Economic & Market Commentary

Market Update – May 2020

May saw positive returns in the market across the majority of asset classes. U.S. small (+6.5%) led the charge domestically while international small came in strong (+7.0%) as well. Global stocks dipped slightly but still came in positive at +4.6%. Bonds hovered close to zero, with intermediate-term bonds holding the strongest return (+0.8%). With respect to alternatives, commodities came in with a robust gain for the month of +4.3%.

Economy

- The initial economic shock is starting to subside as jobless claims have lessened their extremities with unemployment falling from 14.7% for April to 13.3% for May.
- Consumer confidence has risen slightly (+0.9%).

Stocks

- U.S. large saw positive returns this month (+4.8) with U.S. large value (+2.9%) and small value (+3.3%) not far behind.
- Gains were realized internationally as well, as small value (+4.8%) came in strong with large (+4.4%) and large value (+3.0%) close behind.
- Emerging markets were essentially flat (+0.8%) with Russia (+8.7%) and Brazil (+8.5) assisting in calming the waters.

Bonds

- With low interest rates, bonds came in relatively neutral for the month with TIPS holding slightly positive (+0.3%). U.S. short-term bonds remained flat.
- International bonds (-0.8%) fell into negative territory.

Alternatives

- Global REITs (+1.0%) and reinsurance (+0.6%) posted gains during May while managed futures fell (-0.6%).

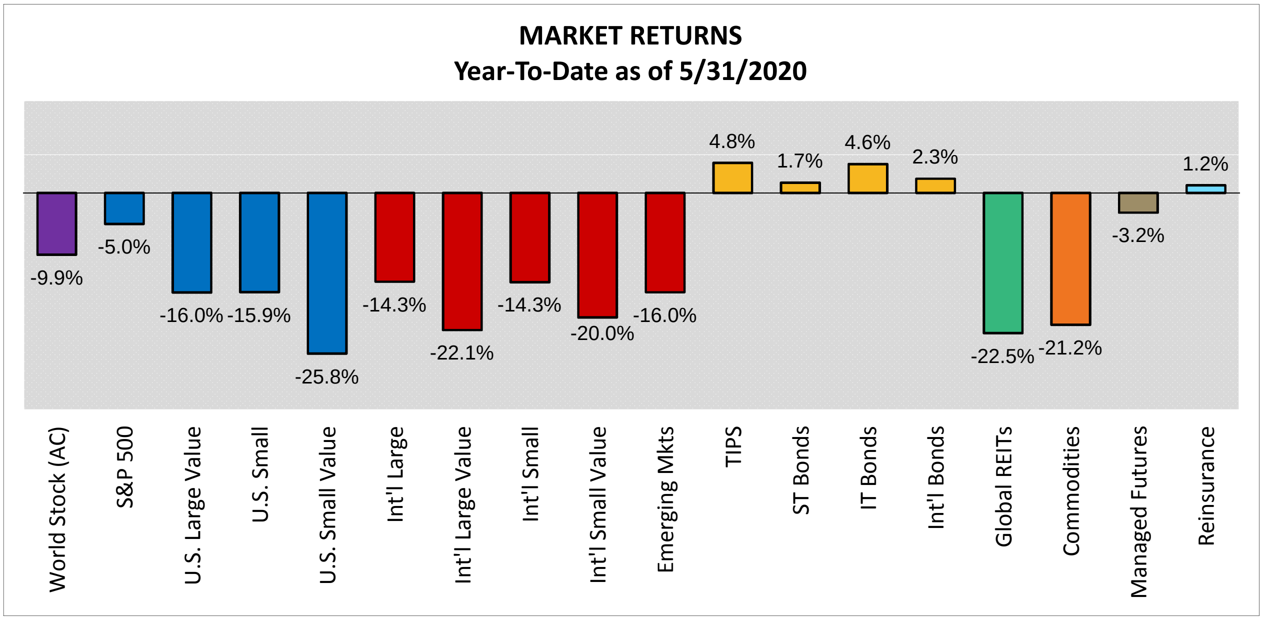
Sell in May – Go Away!

Market timing blares its horn each spring as the common adage rings, “Sell in May and Go Away!” This calls for selling your portfolio in May only to reinvest the coming October, therefore reaping potential higher risk adjusted returns. Though certain factoids support the sentiment, is it truly in your best interest? Economists continue to debate; however, 2020 brings about a new realm of uncertainty and implementation risk. With market swings, worldwide protests amid racial inequality and the ongoing pandemic, investors must carefully evaluate their course of action, or inaction.

Historically speaking, market timing has been no easy feat for both the common investor and professional strategist. Though there is the potential of benefiting from slightly higher returns, it begs the question of what is at stake. Monthly S&P data compiled from January of 1928 through March of 2020 illustrates positive returns from November to April at 71% and May to October at 65%. With the current economic turmoil, more than 30 million Americans have filed for unemployment between mid-March and late April. The current GDP contracted by 5.0% in the first quarter which exceeded economic projections, and oil prices sank more than 70% year-to-date. However, the Federal Reserve is heaving trillions of stimulus dollars into the economy and benchmark interest rates are nearing zero. With the additional layer of the extended tax deadline this year, it is nothing less than complicated.

So where does that leave us? With levels of data on each side, the metric of risk versus reward is heavily weighted. Times are certainly unprecedented and market timing can be a dangerous and costly game. Fortunately, long-term investing minds no consequence of the seasonal parody. The benefits of diversified longevity within a buy and hold strategy continuously outweigh that of attempting to buy and sell based on specific tendencies. While the reality of enduring the toughest days within the market is unavoidable, the benefit is that of securing the strongest times as well. We believe this can help deliver positive returns for persistent investors with long-term visualization for their portfolios.

Source: Morningstar Direct, https://www.kiplinger.com/slideshow/investing/T031-S001-sell-in-may-and-go-away-should-you-in-2020/index.html



MARKET RETURNS - Longer Term Annualized as of 5/31/2020

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	4.8%	-5.0%	12.8%	10.2%	9.9%	13.2%	8.7%
U.S. Large Value	2.9%	-16.0%	-1.6%	3.0%	5.2%	10.0%	6.6%
U.S. Small	6.5%	-15.9%	-3.4%	2.0%	3.7%	9.2%	7.0%
U.S. Small Value	3.3%	-25.8%	-15.6%	-4.4%	0.5%	7.1%	5.6%
Int'l Large	4.4%	-14.3%	-2.8%	-0.4%	0.8%	5.3%	3.9%
Int'l Large Value	3.0%	-22.1%	-13.0%	-5.4%	-2.9%	3.0%	2.2%
Int'l Small	7.0%	-14.3%	-1.4%	-0.3%	2.9%	7.9%	6.3%
Int'l Small Value	4.8%	-20.0%	-7.6%	-4.0%	0.6%	6.8%	5.7%
Emerging Mkts	0.8%	-16.0%	-4.4%	-0.2%	0.9%	2.5%	6.1%
World Stock (AC)	4.6%	-9.9%	4.3%	4.6%	5.0%	8.4%	6.4%
BONDS							
TIPS	0.3%	4.8%	8.0%	4.3%	3.3%	3.6%	4.0%
Short-Term Bonds	0.0%	1.7%	3.3%	2.2%	1.4%	0.8%	1.7%
Interm-Term Bonds	0.8%	4.6%	7.6%	4.1%	3.2%	3.2%	3.8%
International Bonds	-0.1%	2.3%	5.7%	5.0%	4.5%	4.4%	4.5%
ALTERNATIVES							
Global REITs	1.0%	-22.5%	-15.2%	-0.9%	1.5%	7.6%	5.1%
Commodities	4.3%	-21.2%	-17.0%	-6.9%	-7.8%	-6.0%	-4.4%
Managed Futures	-0.6%	-3.2%	-5.9%	-3.1%	-2.9%	0.6%	4.5%
Reinsurance	0.6%	1.2%	6.1%	2.5%	3.8%	5.7%	6.8%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

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

Leading Economic Index Year over Year Change (%)

(-4.7) Low -20.2 | Current -11.6 | High 14.4

Unemployment (%)

(-1.4) Low 2.5 | Current 13.3 | High 14.7

Inflation CPI (YOY %)

(-1.1) Low -3.0 | Current 0.4 | High 14.6

Real GDP Growth (%)

(-7.2) Low -10.0 | Current -5.0 | High 16.7

Consumer Confidence

(+0.9) Low 25.3 | Current 86.6 | High 144.7

VIX - Market Volatility

(-10.6) Low 10.1 | Current 30.9 | High 62.6

Housing Starts (000s)

(-385) Low 478 | Current 891 | High 2494

10-year Treasury Yield (%)

(+0.01) Low 0.7 | Current 0.67 | High 15.3

Typical range (within 1 standard deviation of the median)

Current Value

Historical Range

Change in value since last month

**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