



Our investment experts share their perspectives on market events, economic data and developing themes in our monthly review of the global capital markets.

EQUITY HIGHLIGHTS

- Equity markets continued to recover in May with all constituents in the opportunity set, save for Emerging Markets Value, posting positive returns. U.S. growth stocks and international small cap stocks were the top performers in the opportunity set during the month as the Russell Mid Cap Growth Index returned 10.05%, the Russell 2000 Growth Index returned 9.45% and the MSCI World Ex. U.S. Small Cap Index returned 7.01%. The worst performers in the opportunity set were the MSCI EM IMI Value Index returning -0.16%, the MSCI EM IMI Growth Index returning 1.85% and the Russell Top 200 Value Index returning 2.86%.
- Save for the U.S. Large Blend and Foreign Large Blend categories, active categories in the active/passive opportunity set continued their year-to-date outperformance of passive categories. Average year-to-date outperformance of active versus passive constituents increased to 2.49% during the month of April.
- U.S. growth outperformance on a rolling five-year basis relative to value widened further in May. Growth's outperformance has been driven partially by a prolonged low economic growth environment and significant outperformance from large cap information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to improvement in value relative performance.

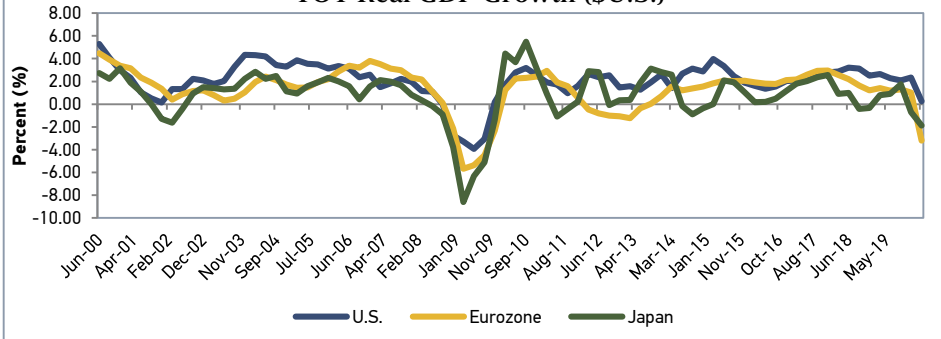
FIXED INCOME HIGHLIGHTS

- Performance within the fixed income opportunity set was mixed in May. The Barclays EM USD Aggregate Index was the top performer having returned 4.61%, followed by the Barclays U.S. Corporate High Yield Index which returned 4.41% and the Barclays U.S. Credit Index which returned 1.63%. The worst performers in the opportunity set were the Barclays U.S. Government Index returning -0.24%, the Barclays Global Treasury Ex. U.S. Index returning -0.01% and the Barclays U.S. Mortgage Backed Securities Index returning 0.12%.
- Ten-year government bond yields moved higher in the U.S., Germany and France in the month of May. German ten-year yields exhibited the largest increase having moved higher by 12 basis points. Ten-year yields in the U.S. increased by three basis points and French ten-year yields increased by one basis point. Ten-year yields moved lower in both Italy and the U.K., with Italian yields decreasing by 34 basis points and yields in the U.K. decreasing by five basis points.
- Municipal/Treasury ratios fell significantly month-over-month in May but remain above their long term averages. Shorter-dated maturities within the opportunity set saw the most significant decrease in ratios as the ratio for the two-year maturity decreased from 484.04 to 101.27 month-over-month in May and the three-year maturity decreased from 409.28 to 120.42 month-over-month in May.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
MSCI ACWI IMI	-9.94%	Barclays US Aggregate	5.47%	US Fund Multialternative	-6.15%	6-month	0.18%	Prime Rate	3.25%
Russell 3000	-5.63%	Barclays Gbl Treas xUS Hdg	2.27%	DJ Equity All REIT	-15.10%	1-year	0.17%	LIBOR (3 Mo)	0.34%
S&P 500	-4.97%	Barclays US TIPS	4.84%	Bloomberg Commodity	-21.20%	3-year	0.19%	Oil Price (\$/barrel)	\$35.49
MSCI EAFE	-14.26%	Barclays US High Yield	-4.73%			5-year	0.30%	Gold (\$/t oz)	\$1,751.70
MSCI EM	-15.96%	Barclays EM Aggregate	-2.85%			10-year	0.65%		
						30-year	1.41%		

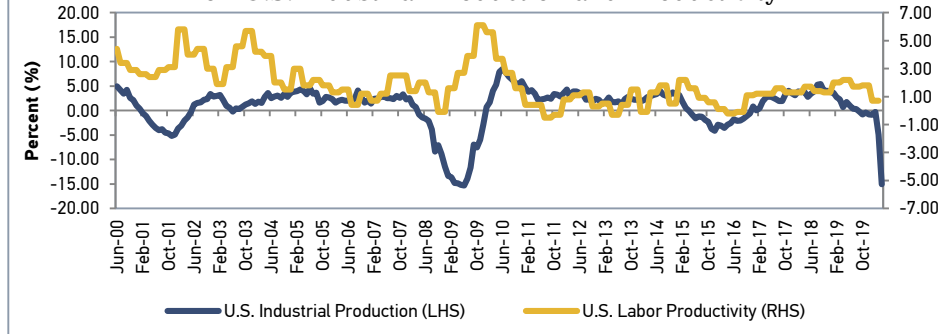


YOY Real GDP Growth (\$U.S.)



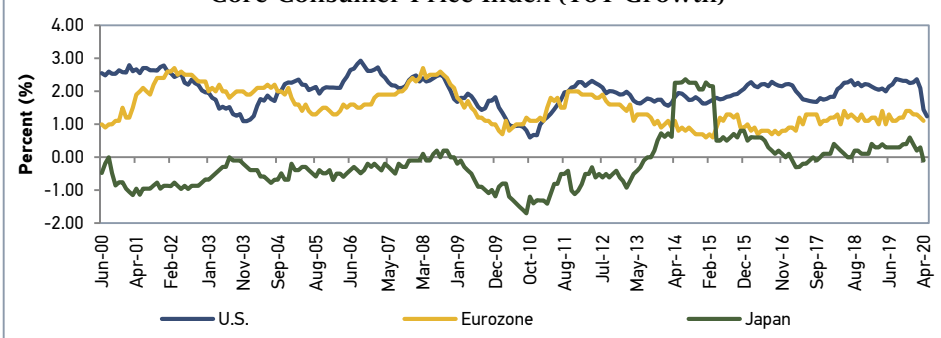
Data as of 03.31.2020; Source: FactSet

YoY U.S. Industrial Production and Productivity



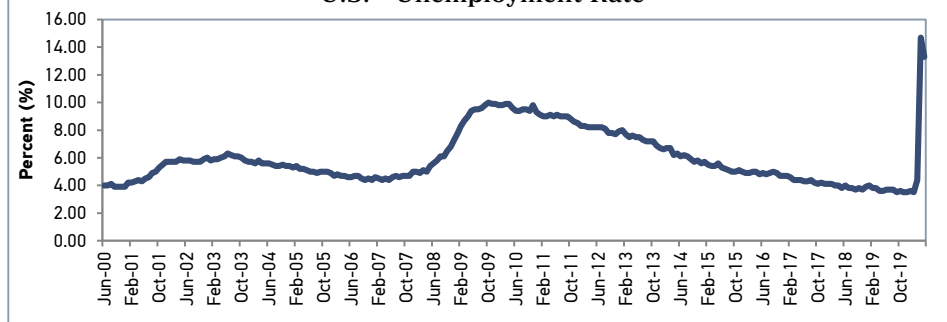
Labor Productivity data as of 03.31.2020, Industrial Production data as of 04.30.2020; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. data as of 05.31.2020, Eurozone and Japan data as of 04.30.2020; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

U.S. - Unemployment Rate



Data as of 05.31.2020; Source: FactSet

- Recent economic data releases continue to demonstrate the huge negative impacts of COVID-19, although there was some stabilization in the May employment data.
- After spiking to 14.7% in April, the unemployment rate surprisingly declined to 13.3% in May. While current unemployment is likely higher than estimated due to classification issues, adjusted estimates still suggest improvement in May versus April.
- First quarter GDP growth was sharply negative in both the U.S. and Europe. Year-over-year growth has turned negative in Europe and is barely positive in the U.S.
- Core U.S. inflation was negative for the third consecutive month in May. European inflation has moved sharply lower and Japan year-over-year inflation has returned to negative territory.
- After plummeting in March, U.S. industrial production took an even sharper turn lower in April, as the impact of virus-related shut-downs were felt over the entire month.



Leading	Initial Jobless Claims	In the week ending May 29, the four-week moving average of Initial Jobless Claims was 2,284,000 a decrease of 324,750 from the previous week's revised average.
	Manufacturing	- ISM Manufacturing registered 43.1% in May a 1.6 percentage point increase over the previous reading. A reading below 50.0% indicates contraction. - ISM Manufacturing New Orders registered 31.8% in May a 4.7 percentage point increase over the previous reading. - ISM Non-Manufacturing registered 45.4% in May a 3.6 percentage point increase over the previous reading.
	Housing/Construction	Building permits fell 21.4% in April and have fallen 19.8% over the past year.
Coincident	Consumer Confidence	The Consumer Confidence Index rose in May to 86.6 compared to 85.7 in April.
	Nonfarm Payrolls	Total Nonfarm Payroll employment rose 2,509,000 in May while the unemployment rate fell to 13.3%.
	Industrial Production	Industrial Production fell 11.3% in April and is down 15.0% over the past year.
	Personal Income	Real Disposable Personal Income rose 13.4% in April and is up 13.8% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	This ratio was up 0.2% in April and 2.5% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.
	Inflation	- CPI (All Items) fell 0.8% in April and is up 0.4% over the trailing one year period. - CPI (Core) fell 0.4% in April and is up 1.4% over the trailing one year period.



**Nominal Trade-Weighted U.S. Dollar
Major Currencies**



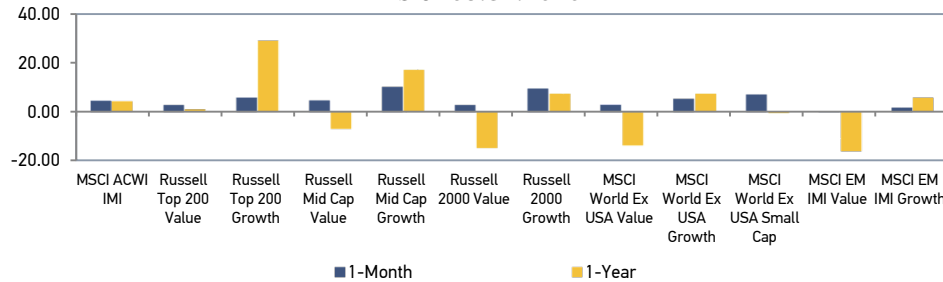
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -1.1% through May and the index is up 2.7% year-to-date. The dollar fell -1.5% versus the Euro in May.

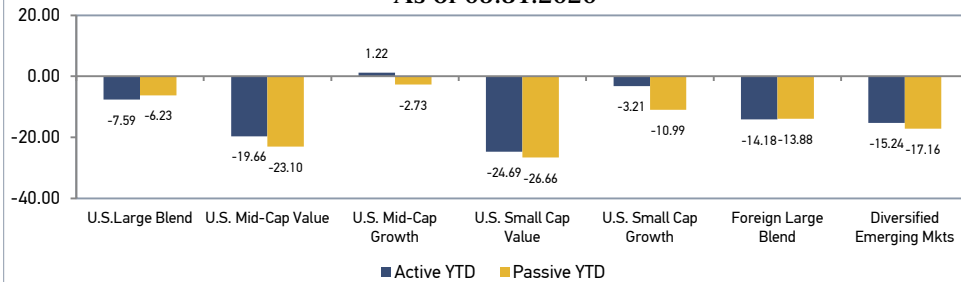


Equity Market Performance
As of 05.31.2020



Source: Morningstar, Russell Investments

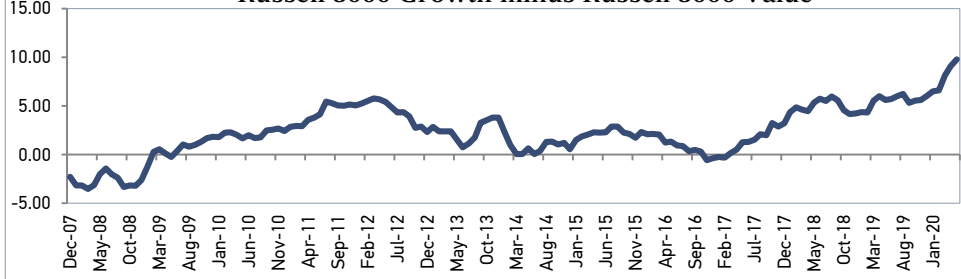
Active vs. Passive
As of 05.31.2020



Source: Morningstar, Russell Investments

Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

Rolling 5-Year Return Differential
Russell 3000 Growth minus Russell 3000 Value



Data as of 05.31.2020; Source: Morningstar

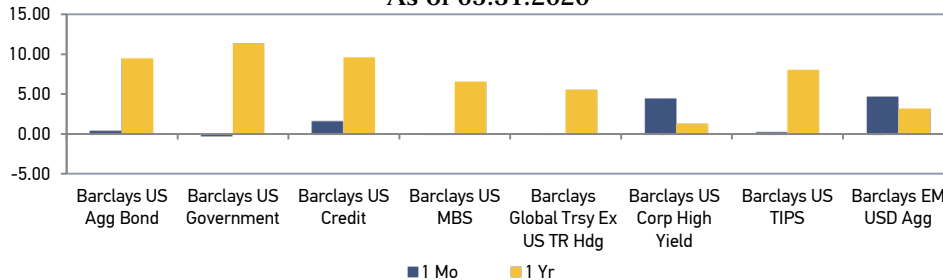
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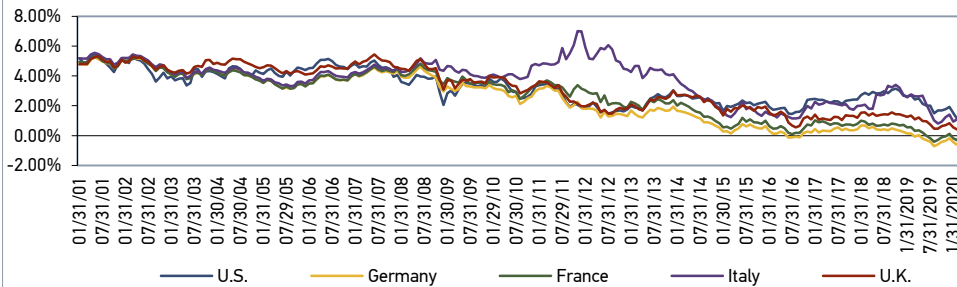


Bond Market Performance
As of 05.31.2020



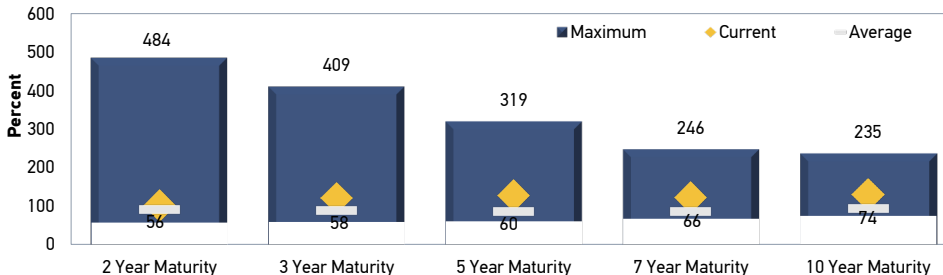
Source: Morningstar, Barclays

10-Year Government Bond Yields



Data as of 05.31.2020; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 05.31.2020



Source: Thompson Reuters; Sterling Capital Management Analytics.

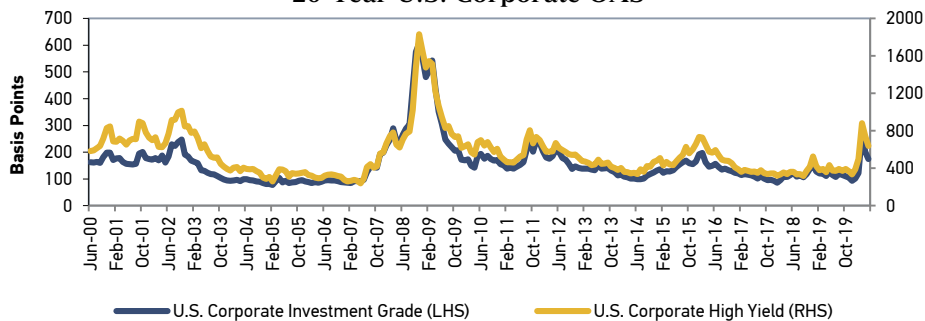
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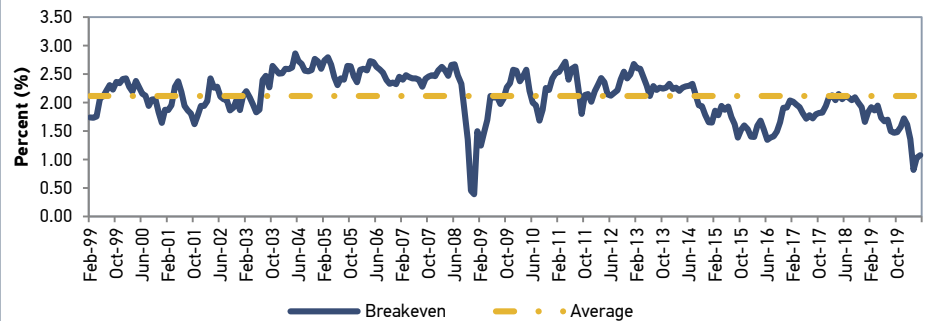


20-Year U.S. Corporate OAS



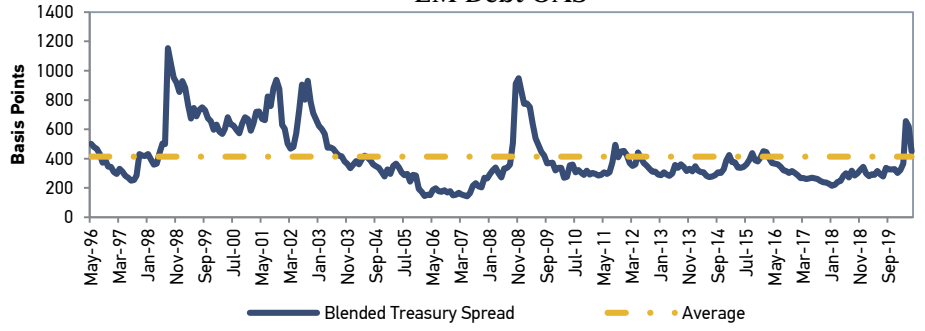
Data as of 05.31.2020; Source: FactSet

10-Year TIPS Breakeven



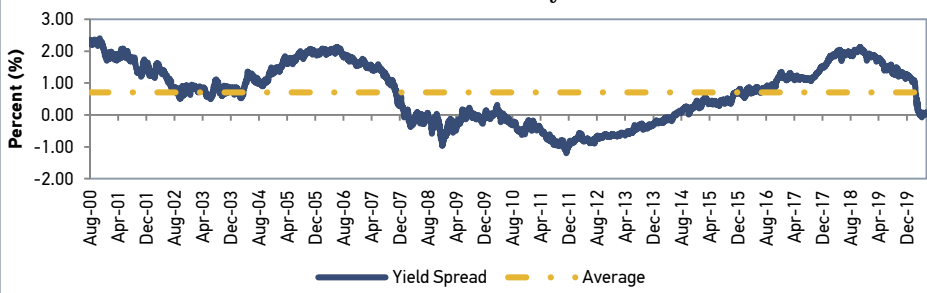
Data as of 05.31.2020; Source: Federal Reserve Board of Governors

EM Debt OAS



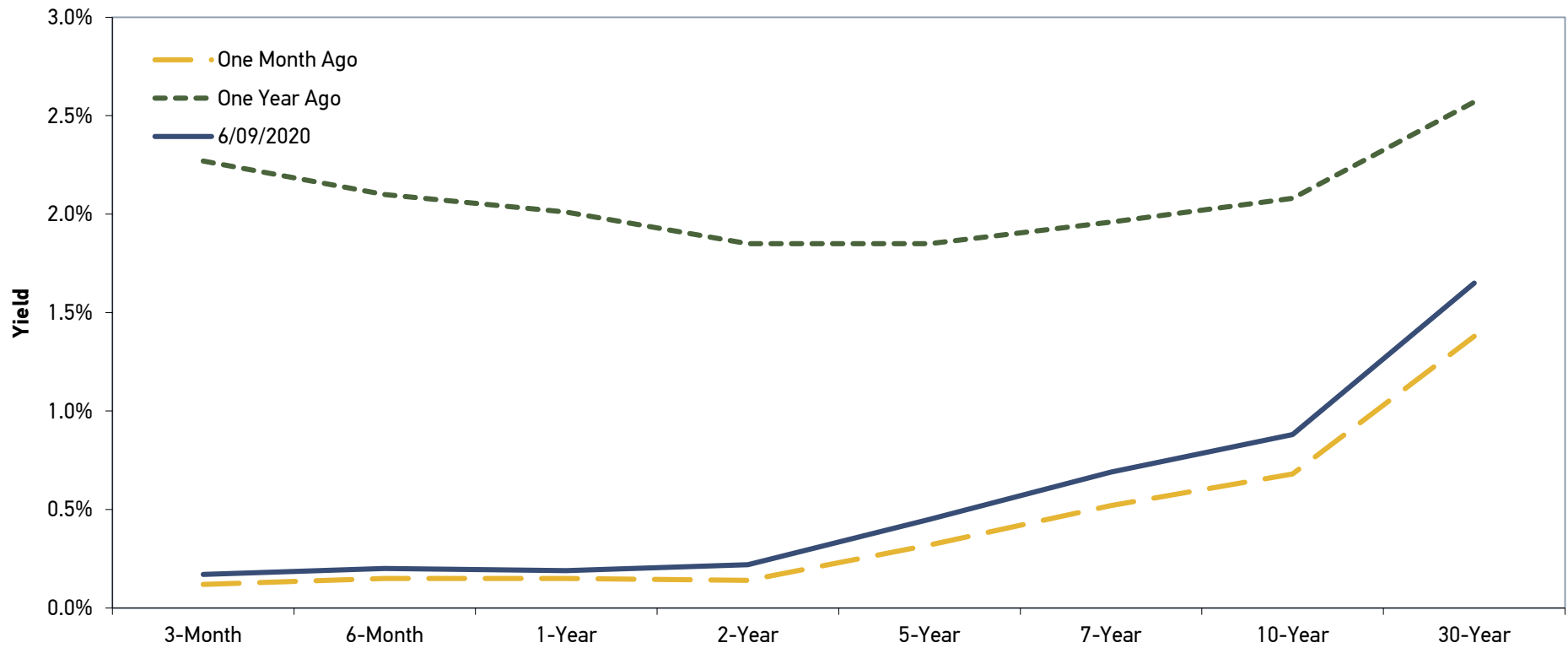
Data as of 05.31.2020; Source: Barclays

Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 06.02.2020; Source: Barclays

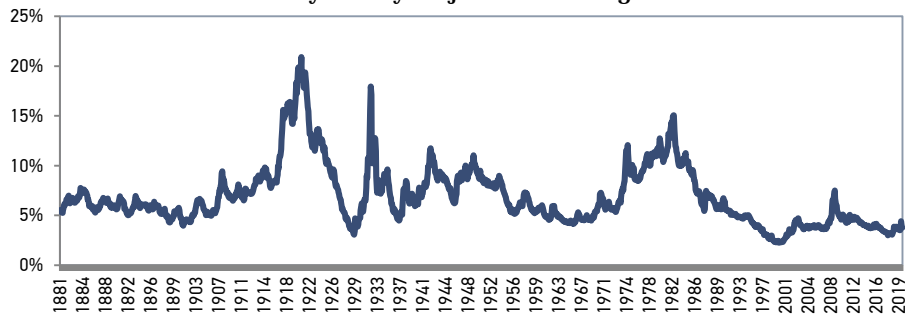
- Credit markets continued to recover in May as both Investment Grade and High Yield corporate bond spreads moved significantly lower for the second consecutive month.
- Market inflation expectations as measured by TIPS breakeven rates inched higher in May but remain very low relative to history.
- Emerging Market debt spreads moved significantly lower in May. The yield spread of U.S. to Global Treasuries was little changed in May and remains below the historical average.



- As of 06.09.2020, yields moved higher across the curve month-over-month. Longer-dated maturities saw the most pronounced increase in yields with the ten-year yield increasing by 20 basis points and the 30-year yield increasing by 27 basis points.

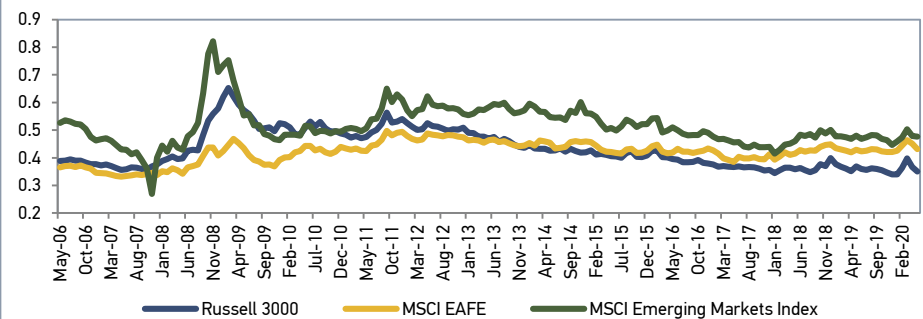


U.S. Cyclically Adjusted Earnings Yield



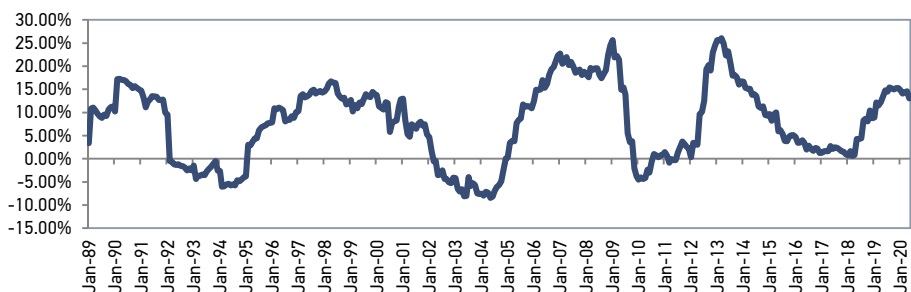
Data as of 05.31.2020; Source: Bloomberg, Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



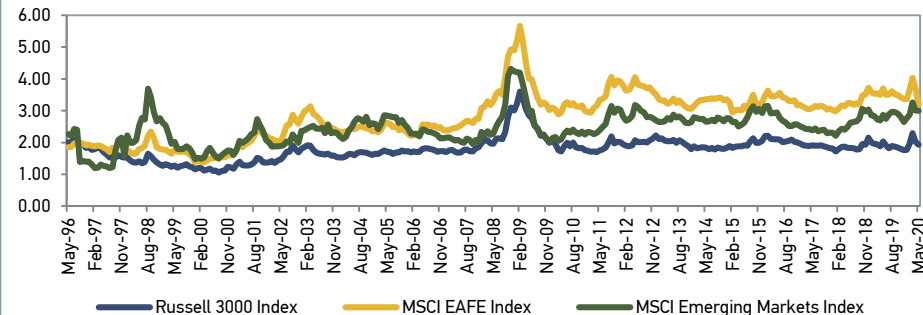
Data as of 05.31.2020; Source: Russell, MSCI

**U.S. 3-Year Real Revenue Growth
Russell 3000 Non-Financials**



Data as of 05.31.2020; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 05.31.2020; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield moved lower in May as equity prices rallied. Long-term real U.S. sales growth moved lower in May and is likely to weaken further as the impacts of the coronavirus are more fully reflected in financial results.
- In May, revenue to firm value ratios declined across U.S. and international markets.
- Global equity dividend yields continued to move lower in May as equities rallied for the second consecutive month. International Developed yields continue to provide a significant income advantage over the U.S. Emerging market yields have improved relative to other markets.

Appendix



Core Consumer Price Index: Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

Option Adjusted Spread (OAS): A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

Revenue to Firm Value: Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

TIPS Breakeven: The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

U.S. 3-Year Real Revenue Growth, Russell 3000 Non-Financials: For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

U.S. Cyclically Adjusted Earnings Yield: The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

YOY US Productivity Growth: The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.



The volatility of an index varies greatly; all indices are unmanaged and investments cannot be made directly in an index.

The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The Bloomberg Barclays Global Treasury Ex US Hedged Index is comprised of securities issued by developed ex. US and emerging market governments. The index is hedged against constituent currencies versus the US dollar.

The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index composed of securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. It is not possible to invest in the Bloomberg Barclays U.S. Aggregate Bond Index, which is unmanaged and does not incur fees and charges.

The Bloomberg Barclays U.S. Corporate High Yield Index measures the US corporate market of non-investment grade, fixed-rate corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Bloomberg Barclays US Government Index is comprised of securities issued by the US government and its agencies with at least one year until final maturity.

The Bloomberg Barclays U.S. MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). It is formed by grouping the universe of individual fixed rate MBS pools into generic aggregates.

The Bloomberg Barclays US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

The Bloomberg Commodity Index and related sub-indices are composed of futures contracts on physical commodities and represents 22 separate commodities traded on US exchanges, with the exception of aluminum, nickel and zinc.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The MSCI Emerging Markets Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 26 Emerging Markets (EM) countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The MSCI Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 26 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

The MSCI ACWI ex USA Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 22 Developed Markets (DM) countries and 26 Emerging Markets (EM) countries.

The MSCI World ex USA Small Cap Index captures small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 2,529 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country.

The MSCI World ex USA Value Index captures large and mid cap securities exhibiting overall value style characteristics across 22 of 23 Developed Markets countries.

The Russell 2000® Growth Index measures the performance of growth style of investing in small cap U.S. stocks. The Growth Index contains those Russell 2000 securities with greater-than-average growth orientation.

The Russell 2000® Value Index measures the performance of value style of investing in small cap U.S. stocks. The Value Index contains those Russell 2000 securities with less-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-to-earnings ratios than those in the Growth Index.

The Russell 3000® Index measures the performance of the 3,000 largest US companies based on total market capitalization.

The Russell Midcap® Growth Index measures the performance of growth styles of investing in Mid Cap U.S. stocks. The Growth Index contains those Russell Mid Cap securities with greater-than-average growth orientation.

The Russell Midcap® Value Index measures the performance of value style of investing in Mid Cap U.S. stocks. The Value Index contains those Russell Mid Cap securities with less-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-to-earnings ratios than those in the Growth Index.

The Russell Top 200® Growth Index offers measures the performance of the especially large cap segment of the US equity universe represented by stocks in the largest 200 by market cap. It includes Russell Top 200® Index companies with higher growth earning potential as defined by Russell's leading style methodology.

The Russell Top 200 Index is an index of the largest 200 companies in the Russell 3000 index. It is commonly used as a benchmark index for U.S.-based ultra large-cap (mega-cap) stocks with the average member commanding a market capitalization of upwards of \$200 billion.

The S&P 500 is an unmanaged capitalization-weighted index of 500 U.S. stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Trade-Weighted US Dollar Index, also known as the broad index, is a measure of the value of the United States dollar relative to other world currencies. It is a trade weighted index that improves on the older U.S. Dollar Index by using more currencies and the updating the weights yearly.



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