



Price Returns

Index	Close	Week	YTD
Dow Jones Industrial Average	25,827	3.2%	-9.5%
S&P 500 Index	3,130	4.0%	-3.1%
NASDAQ	10,208	4.6%	13.8%
Russell 2000 Index	1,379	3.9%	-13.8
MSCI EAFE Index	1,784	0.2%	-12.4%
10-yr Treasury Yield	0.67%	0.0%	-1.3%
Oil WTI (\$/bbl)	\$40.1	4.3%	-34.3%
Bonds*	\$118.03	0.1%	6.3%

Source: Bloomberg, FactSet

*Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 index) rose 4.0% as optimism regarding vaccine developments, ongoing stimulus expectations, and accommodative policies from the Federal Reserve offset a resurgence in COVID-19 cases. Total U.S. infections rose above 50,000 for the first time on Thursday as California, Texas, Florida and Arizona all hit record levels this week leading to more states scaling back or pausing reopening. President Trump told Fox Business this week that he supports another round of direct payments to individuals, and he wants a larger amount than Democrats. The dollar was weaker, gold rose 0.5%, & oil (WTI) spurted higher by 4.3%
- Sector performance:
 - Communication services (+5.6%) outperformed, led by **Facebook** (+8.0%) and Twitter (+6.3%) as analysts brushed off advertising boycotting. Google parent **Alphabet** became the fourth U.S. company to eclipse \$1 trillion in market value, joining Amazon, **Microsoft**, and Apple
 - REITs (+5.6%) and utilities (+4.9%) outperformed
 - Materials (+5.5%) outperformed led by paper & packaging, and special chemicals
 - Consumer discretionary (+5.3%) outperformed led by **Amazon** (+7.3%), Tesla (+25.9%), Expedia (+9.4%), and Las Vegas Sands (+7.0%)
 - Industrials (+4.1%) outperformed led by **FedEx** (+19.5%), **UPS** (+6.6%), Boeing (+6.4%) and airlines
 - Health care (+4.1%) outperformed led by hospitals and services
 - Information Technology (3.7%) underperformed led by Apple (+3.0%), **Visa** (+3.4%), **Fiserv** (+3.5%), **PayPal** (+4.0%), and **Adobe** (+3.8%)



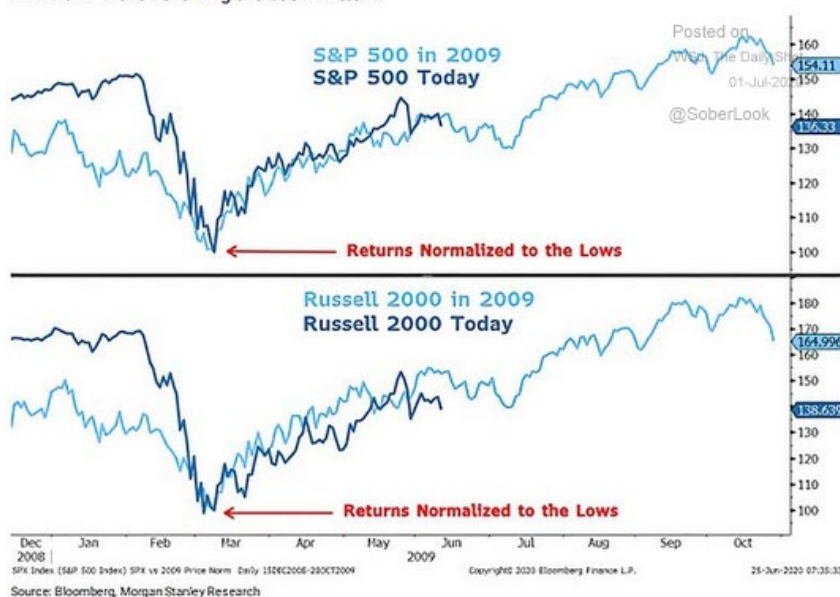
- Consumer staples (+3.2%) underperformed led by **Tyson Foods** (+0.3%), Walmart (+0.8%), Walgreens (+2.0%), & Phillip Morris (+2.3%)
- Energy (+2.2%) underperformed despite oil prices rising +4.3%
- Financials (+1.6%) underperformed with weakness in banks
- We were humored by a comment in *Barron's* this weekend, which lamented that “the S&P 500 has advanced just 1.6% since June 2.” Apparently, author Ben Levisohn’s calculator isn’t working, as a 1.6% monthly advance translates to a 21% annualized rate of return, or roughly double the stock market’s historical return
- After declining 20% in the first quarter of 2020, the S&P 500 rallied 20% to notch its best quarter since 1998 as investor sentiment improved following unprecedented monetary and fiscal stimulus along with positive vaccine developments and economic reopening policies. Growth and stay- and work-from-home stocks outperformed value stocks and companies leveraged to economic reopening during Q2 and the first half of the year. Large caps outperformed small caps

	QTD			YTD		
	Value	Blend	Growth	Value	Blend	Growth
Large	14.3%	20.5%	27.8%	-16.3%	-3.1%	9.8%
Mid	19.9%	24.6%	30.3%	-18.1%	-9.1%	4.2%
Small	18.9%	25.4%	30.6%	-23.5%	-13.0%	-3.1%

Source: JP Morgan Guide to Markets (Public Website)

- The current stock market recovery appears quite similar to the 2009 recovery after the 2008 Global Financial Crisis

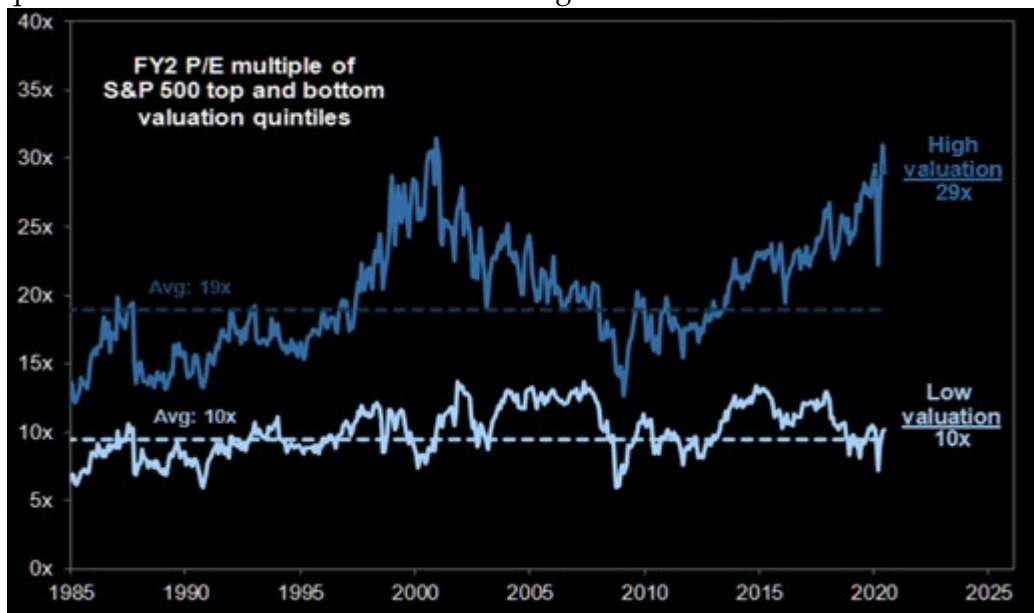
Exhibit 4: We're Following the 2009 Pattern



Source: Wall Street Journal

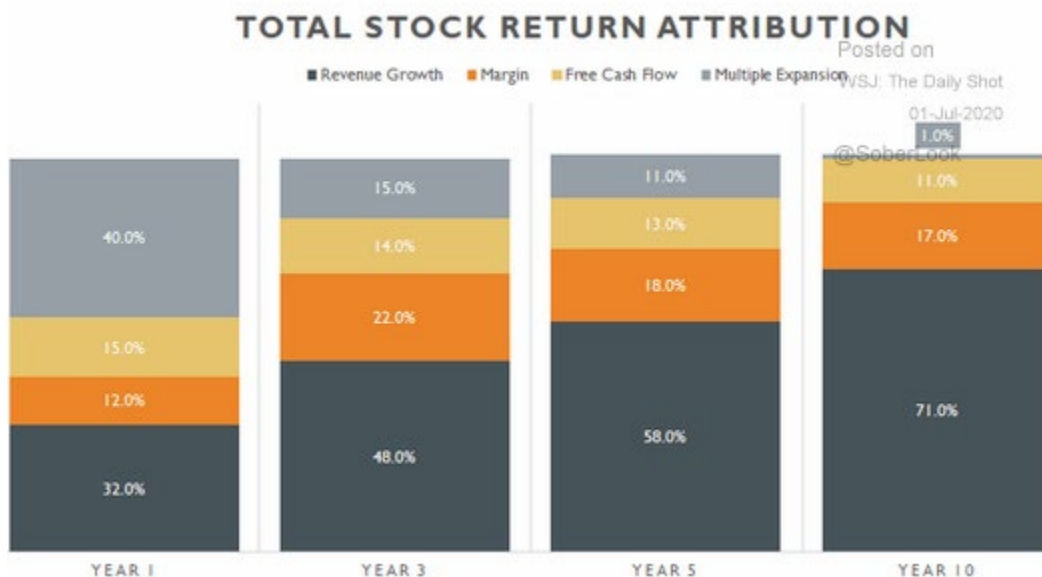


- As growth and stay- and work-from-home stocks outperformed the valuation gap between the top and bottom quintiles of the S&P 500 has reached the highest level since the dot.com bubble in 2000



Source: Wall Street Journal

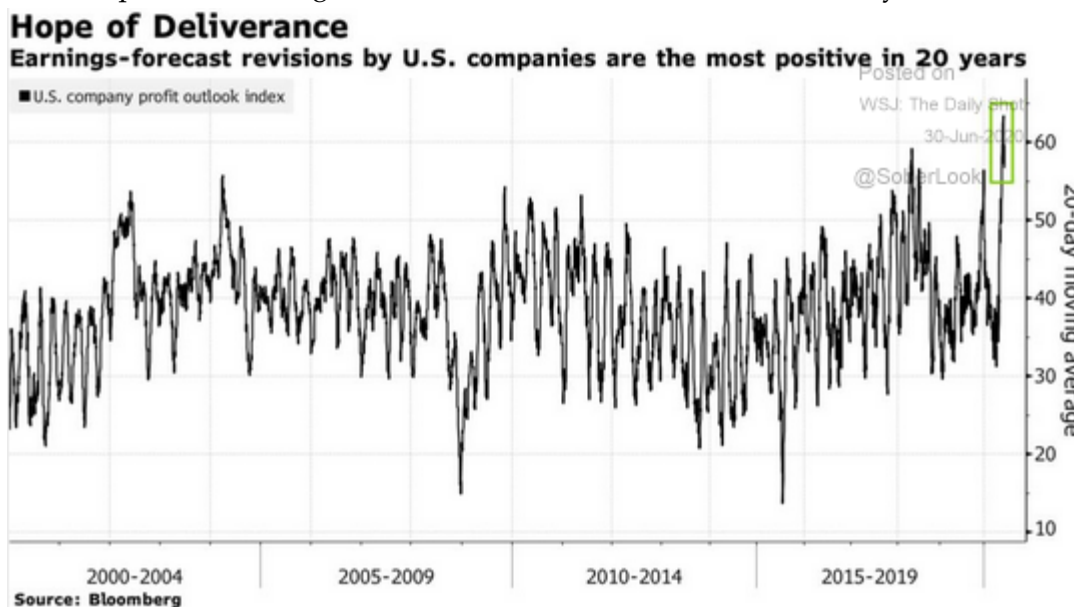
- The chart below illustrates that 40% of the return of the S&P 500 Index over the past year has been driven by multiple expansion, which is well above the 1.0% contribution to return from multiple expansion over the trailing 10 years



Source: Wall Street Journal



- Part of the multiple expansion in the past year likely has been driven by investors anticipating improvements in earnings and global economics. Investor's positive forward outlook is supported by the increase in positive earnings-forecast revisions, which are the most 20 years



Source: Wall Street Journal

- Over the past century, the index weights of growth, stability and defensive sectors have increased, while cyclical sectors have declined

S&P 500 Index Constituents Have Shifted Over Time



*Information technology, communications, health care, consumer staples, consumer discretionary, utilities, real estate **Financials, industrials, materials, energy

Source: Bloomberg as of June 22, 2020

Source: Wall Street Journal



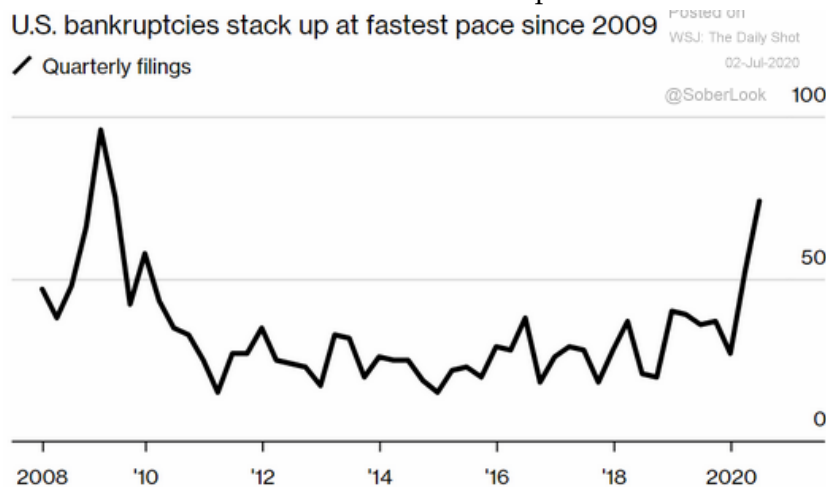
Fixed Income Markets

- Investment-grade bonds have outperformed high-yield so far in 2020, a notable divergence to the stock market



Source: Wall Street Journal

- U.S. bankruptcies have accelerated in 2020 to the fastest pace since 2009



Note: Reflects Ch. 11 and 7s for public and private companies, liabilities \$50m+

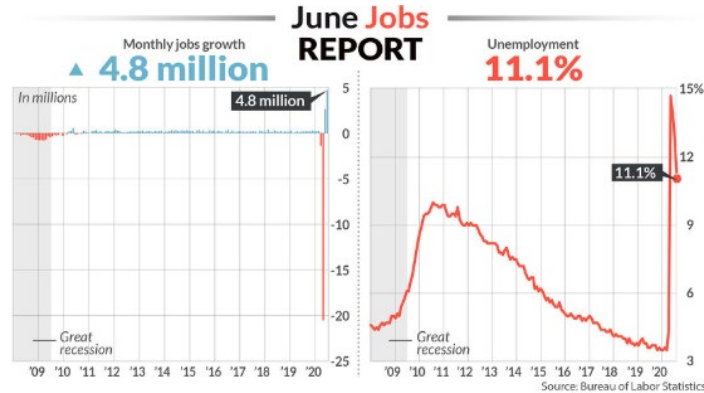
Source: Wall Street Journal

U.S. Economic and Political News

- The Conference Board's Consumer Confidence index rose to 98.1 in June from a revised 85.9 in May, and far ahead of the 90.8 consensus forecast
- Chicago PMI lifted to 36.6 in June, following a 38-year low in May, but the magnitude of the rebound was below expectations which had estimated a 44.5 print
- ADP's Employment Report showed a gain of 2.37 million jobs, well below the 3 million consensus estimate

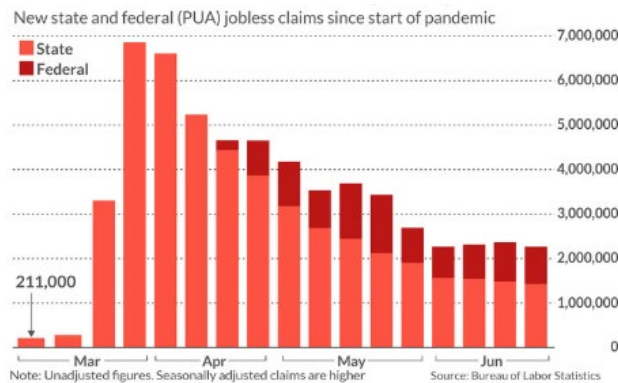


- But Non-Farm Payrolls expanded 4.77 million in June, considerably higher than the 3.06 million consensus forecast. The unemployment rate fell to 11.1%, materially better than the 12.5% expectation



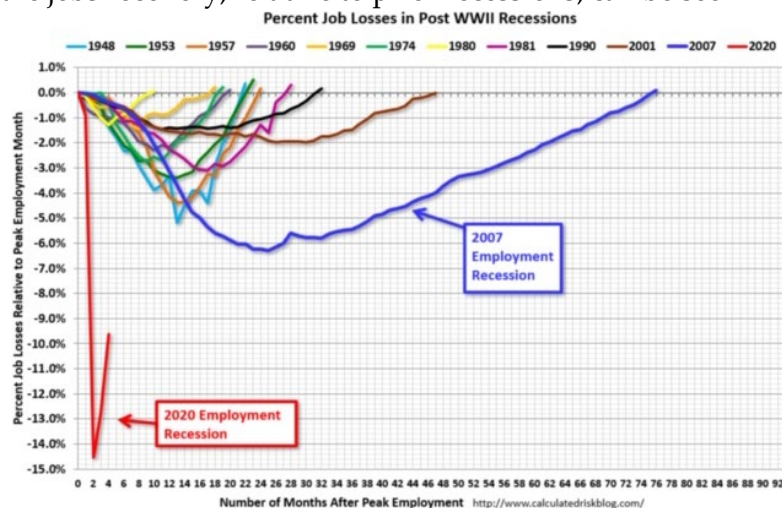
Source: Marketwatch

- Weekly Jobless claims fell to 1.43 million, a rate similar to the past several weeks, though still historically elevated



Source: Marketwatch

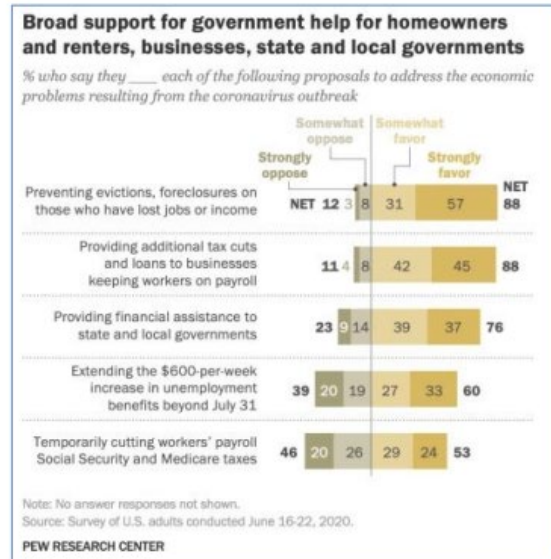
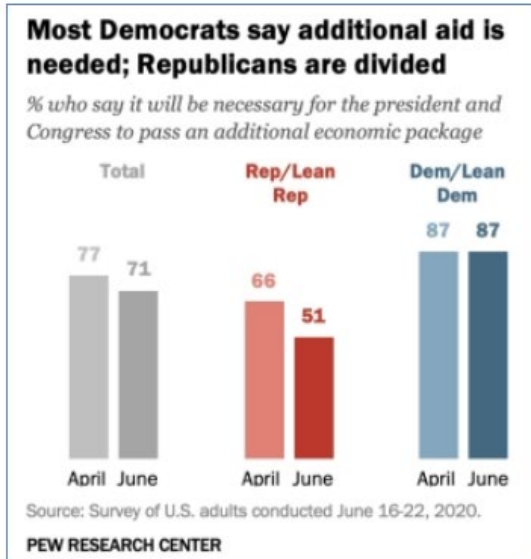
- The trajectory of the jobs recovery, relative to prior recessions, can be seen in the accompanying graphic



Source: Calculatedriskblog.com

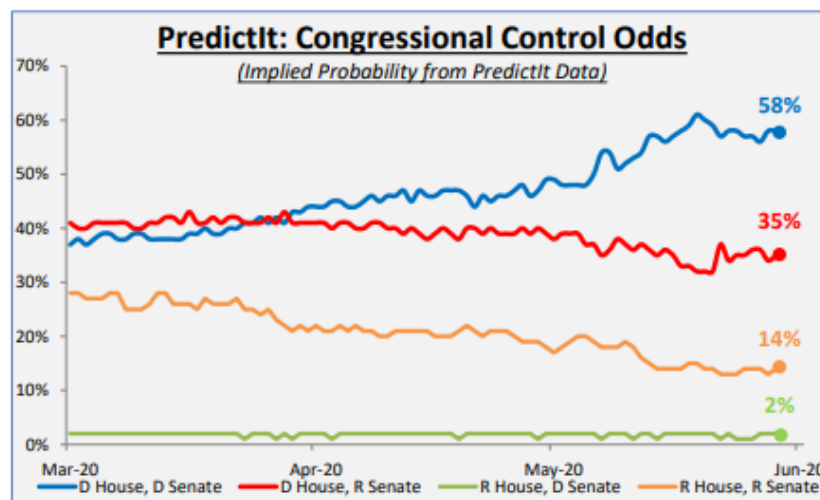


- After the July 4 recess, a second stimulus bill will get more attention inside the Beltway, with a variety of views about what should/shouldn't be included in it



Source: Wolfe Research

- According to PredictIt, the odds have risen that Democrats will claim both houses of Congress in November. That said, it seems very unlikely that either party will secure enough seats to command a filibuster-proof majority in the Senate. To be sure, there's a lot of time between now and November, and there will be considerable debate, political advertising, and other variables that could drive an outcome different than the probabilities shown below



Source: Wolfe Research



International Markets and News

- The Chinese stock market (Shanghai Composite) rose to its highest level since January, with several economic data points suggesting that the local economy is recovering, including Caixin/Markit Manufacturing PMI rising to a three-month high of 50.9 in June (above 50 signals improving conditions)
 - Car sales in China surged 11% in June from a year ago, marking the third straight monthly gain
 - The People's Bank of China cut its benchmark lending rates by a quarter percentage point week in an attempt to support small and medium sized businesses
- European equities (STOXX Europe 600) rose 2.1% as of Thursday (07/02) as Eurozone PMI for manufacturing rose to 46.9 from 39.4, ahead of expectations
 - German unemployment and retail sales were ahead of expectations
 - European Central Bank President Lagarde said that the worst of the coronavirus crisis might be over, but her view was expressed with some trepidation because there could be a second wave of infections
- Japanese equities (Nikkei 225 Index) fell -1.6% as the Bank of Japan's quarterly survey of economic conditions showed a steep drop in confidence in recent months due to the pandemic
 - Retail sales fell 12.3% in May year-over-year following a 13.9% annual decrease in April



This Week:

- Chinese stocks ripped higher, by the most since 2015, after the government encouraged citizens to buy stocks in a full-page newspaper editorial
- **Berkshire Hathaway** is acquiring certain natural gas assets of Dominion Resources, with the latter company becoming more of a pure-play regulated utility and announcing it will cut its dividend
- U.S. futures are indicated sharply higher
- Corporate news flow will be slow this week with notable earnings including, but not limited to: Fast Retailing, Walgreens Boots Alliance, Paychex, Seven & I Holdings, Aeon, Delta Air Lines. Quarterly earnings season begins in earnest a week from now, when many banks will report their results
- The U.S. macro-economic calendar will see domestic PMI, along with Eurozone retail sales on Monday, while Tuesday we see Germany Industrial production. Thursday will see domestic initial jobless and continuing claims, and Friday domestic PPI along with several European Industrial and Manufacturing production
- U.S. Economic data:
 - Monday: Services PMI, ISM Non-Manufacturing Index, Domestic Auto Sales SAAR
 - Tuesday: Ivey PMI, JOLTS
 - Wednesday: MBA Mortgage Purchase Applications, Consumer Credit
 - Thursday: Limited economic data
 - Friday: PPI ex Food, Energy, PPI

As always, thank you very much for your interest in our thoughts and support of our services

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