# Economic & Market Commentary

## Market Update – July 2020

All asset classes were positive in July with the strongest returns coming from global stocks. Despite the unfavorable economic data releases in recent weeks, markets have been looking forward in anticipation of better data and corporate earnings in the future.

**Economy**

- The first estimate of second quarter GDP growth showed the economy contracted at an annualized rate of 32.9% -- the worst drop on record.
- During the last week of July, jobless claims increased for the second week. Unemployment is currently at 11.1%.
- After rising last month, consumer confidence took a downward turn this month of 5.7%.

**Stocks**

- U.S. large saw positive returns this month (+4.8%). Furthermore, each of the factors value (+4.0%), quality (+4.1%), momentum (+6.3%), and size (+4.8%) rallied.
- International stocks also rallied with emerging markets in front (+9.2%) followed by international small (+5.6%).
- Global REITs had a similar rebound, returning 3.9% in July.

**Bonds**

- Bond asset class returns were led by multi-sector bonds (+2.7%) during July. U.S. intermediate-term (+1.4%) and TIPS (+2.0%) also produced solid returns. Short-term and international bonds produced slightly positive returns.

**Alternatives**

- Alternative asset classes were additive in July with the following returns: event driven (+2.4%), real assets (+2.2%), trend following/managed futures (+2.1%), and reinsurance (+1.0%).

## Opportunity May Still Lie Ahead

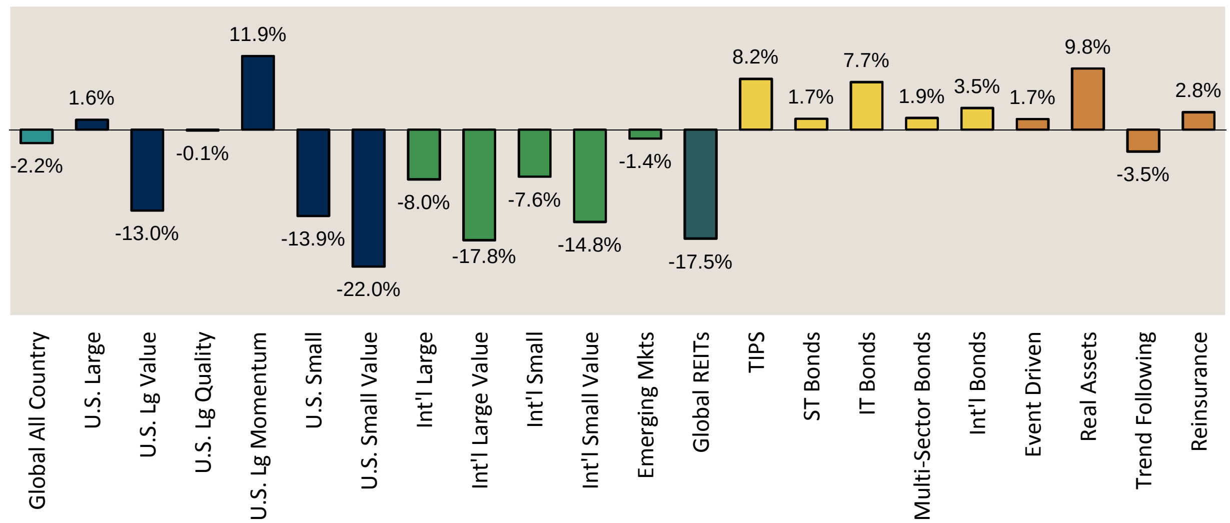
Unlike a Las Vegas slot machine, the stock market's instant feedback is not always reflective of success or failure. On February 19th the S&P 500 (S&P) rested at all-time highs. On March 11th, the S&P had fallen 20% from its high, making it the quickest technical bear market in history. A lot can change in a short period of time, a lesson we learned again soon thereafter, but this time in the opposite direction. After the S&P 500 found a bottom on March 23rd, down 34% from all-time highs, it staged a recovery, rallying nearly 50% through July 22nd. Small cap stocks, international stocks and emerging market stocks all rallied in similar fashion.

The backdrop to this rally included 18% of the U.S. labor force out of work, a second quarter GDP number that was about to set a record for worst quarter since World War II, a significant percentage of small businesses forced to shut their doors permanently, and investor sentiment at decade lows. Meanwhile, the S&P 500 is five percent off its all-time high.

The economy is painting a picture of Hannibal Lecter while the stock market paints the Mona Lisa. How does this make sense? The simplest explanation is the stock market does not always make intuitive sense. 2020 is not unique; there were many time periods in which the stock market hasn't moved in tandem with the broader economy. The stock market posted gains through WWI and WWII, both times of tremendous uncertainty. That's because the market pays much greater attention to the future prospects of businesses rather than what is happening today. The market seems to indicate the pandemic's impact will be similar to a natural disaster; severe but temporary, with nearly a full recovery once the risk has passed. The market can always be wrong, and it will adapt to new information. So what could possibly propel the market higher from here? In our recent blog, we outline some potential reasons.

None of what we outline means that another bear market can't happen. That depends on what happens in the future. And while predictions about how the business environment evolves from here are opinions, stock prices well off their highs are facts. Most people remained cautious for years after the financial crisis and it proved to be an expensive mistake. Today, most investors remain cautious and hold a cynical view of a market that has rallied significantly while the global economy sits on the operating table. This pessimism, ironically, may be a good thing for investors. In the past, bad news has been a friend to investors. That was the case in 1940s, in the 1980s and also in 2009. And it may be the case today. *Source: FRED, The Conference Board, Morningstar Direct.*

## MARKET RETURNS
### Year-To-Date as of 7/31/2020



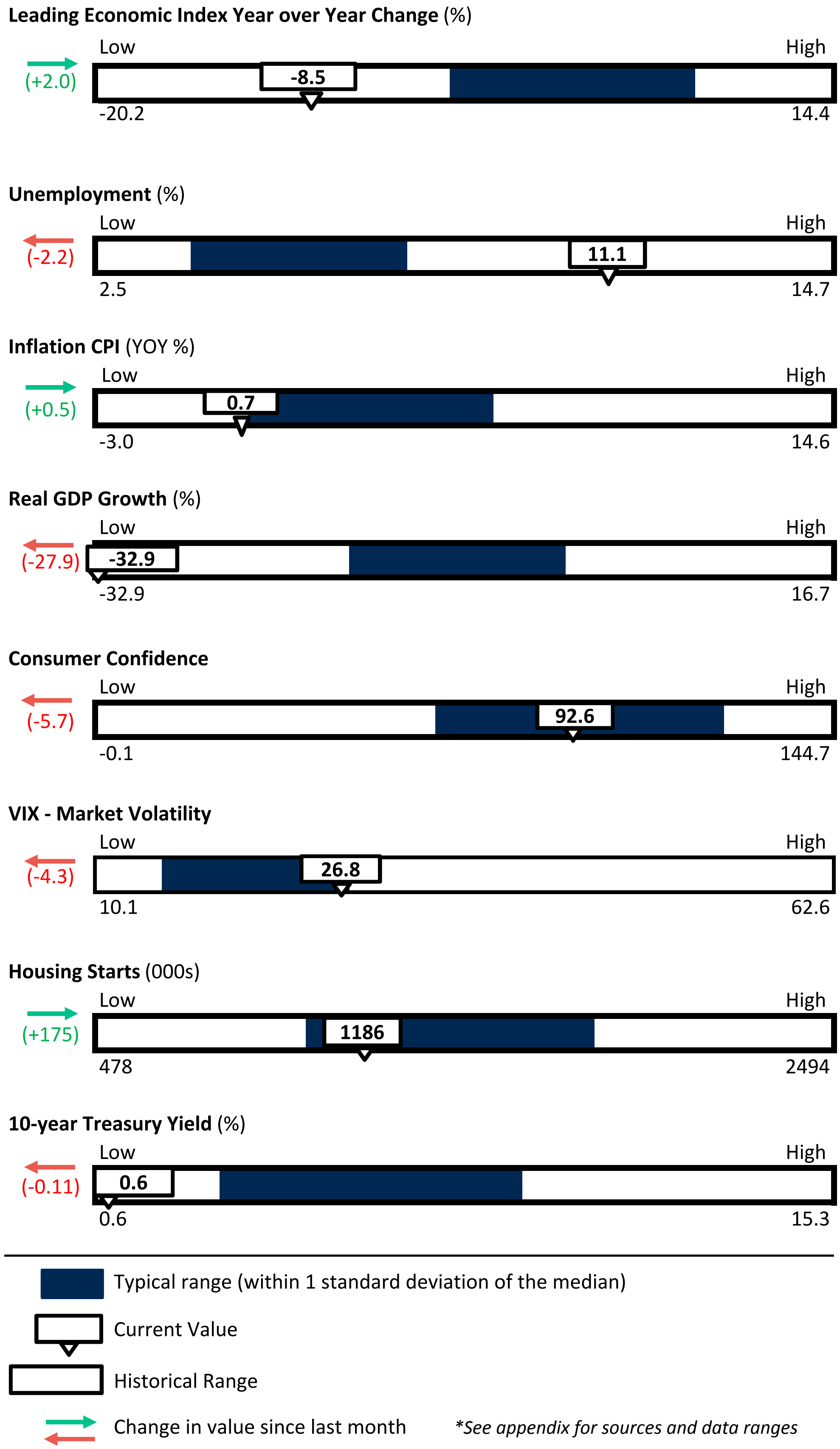

## MARKET RETURNS - Longer Term Annualized as of 7/31/2020

| | 1 Month | YTD | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years |
|---|---|---|---|---|---|---|---|
| **STOCKS** | | | | | | | |
| Global All Country | 5.3% | -2.2% | 6.2% | 6.4% | 7.1% | 8.8% | 6.6% |
| U.S. Large | 4.8% | 1.6% | 11.1% | 11.7% | 11.3% | 13.8% | 8.9% |
| U.S. Lg Value | 4.0% | -13.0% | -5.7% | 3.1% | 6.3% | 10.3% | 6.6% |
| U.S. Lg Quality | 4.1% | -0.1% | 9.8% | 12.2% | 11.0% | 13.9% | 9.6% |
| U.S. Lg Momentum | 6.3% | 11.9% | 17.3% | 16.7% | 15.2% | 17.4% | 11.1% |
| U.S. Small | 4.8% | -13.9% | -8.0% | 1.8% | 5.6% | 11.1% | 7.6% |
| U.S. Small Value | 2.6% | -22.0% | -16.9% | -4.0% | 1.9% | 7.8% | 5.3% |
| Int'l Large | 3.8% | -8.0% | -0.3% | 1.1% | 2.4% | 5.2% | 4.1% |
| Int'l Large Value | 1.9% | -17.8% | -10.9% | -4.9% | -1.6% | 2.7% | 2.3% |
| Int'l Small | 5.6% | -7.6% | 3.0% | 1.1% | 4.6% | 7.8% | 6.4% |
| Int'l Small Value | 4.3% | -14.8% | -4.7% | -3.2% | 2.1% | 6.6% | 5.7% |
| Emerging Mkts | 9.2% | -1.4% | 6.9% | 2.9% | 6.2% | 3.4% | 6.5% |
| Global REITs | 3.9% | -17.5% | -12.3% | 0.2% | 2.8% | 7.5% | 4.8% |
| **BONDS** | | | | | | | |
| TIPS | 2.0% | 8.2% | 10.1% | 5.6% | 4.1% | 3.7% | 4.3% |
| Short-Term Bonds | 0.1% | 1.7% | 2.9% | 2.1% | 1.4% | 0.8% | 1.7% |
| Interm-Term Bonds | 1.4% | 7.7% | 10.1% | 5.7% | 4.5% | 3.9% | 4.6% |
| Multi-Sector Bonds | 2.7% | 1.9% | 4.3% | 4.4% | 5.1% | 5.3% | 6.2% |
| International Bonds | 0.9% | 3.5% | 3.7% | 5.6% | 4.7% | 4.4% | 4.5% |
| **ALTERNATIVES** | | | | | | | |
| Event Driven | 2.4% | 1.7% | 2.9% | 1.6% | 1.9% | 2.7% | 4.0% |
| Real Assets | 2.2% | 9.8% | 13.7% | 8.3% | 7.9% | 10.2% | 10.2% |
| Trend Following | 2.1% | -3.5% | -8.4% | -3.3% | -2.6% | 0.8% | 4.2% |
| Reinsurance | 1.0% | 2.8% | 5.9% | 2.7% | 4.0% | 5.9% | 6.9% |

*Source: Morningstar Direct. Indices used in above graphs: Global All Country-MSCI All Country World IMI, U.S. Large-S&P 500, U.S. Large Value-MSCI U.S. Prime Market Value, U.S. Small-S&P SmallCap 600, U.S. Small Value-MSCI U.S. Small Value, Int'l Large-MSCI EAFE, Int'l Large Value-MSCI EAFE Value, Int'l Small-S&P EPAC Small, Int'l Small Value-S&P EPAC Small Value, Emerging Mkts-MSCI Emerging Markets, Global REITs-S&P Global REIT, TIPS-BbgBarc Gbl Infl Linked US TIPS, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty, Interm-Term Bonds-BbgBarc U.S. Aggregate Bond, International Bonds-JPM GBI Global Ex US Hdg, Event Driven-IQ Hedge Event Driven, Real Assets-Blend of NCREIF Property, Timberland, Farmland, and DJ Brookfld Glb Infa Comp (only DJ used in current quarter due to one quarter lag in NCREIF), Trend Following- Credit Suisse Mgd Futures Liquid, Reinsurance-SwissRe Global Cat Bond.*

*Past performance is historical and does not guarantee or indicate future results. Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index. This report is not intended to provide personalized investment advice. Some information has been produced by unaffiliated third parties, and while it is deemed reliable, the advisor does not guarantee its accuracy or completeness.*

# Economic Indicators




**See appendix for sources and data ranges*

# Appendix

**Leading Economic Index Year over Year Change (%)**

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

**Unemployment**

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

**Inflation CPI (YOY)**

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

**Real GDP Growth**

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

**Consumer Confidence**

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

**VIX**

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

**Housing Starts**

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

**10-year Treasury**

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

**Disclosure**