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FINANCIAL ADVISORS

*Your Family – Your Plan*

## Market Commentary

May 2020



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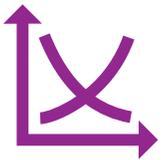
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# Market Update & Outlook

May 2020



Global assets continued to recover in May but year-to-date returns broadly remain negative with the exception of fixed income.



As expected, lagged economic data revealed the unprecedented depth of the economic impact of COVID-19, but re-opening the economy means the future economic data may not be as bad.



Jobless claims pushed just past 40 million towards the end of May.

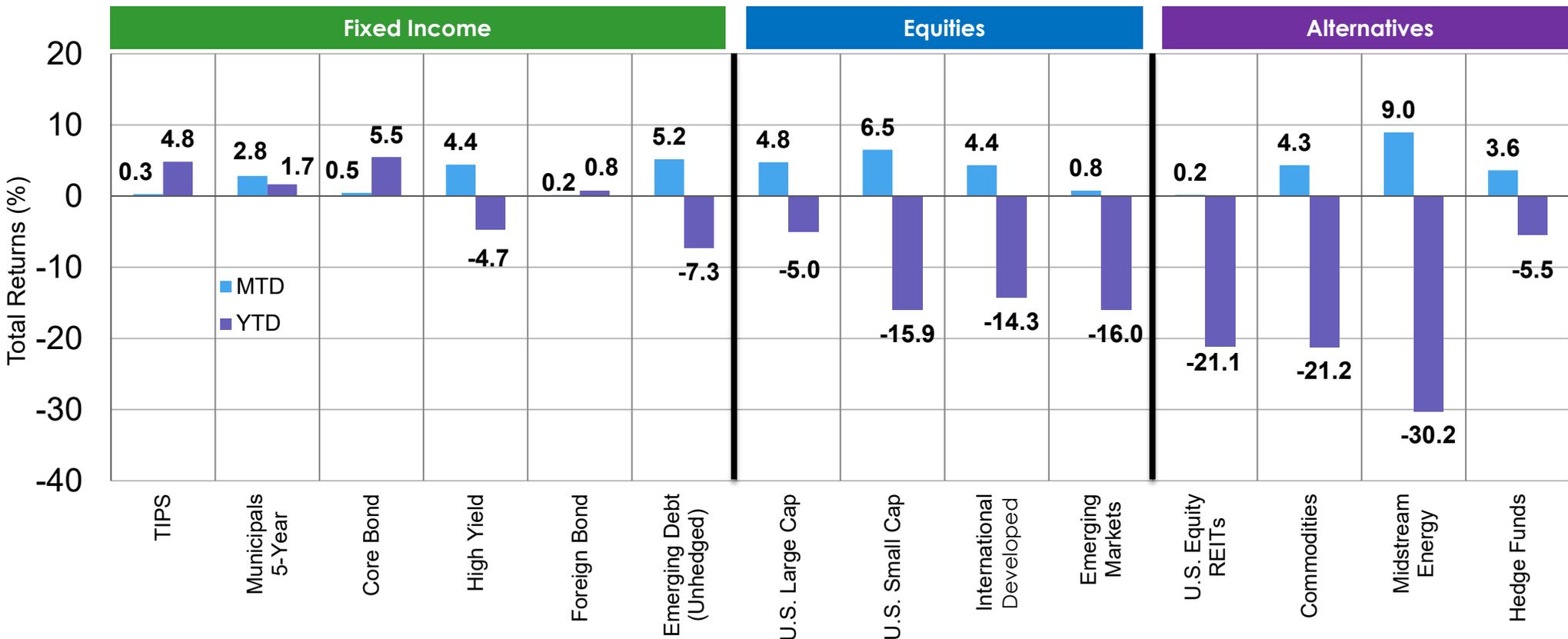
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Amid a backdrop of more accommodative policy measures, investor risk sentiment improved in May and fixed income asset classes generated positive returns. Within global fixed income, U.S. Treasury yields ended the month mostly unchanged, but credit spreads fell toward historical averages, most notably in riskier segments of the market.

For the second time in as many months, a late month rally lifted small-cap stocks over large caps. However, year-to-date returns remained in negative territory for both. Recent U.S. dollar strength waned in May, a welcome reprieve for international developed equity investors, but rising geopolitical tensions weighed on emerging market returns. Within real assets, a historic rebound in crude oil prices lifted Midstream Energy nine percent. Expectations for better economic data and relatively attractive yields in a low rate environment lifted Real Estate Investment Trusts (REITs) in May. Year-to-date, Midstream Energy and REITs are still down.

The dichotomy between rising financial forward-looking asset prices and historically weak economic data has been stark this quarter. However, market risks appear balanced. Aggressive monetary easing, the prospect of more fiscal stimulus and falling infection rates support the sharp rebound in risk assets. On the other hand, it will likely take the economy years to recover from the shutdown, valuations are relatively less attractive today than at the end of the first quarter and a second wave of infections is possible.

# Asset Class Performance (As of 05/31/2020)



## Fixed Income

- Credit spreads narrowed on improved risk sentiment
- Inflation expectations rose modestly, while real yields fell, benefitting TIPS

## Equities

- Fiscal and monetary policy response to the global pandemic supported equities
- Late May rally propelled small caps
- Geopolitical tensions weighed on emerging market returns

## Alternatives

- Commodities, particularly midstream energy, benefited from higher oil prices
- Attractive yields and improved investor sentiment buoyed REITs

Source: Morningstar