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Second Quarter Market Update

The second quarter of 2020 continued the strong performance initiated in the final weeks of the first quarter. Despite one of the worst global pandemics in 100 years, some equity markets ended the period close to being in positive territory. While we by no means think we have worked through, and are past, the financial fallout from COVID, there are some economic bright spots that we feel highlight the importance of diversification for long-term investors.

Different Sectors, Different Outcomes

The financial reaction to the deadly COVID 19 virus was swift and unnerving. From mid-February to mid-March the S&P 500 dropped approximately 34% before rebounding through the end of the first quarter. The index continued its momentum in the second quarter, ending the period down only 3% YTD, and from a trailing twelve month perspective it is up 7.51%, While some companies are better suited than others for our new social distancing life styles, the unfortunate fact is that the virus continues to ravage many communities.

If we begin to drill down into the performance of the broader index and divide the market into Growth and Value sleeves, this dichotomy becomes very apparent. Growth companies are companies that typically pay little to no dividend to investors and instead reinvest their earnings into expanding operations. Many of today's Growth companies are household technology names. Not only are their products easily consumed via technology, their employees have already, or easily adapted to, working remotely. Value companies, on the other hand, tend to be more mature in nature and may be more labor intensive such as banks and industrial manufacturing companies. After the last four months of sheltering in place, you may have a good idea as to which group has performed better this year…and you are right, the technology-heavy Growth side of the market is actually up 7.93% YTD, whereas the banking and manufacturing-led Value side of the equation is still down 15.7%.

Like any other historical event that has caused volatility in markets, predicting the timing of when it will begin is extremely difficult. Between the Great Recession in 2008 and the COVID selloff in March, markets basically went straight up. The bull market was seemingly unstoppable, and we are unaware of anyone predicting a global pandemic would be the catalyst to slow it down. To be fair to economists and forecasters, sometimes there will be economic indicators that begin to deteriorate and indicate a recession could be on the horizon. Even in these situations, though, the ability to time when this will cause the markets to reverse course is the challenge. Given how difficult it is to make timely investment decisions based on this information highlights the importance for investors to remain diversified. While technology companies have likely helped diversified portfolio performance over the trailing three months, it may be other sectors of the economy that buoy performance going forward.

It goes without saying that the pandemic has been a global challenge. The economic effects of the lockdown measures were felt by international markets just as we have domestically. Developed international markets are down 11% while emerging market equities are down a little less than 10%. While different countries took different measures to try and limit the spread, nearly all corners of the globe were impacted.

Like equities, fixed income markets have had differing performance over the first six months of the year. One challenge for fixed income markets is that they are not as liquid as their equity counterparts. When there are economic shocks like what we experienced in March, this lack of liquidity can put significant pressure on prices. Exacerbating the situation was the quick pace at which companies' debt was downgraded by the different rating agencies. This can make for some forced trading as companies that were once considered investment grade are now considered high yield and if an investor cannot hold that type of an investment, a situation can arise where they are forced to begin selling the investment. Luckily, the Federal Reserve stepped in and began buying bonds in these markets to help facilitate trading and reduce the stress on the system. Since this has gone into effect, we have seen parts of these markets recover.

We hope you and your loved ones have remained safe and healthy as we continue to work through this pandemic. If an article or headline triggers a question or concern as it relates to your investment accounts, please call. We are always ready to assist you and if any changes to your situation have occurred, please contact us at your convenience.

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Index	Closing Price: 6/30/2020	Closing Price: 3/31/2020	Q2 2020 Return	2020 YTD Return	Trailing 12 Months
S&P 500	3,100.29	2,584.59	20.54%	-3.08%	7.51%
S&P 500 Value	1,070.38	953.09	13.15%	-15.52%	-4.50%
S&P 500 Growth	2,094.22	1,664.05	26.23%	7.93%	17.75%
Russell 2000	3,582.16	2,865.75	25.42%	-12.98%	-6.63%
Russell 2000 Value	5,299.27	4,481.80	18.91%	-23.50%	-17.48%
Russell 2000 Growth	6,377.71	4,891.60	30.58%	-3.06%	3.48%
MSCI EAFE	1,780.58	1,559.59	15.08%	-11.07%	-4.73%
MSCI EM	995.10	848.58	18.18%	-9.67%	-3.05%
BBgBarc US Agg Bond	2,361.51	2,295.05	2.90%	6.14%	8.74%

Written by Finity Group

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