarter since the first quarter of 1987; the S&P 500 recording its best quarter since the fourth quarter of 1998, and NASDAQ recording its best quarter since the fourth quarter of 1999.

Within hours of markets closing the books on the second quarter, the media piled on too, with headlines like:

- *U.S. Stocks Finish Best Quarter in More Than 20 Years*, Wall Street Journal, June 30th at 4:59 pm EST
- *It's official: This was the best quarter for stocks since 1998*, Associated Press, June 30th at 5:47 pm EST
- *Dow notches best quarter since 1987*, USA Today, June 30th at 6:41 pm EST

While investors are no doubt thankful for the second quarter's performance, it's important to keep these "performance records" in perspective, however.

Consider this example:

- You have an investment worth $100 on January 1st and its value drops by 30% in three months.
- On April 1st, your investment is worth $70.
- Over the next 3 months, your investment rises a "record-setting" 40%.
- On July 1st, your investment is worth $98.

Does the 40% feel record-setting to you? Maybe not.