

Economic & Market Commentary

Market Update – April 2020

Global stocks (+11.0%) started off the second quarter on a positive note. All equity asset classes posted gains for the month with U.S. small cap stocks (+13.7%) leading the way. Fixed income asset classes were mainly positive with intermediate-term bonds (+1.4%) and TIPS (+2.8%) being the strongest performers. Alternative asset classes were mixed on the month with commodities and managed futures falling 1.5% and 1.1% respectively, while reinsurance and REITs gained 0.7% and 7.8%.

Economy

- With many service industries suspending operations, continued unemployment claims rose to 18 million for the week ending April 18.
- First quarter real GDP fell by 4.8% on an annual seasonally adjusted basis.
- The Consumer Confidence Index fell by 26.9% as of April 28.

Stocks

- During April, U.S. small and small value stocks experienced a strong recovery from intra-year lows, ending the month up 13.7% and 13.4% respectively.
- While lagging U.S. markets across the board, international small (+10.6%) and international small value stocks (+9.6%) led returns in international markets.
- Emerging market stocks (+9.2%) also saw a significant recovery during April.

Bonds

- Driven by lower interest rates, bond returns were positive for U.S. intermediate-term bonds (+1.4%) and TIPS (+2.8%). U.S. short-term bonds finished the month flat.
- International bonds also ended the month positive with gains of 0.9%.

Alternatives

- Global REITs (+7.8%) and reinsurance (+0.7%) both posted gains for the month while commodities (-1.5%) and managed futures (-1.1%) fell.

The Forward Looking Nature of Markets

There is one investment formula which transcends asset classes and prevails across global markets: *The intrinsic value of any security is equal to the net present value of future expected cash flows*. This is an ever important formula to remember, especially now when many of our lives are in a current state of disruption.

Looking at the effects of the COVID-19 crisis up to this point paints a clear picture of rapid economic decline. Restaurants, bars, theaters, and tourism have continued to be at a dead-stop throughout April as stay-at-home orders remain in place. As a result, U.S. GDP is undoubtedly in a sharp downward trend, with the inverse being true for unemployment.

Investors who are overly concentrated in the short-term may think now is a terrible time to invest in stocks, when current activity is bleak in most service industries. However, if we look at how markets have performed, a different story presents itself with most major stock indices posting low double digit / high single digit positive returns over the past month.

The apparent divergence of stock prices and economic indicators may be confusing. But let's not forget about the formula from paragraph one and the inherent forward looking nature of markets. While economic activity may be heavily impaired in the current state, investors focusing on cash flows (earnings) three, five, and ten years down the road saw opportunity as appetite for risk assets increased during April.

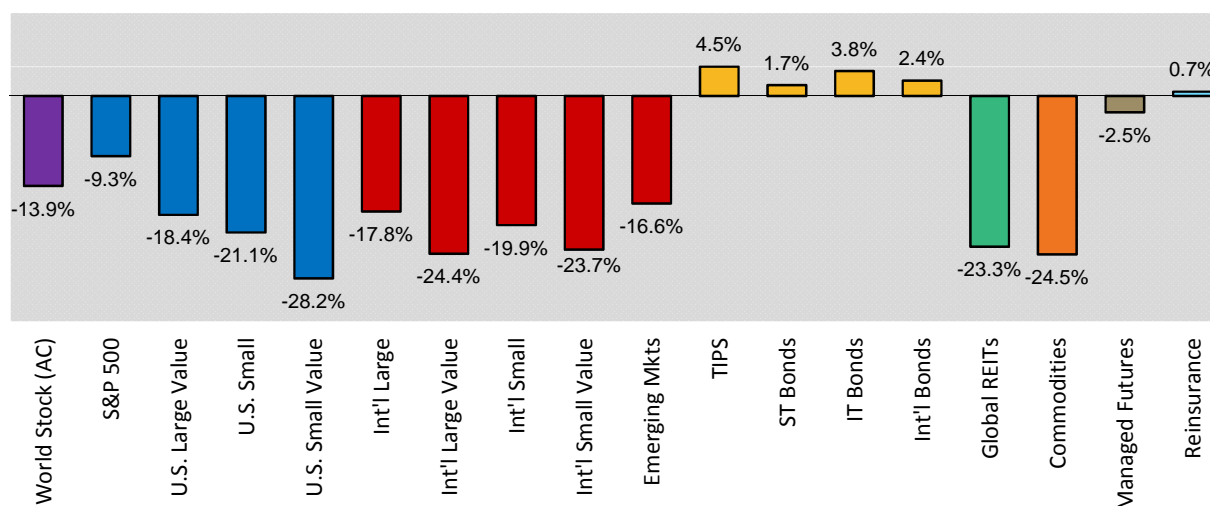
Much is still uncertain about when everyday life, and economic activity, will return to normal. However, when it comes to investing, it's important to focus on the long term, not short-term news headlines. As many Americans continue to feel a sense of unrest and anxiety, both in their personal lives and financially, it's more important now than ever to focus on the future. If there is anything markets have told us over the past month, it's this: *the COVID-19 crisis is temporary*.

Sources: Morningstar Direct, FRED, The Conference Board

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MARKET RETURNS Year-To-Date as of 4/30/2020



MARKET RETURNS - Longer Term Annualized as of 4/30/2020

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	12.8%	-9.3%	0.9%	9.0%	9.1%	11.7%	8.6%
U.S. Large Value	10.8%	-18.4%	-10.7%	2.1%	4.8%	8.8%	6.5%
U.S. Small	13.7%	-21.1%	-16.4%	-0.8%	2.9%	7.7%	7.0%
U.S. Small Value	13.4%	-28.2%	-24.9%	-6.4%	0.0%	5.9%	5.8%
Int'l Large	6.5%	-17.8%	-11.3%	-0.6%	-0.2%	3.5%	3.7%
Int'l Large Value	5.4%	-24.4%	-20.4%	-5.7%	-3.7%	1.3%	2.0%
Int'l Small	10.6%	-19.9%	-12.4%	-1.1%	1.7%	5.8%	5.8%
Int'l Small Value	9.6%	-23.7%	-16.6%	-4.3%	-0.2%	5.0%	5.4%
Emerging Mkts	9.2%	-16.6%	-12.0%	0.6%	-0.1%	1.4%	6.3%
World Stock (AC)	11.0%	-13.9%	-6.2%	3.8%	4.0%	6.8%	6.2%
BONDS							
TIPS	2.8%	4.5%	9.4%	4.2%	3.1%	3.5%	4.0%
Short-Term Bonds	0.0%	1.7%	3.7%	2.2%	1.4%	0.8%	1.7%
Interm-Term Bonds	1.4%	3.8%	8.2%	4.1%	3.1%	3.2%	3.8%
International Bonds	0.9%	2.4%	7.3%	5.2%	4.3%	4.5%	4.6%
ALTERNATIVES							
Global REITs	7.8%	-23.3%	-16.2%	-1.2%	1.1%	6.6%	5.1%
Commodities	-1.5%	-24.5%	-23.1%	-8.6%	-9.1%	-7.1%	-4.7%
Managed Futures	-1.1%	-2.5%	-4.6%	-2.8%	-2.6%	0.8%	4.6%
Reinsurance	0.7%	0.7%	4.3%	2.4%	3.7%	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 Mtg 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.

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Economic Indicators

Leading Economic Index Year over Year Change (%)



Unemployment (%)



Inflation CPI (YOY %)



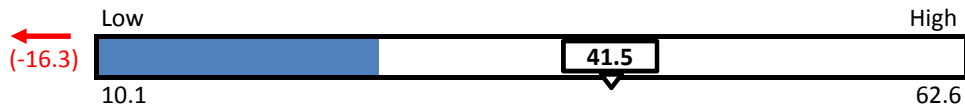
Real GDP Growth (%)



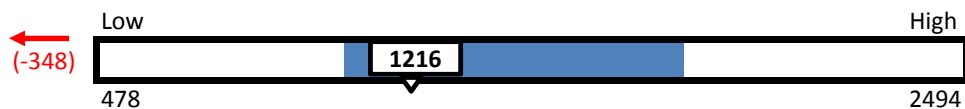
Consumer Confidence



VIX - Market Volatility



Housing Starts (000s)



10-year Treasury Yield (%)



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)*

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