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Market Commentary

2Q 2020

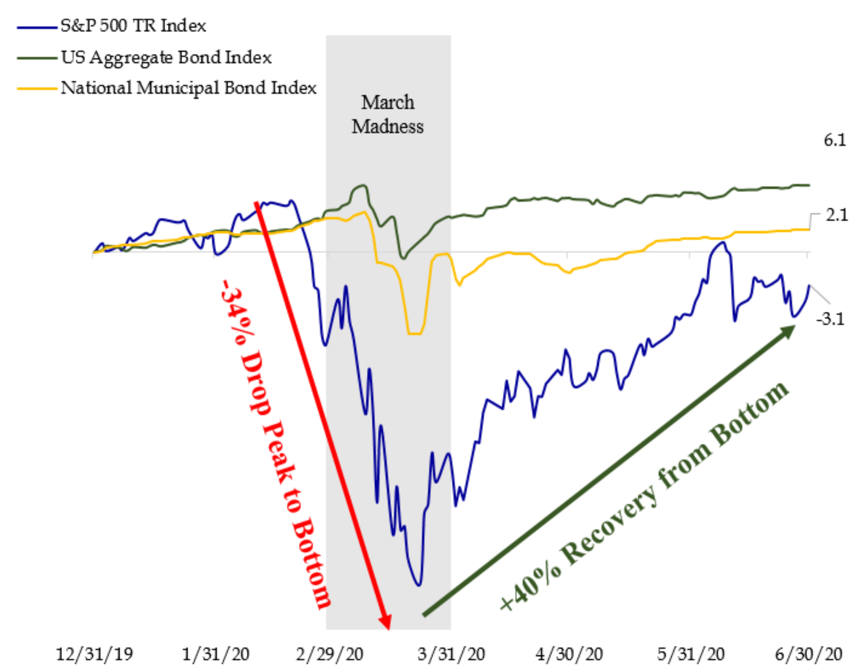
Market Movement Highlights

Talk about a rodeo, the first half year's financial markets were just that! Who could have imagined that a "natural event" would have so thwarted the financial markets, so materially impacted underlying global economics and so dramatically and decisively changed societal norms as we've just witnessed? In a blink of an eye, Mother Nature did just that!

As we all knew, US equities had extended their 2019 run to all-time highs through mid-February only to collapse with unprecedented speed by March 23rd as the S&P 500 fell by over (34%). Bond markets, whose moves are typically microscopic to the lay investor, also roiled in dysfunction as investors preferred the safety of cash and gold to bond funds. The good news is that following the infusion of over $5 trillion in Congressional emergency funding, the March equity trough surprisingly evaporated, erasing almost all of its YTD losses while bond markets have largely stabilized.

As the mid-year drew to a close, the broad US stock market (S&P 500 Total Return Index) had recovered all but (3.1%). However the disparity of returns across its sectors was as wide as we can recall. The S&P's tech sector delivered a remarkable +15% return, while its financial, industrial and energy sectors remained off some (24%), (14%) and (35%) respectively. As we see it, technology and digital mega-cap companies the likes of Facebook, Amazon, Microsoft, Google and Apple were and are delivering the bulk of the market's upside performance though earnings season has provided for other pleasant, albeit nominal surprises as well.

Stocks vs Bonds Return % Year to Date



Meanwhile like the US Fed, central banks around the world prompted by the pandemic's impact and continuing uncertainty, have once again swiftly returned to loose monetary policy. By the mid-year's close, international developed markets had recovered as much as +15% of their earlier losses while emerging markets recouped over +18% of its downside. Despite these robust moves, each was left with losses of (11%) and (10%) respectively on the YTD.

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As to the US bond markets, the Fed's swift liquidity intervention in early March was a life-line to a US fixed income world in material disarray. The Fed's financial support to municipalities across the country and its unprecedented purchases of US corporate debt served to quickly stabilize markets in turmoil. By the end of the second quarter the broad National Muni Index had recovered to post a +2.1% YTD return while the US Aggregate Bond index delivered +6.1% on the year. Meanwhile, corporate investment grade bonds re-gained +9.0% in the second quarter, or a +5.0% total return by the end of June.

Looking Forward

Unfortunately, we are now experiencing a "spike certain": a second contagious viral wave, at least here in the US, and so the jury is still out as to what the immediate future holds for the financial markets, getting back to business and for societal interaction at large. The forced wearing of masks, the need to socially distance and a continuous reminder for hand hygiene have become standard precautionary measures across the US, a country which at this writing has reportedly experienced some 25% of the global pandemics known cases. Add to this "natural disaster", the current civil unrest being witnessed across our several major US cities and the fact that an extremely contentious Presidential election is just around the corner one can only be left to ponder whether a "perfect storm" may be in the making.

What we do know, at least health-wise, is that there is a dire need for an effective vaccine to help thwart the spread of Covid-19 while on the financial and economic fronts, the timing, composition and breadth of the next wave of Congressional funding will be critical in helping us to sustain what has been a remarkable reversal in the second quarter's financial markets and to this 2020 mid-year point.

During this very uncertain time and in the interest of erring on the side of caution, we urge our client families to ensure there is sufficient portfolio cash on hand to meet near-term (3-6 month liquidity needs). While we believe most of our clients have appropriate cash positions (3-5%), if you are in doubt please contact us for further individual review and discussion.

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