

MAY 2020 RECAP

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The market continued to recover in May as the S&P 500 increased by +4.8%. The S&P 500 is now down -5.0% for the year after falling by nearly -34% from February 19th to March 23rd and then rebounding by over +36% since then. In our [First Quarter Review and Outlook](#) we stated that, we suspect we will remember this period as extraordinarily difficult, but from an investment perspective that individuals who stayed invested were rewarded. At the time, we thought the market would recover over the next year or so, and instead it has mostly taken a few months. The rebound has been driven by four pillars: Federal Reserve actions, fiscal stimulus, positive developments related to the virus, and optimism about the restart of the economy.

▶▶▶ **Fed Actions:** The Federal Reserve acted quickly and forcefully to support the economy by lowering interest rates, restarting their quantitative easing program, and launching several lending facilities designed to ensure credit keeps flowing to households and businesses. According to the Fed, their actions make it easier for consumers to borrow and for businesses to stay operating and keep workers on the job. Going forward, the Fed is committed to additional actions if necessary. In a recent 60 Minutes interview, Fed Chairman Powell said, “there is really no limit to what we can do with these lending programs and there is a lot more we can do to support the economy. We’re not out of ammunition by a long shot.” The Fed’s actions since March have helped aid the economy, lower interest rates, calm credit markets, and boost equity prices.

▶▶▶ **Fiscal Policy:** In March, Congress passed the \$2 trillion CARES act designed to provide relief to individuals, corporations, small businesses, state and local governments, and public health organizations. Another fiscal stimulus package is in the works, but Congress needs to sort out the details. The House recently passed an additional \$3 trillion bill, but there is very little chance it passes in the Senate. Senate Majority Leader Mitch McConnell said there will likely be another relief bill in the next month or so. We expect Congress to bicker and haggle over the specifics, as they always do, but eventually come to an agreement.

▶▶▶ **Positive Virus Developments:** Throughout May, both the number of daily new coronavirus cases and hospitalizations trended lower while daily testing increased. Of course, the human tragedy of covid-19 cannot be understated as over 100,000 Americans have died from the virus according to Johns Hopkins University. Medical progress toward testing, treatments, and vaccines provided some optimism and hope that we will be better equipped to combat the virus moving forward. According to the Milken Institute, there are currently 224 treatments in consideration and 145 potential vaccines in development (these numbers are growing daily). Approximately 10 vaccines are running human trials. Dr. Anthony Fauci recently stated, “I still think that we have a good chance, if all of the things fall into the right place, that we might have a vaccine that will be deployable by November or December.”

▶▶▶ **Economic Optimism:** While recent economic data has been horrible, there is increasing confidence that April was the bottom. Our [April Market Recap](#) discusses how the stock market can increase despite poor economic data. According to Morgan Stanley, nearly 95% of the US economy measured by GDP is in the process of reopening. While reopening does not necessarily mean normalizing, recent high frequency data including air travel, hotel bookings, and restaurant spending remain low but are picking up. Over 40 million people filed a jobless claim since mid-March and the unemployment rate increased to 14.7% in April. However, according to the April unemployment report, nearly 88% of people who lost their job estimated they were on temporary layoff. The Federal Reserve estimates that, unless there is a second wave of the virus, the economy should recover and the unemployment rate should decline in the second half of the year, although a complete recovery is not expected yet. We fully expect there will be lasting effects, but we agree with the Fed’s assessment, especially as there will likely be additional fiscal and monetary stimulus.

While we welcomed the market rebound and were able to take advantage of it, we are prepared for more volatility rather than a rapid continuation to new all-time highs. Developing a short-term outlook during a pandemic is challenging based on the wide range of potential outcomes, and more than ever the current environment requires a comprehensive financial plan and investment process. We are moving forward with a measured approach as plenty of risks remain including a potential second wave of the virus that necessitates another shut-down, increased tensions between the US and China that could disrupt the new trade deal, and the upcoming elections. We are keeping client equity and fixed income allocations close to their target levels as determined by their financial plan while tilting toward areas of value within those asset classes. On the equity side, we are tilted toward high quality US large cap stocks (we allocate across regions, countries, market caps, factors, sectors, and industries). On the fixed income side, we remain focused on achieving ballast, stability, and income while accounting for short-term cash needs. We will continue to utilize our time-tested investment process based on risk management, asset allocation, and security selection as we monitor new developments and maintain critical flexibility to take advantage of opportunities as they arise.

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MARKET RETURNS

US Equity											
Index	May	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
S&P 500	4.76%	-4.98%	31.48%	-4.39%	21.82%	11.95%	1.37%	9.94%	9.80%	13.33%	5.93%
Russell 3000	5.35%	-5.64%	31.01%	-5.25%	21.12%	12.72%	0.47%	9.20%	9.11%	13.01%	6.18%
Dow Jones Industrial Average	4.66%	-10.06%	25.34%	-3.48%	28.11%	16.43%	0.21%	8.81%	9.71%	12.50%	7.05%
Nasdaq	6.90%	6.28%	36.74%	-2.81%	29.73%	8.97%	7.11%	16.24%	14.64%	17.05%	6.34%
S&P 400	7.32%	-13.86%	26.17%	-11.10%	16.23%	20.73%	-2.18%	1.98%	4.63%	10.72%	8.28%
Russell 2000	6.51%	-15.96%	25.49%	-11.03%	14.63%	21.28%	-4.41%	1.32%	3.65%	9.57%	6.92%
Russell 1000 Growth	6.71%	5.23%	36.39%	-1.51%	30.21%	7.07%	5.67%	16.92%	14.42%	16.22%	5.61%
Russell 1000 Value	3.43%	-15.70%	26.52%	-8.28%	13.64%	17.33%	-3.84%	2.27%	4.32%	10.09%	6.11%
International Equity											
MSCI Index	May	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
EAFE	4.35%	-14.26%	22.01%	-13.79%	25.03%	1.00%	-0.81%	-0.46%	0.87%	5.26%	2.93%
Europe	6.36%	-17.21%	23.20%	-16.90%	28.07%	1.34%	-1.42%	-3.04%	0.47%	4.44%	1.96%
Japan	5.92%	-7.11%	19.61%	-12.88%	23.99%	2.38%	9.57%	3.17%	3.11%	5.91%	1.57%
China	-0.49%	-5.02%	23.46%	-18.88%	54.07%	0.90%	-7.82%	6.00%	2.09%	5.83%	7.77%
Emerging Markets	0.77%	-15.96%	18.42%	-14.57%	37.28%	11.19%	-14.92%	-0.26%	0.90%	2.68%	6.38%
ACWI ex US	3.27%	-14.85%	21.51%	-14.20%	27.19%	4.50%	-5.66%	-0.35%	0.85%	4.43%	3.39%
US Fixed Income											
Bloomberg Barclays Index	May	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
Aggregate	0.47%	5.47%	8.72%	0.01%	3.54%	2.65%	0.55%	5.10%	4.04%	3.91%	5.21%
Treasury Bills	0.00%	0.47%	2.21%	1.83%	0.81%	0.26%	0.03%	1.70%	1.12%	0.59%	1.59%
Corporates	1.56%	3.00%	14.54%	-2.51%	6.42%	6.11%	-0.68%	5.79%	5.19%	5.48%	6.20%
Securitized	0.20%	3.56%	6.44%	0.99%	2.51%	1.77%	1.47%	3.92%	3.16%	3.29%	4.90%
High Yield	4.41%	-4.73%	14.32%	-2.08%	7.50%	17.13%	-4.47%	3.01%	4.28%	6.72%	7.05%
Munis	3.18%	1.24%	7.54%	1.28%	5.45%	0.25%	3.30%	3.83%	3.76%	4.13%	5.01%
US Equity Sectors											
Index	May	YTD 2020	2019	2018	2017	2016	2015	3-Year	5-Year	10-Year	20-Year
Technology	7.05%	7.29%	50.29%	-0.29%	38.83%	13.85%	5.92%	22.70%	20.55%	18.99%	5.32%
Real Estate	1.92%	-9.86%	29.00%	-2.23%	10.85%	1.12%	1.24%	6.34%	5.57%	9.03%	
Industrials	5.50%	-16.32%	29.32%	-13.32%	21.01%	18.85%	-2.56%	1.44%	5.65%	10.94%	5.96%
Energy	1.88%	-34.49%	11.81%	-18.10%	-1.01%	27.36%	-21.12%	-12.32%	-9.54%	0.17%	3.59%
Consumer Discretionary	4.97%	2.13%	27.94%	0.82%	22.98%	6.03%	10.11%	12.64%	12.17%	16.59%	8.24%
Communication Services	6.01%	0.21%	32.69%	-12.53%	-1.25%	23.48%	3.40%	7.46%	6.89%	10.70%	2.03%
Consumer Staples	1.51%	-5.35%	27.61%	-8.39%	13.49%	5.38%	6.60%	4.10%	6.89%	11.58%	8.69%
Utilities	4.40%	-6.79%	26.35%	4.11%	12.10%	16.29%	-4.84%	6.88%	9.82%	12.03%	6.89%
Materials	6.97%	-8.89%	24.58%	-14.70%	23.84%	16.69%	-8.38%	3.40%	4.14%	9.18%	7.41%
Financials	2.72%	-23.40%	32.09%	-13.04%	22.14%	22.75%	-1.56%	1.87%	5.34%	9.25%	2.87%
Health Care	3.29%	1.61%	20.82%	6.47%	22.08%	-2.69%	6.89%	12.44%	8.52%	15.92%	7.90%
Calendar Year Returns								Annualized Returns			

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