

## QUARTERLY MARKET COMMENT Second Quarter 2020



As we turn the page on another quarter there is a new look to our Quarterly Market Report and a big sigh of relief as the markets experienced one of the best quarters in history. Yes, it is okay to take a peek at your reports this quarter. With amusement parks barely open, we have already experienced a real roller coaster ride in the markets and in our lives this year. Stimulus from the Fed and Congress, along with the relaxation of some COVID-19 driven economic restrictions, aided in the markets' rebound 2<sup>nd</sup> quarter. All indexes were positive with mid and small cap outperforming large cap domestically. International stocks rebounded with emerging markets slightly edging out developed markets. Growth and momentum stocks overpowered value and dividend yielding stocks with the Energy and Technology sectors up 30%+ for the quarter. Given the massive infusion of funds by the Fed into the fixed income market, order and liquidity were restored and the fixed income markets were also positive. In order to achieve this, interest rates moved down and are at all-time lows. The yield on 10-year Treasury bonds are at an astonishing 0.68%, while 3, 6, and 12-month bonds have coupon rates of 0%. The 2<sup>nd</sup> quarter returns for commodities and real estate markets were positive, but did not fully retrace the dramatic decline experienced in the first quarter, except for gold. It is in striking distance of an all new high set back in August 2011.

Given the breath-taking returns experienced in the 2<sup>nd</sup> quarter where some returns have been greater than the decline in the 1<sup>st</sup> quarter, a majority of the market still remains in negative territory as of June 30th. How can this be? We frequently show a chart in our power point presentation, "Investing 101", of a mathematical phenomena discussing this very issue. This rare real-world lesson is that after we have experienced a market decline, it takes a greater market recovery to get back to even. As an example, the Wilshire 500 Total Market Index fell 20.70% in 1Q and gained 22.69% in 2Q, and is still down 2.88%. This is where a diversified portfolio benefits by not experiencing as steep of a decline and therefore the need to make up the decline is not as great.

I get the sense that we are not done with our roller coaster ride. We may be sitting at a top or maybe in a dip. If we think of the coaster as the market and the rails as the economy, it may feel more like we have come off the rails as the underlying earnings don't seem to be supporting the upward market movement. Some companies are doing very well while others are struggling mightily. We do expect more volatility moving into the second half of this year given Covid-19 and the election, so hang on. We are focusing on the things we can control and riding through the rest with our coaster doors shut and our masks on. In the meantime, we suggest to tune out the noise, focus on your long-term goals, practice what our health professionals are asking of us, and let the benefits of diversification play out.

However temporary this world event may be, it will have a long lasting effect on how we live our lives, conduct our businesses and value our relationships. It continues to be a collective surreal experience – a time of uncertainty and upheaval. If anything, we may come out of this with better health or hygiene habits and we may also lose someone close to us. Please know that we are here for you as your thinking partner, your resource, and your guide. We welcome you to reach out to talk with us and we want you to know that we truly value you as our client. We are grateful for the trust you've placed in us and in helping guide you through your financial life.

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Asset Index Category	2Q 2020 %	YTD 2020 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	19.95	-4.04	8.49	11.64
S&P 400 Index-Mid-size Companies	23.54	-13.56	3.49	9.62
Russell 2000 Index-Sm Companies	25.00	-13.61	2.83	8.99
Natural Resource Funds	26.24	-15.15	-1.29	1.60
Gold	12.07	17.13	8.07	3.04
US Real Estate Funds	13.66	-16.19	3.98	8.86
Global Real Estate Funds	10.47	-18.44	2.05	6.52
MSCI EAFE-Developed International	14.17	-12.59	-0.68	2.82
MSCI EM Index-Emerging Markets	17.27	-10.73	0.47	0.81
Barclays US Aggregate Bond Index	3.15	8.72	3.36	3.88
Long US Government Bond Index	2.90	6.14	4.30	3.82
Emerging Market Bond Index	12.91	-5.09	2.88	3.27

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