Market Commentary

June 30, 2020

"About-face!!!" Just as the drill sergeant or drum major would bark at his or her command, so too have the markets heard "the call," doing a complete turn-around in Q2. After an historic decline in the first quarter, the like's investors have never experienced in the first quarter of a year, equity markets snapped back across the globe. Domestically, broad indices were up over 20%, with small caps and growth stocks leading the way, however, small-cap emerging market stocks (China), were the clear winners up over 27%!

In some ways the resurgence of equity markets has been nothing short of amazing, despite a rise in global Covid-19 cases, as the quarter came to an end. There has been a return to a "risk-on" sentiment, which could certainly be vulnerable to a continued rise of cases disrupting the pace of re-openings. (7/13/20: California's Governor just announced new lockdown restrictions.) All the while bonds have held their own having traded within a tight range for the quarter. The 10-year US Treasury traded between 0.70% and 0.66% for the quarter with the Barclays US Aggregate Index returning 2.9% for the quarter.

For the quarter the S&P 500 Index was up 20.5% after declining 20% in Q1, and year-to-date (YTD) is still down 3.1%. Small-caps outperformed large (25.4% to 21.8%) and growth stocks continued to out-perform value. Generally, international markets under-performed the U.S., however, emerging market small-cap stocks, as previously mentioned, were the big winners up 27.14%. Developed markets as represented by the MSCI All Country World Index were up 16.1%, while the MSCI Emerging Markets index was up 18.1%.

Domestically, top performing sectors were Consumer Discretionary (+32.9%), Technology (+30.5%), and Energy (+30.5%), which bounced back from an abysmal first quarter, as the three top-performing stocks in the S&P 500 Index represent the sector; Apache Oil +223%, Halliburton +89% and Marathon Oil +86%. Oil, after declining 60% in the first quarter sprung back to the $40 level from just under $20 at the beginning of the quarter, as the powers to be, agreed on production cuts, which was the issue that lead to the first quarter price decline. Other stocks of interest; Tesla +106%, Apple +44% and Microsoft +29%, were nice performers. The worst performing sectors were Utilities (+2.7%), Consumer Staples (+8.1%) and Finance (+12.2%).

It goes without saying that the $2 trillion stimulus package that Congress delivered at the beginning of the quarter has gone a long way in restoring confidence on Wall Street and patching the income gap caused by the shutdown. Further support, however, may be needed to continue the momentum gathered in the second quarter, yet political challenges may interfere. We are not out of the woods yet. Must we be reminded that while work continues on a COVID-19 vaccine/cure, we're not there yet, and until we are, challenges may arise, setbacks occur, and volatile markets persist.

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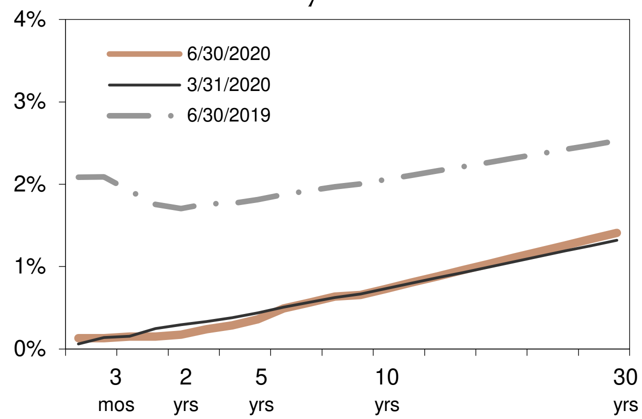
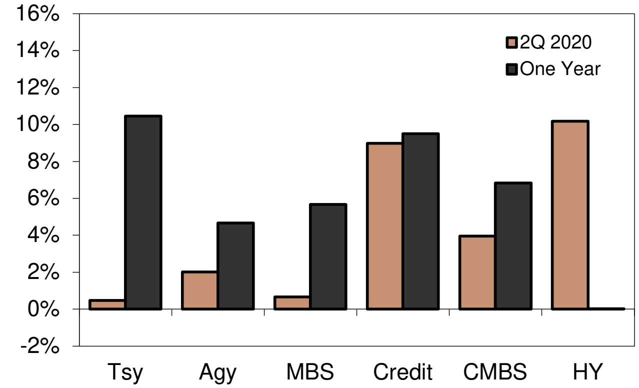
US Treasury Yield Curves



Sector Index Returns



In fixed income portfolios, we continue to tactically adjust portfolio durations to take advantage of anticipated interest rate changes. Currently, our client portfolios have slightly longer maturities than their respective benchmarks and are positioned for additional curve flattening. With short rates effectively at zero and the realization that we're in a recession for the foreseeable future, we believe that interest rates will remain low, but most likely stay positive. The 10-year UST closed the quarter at 0.66% after beginning at 0.70%. Early in the quarter when the corporate bond market seized up, we strategically looked to identify quality names, down the yield curve (further reducing the overall risk profile of the portfolio), in an effort to add income to client portfolios. Successfully we were able to take advantage of the dramatic spread widening and selectively add several A- rated intermediate maturity corporate bonds to client portfolios. Later in April, after the Fed introduced several support programs designed to convince the bond market that they would provide unlimited liquidity, we added long dated BBB rated corporate bonds at very attractive yields, further enhancing the income component of client portfolios. These strategies combined to add significant value to portfolios during the quarter resulting in our out-performance.

With earnings season upon us, the mixed bag of soon-to-be corporate earnings reports will likely further fuel market volatility. However, as long-term investors, we must remain patient and disciplined in our approach if we want to realize the long-term returns the capital markets offer.

Be Well and Stay Safe!