Market Commentary

Q2 2020 in Perspective

Our evidence-based investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

Global stock markets rebounded during the second quarter and pared losses from the previous quarter. This positive performance follows the global effort to reopen economies under continued social distancing guidelines during the quarter. While we cannot say with certainty what caused markets to move, expansionary monetary policy, increased consumer retail spending, and modest jobs growth in the U.S. in the last two months of the quarter all contributed to market growth.

For the quarter, U.S. stocks (as measured by the S&P 500 Index) gained 20.5%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S.) gained 15.3%. Emerging market stocks (as measured by the MSCI Emerging Markets Index) gained 18.1%.

The U.S. Dollar Index, a measure of the value of the United States dollar relative to a basket of foreign currencies, decreased in the second quarter—the U.S. dollar decreased by 1.7% compared to foreign currencies. Over the past 12 months, the U.S. dollar appreciated by 1.3%. The decrease in the dollar is a tailwind to non-U.S. investments held by U.S. investors in the second quarter.

U.S. interest rates remained unchanged during the quarter as the Federal Reserve continues to maintain a target range of 0.0% to 0.25% for the Fed Funds rate. Since changes in interest rates and bond prices are inversely related, continued low interest rates helped increase the quarterly return for many bond asset classes.

U.S. Economic Review

The U.S. economy began to contract this year for this first time since 2014. The final reading for first quarter 2020 GDP showed a decline in economic growth of 5.0% and stands in stark contrast to the economic progress of the past 10 years. The unemployment rate finished the quarter at 11.1% after briefly spiking to near 15%. Domestic inflation remains near all-time lows as the Fed’s preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, stayed below the Fed’s target of 2.0% with a reading of 1.0% in May 2020.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Department of the Treasury, Morningstar Direct July 2020.

Financial Markets Review

Both domestic and international stocks across all size and style categories, as well as U.S. real estate investment trust (REIT) securities, had positive performance during the quarter. Non-U.S. stock returns were also impacted by the weakening U.S. dollar. During the quarter, U.S. small-cap stocks were the best performing and U.S. REIT securities were the worst performing. U.S. and global bonds continued performance from the previous quarter by posting positive results.

U.S. STOCKS				INTERNATIONAL STOCKS			BONDS	
U.S. Large-Cap Stocks	U.S. Value Stocks	U.S. Small-Cap Stocks	U.S. REIT Stocks	Int'l Value Stocks	Int'l Small-Cap Stocks	EM Value Stocks	U.S. Short-Term Bonds	Global Bonds
+20.5%	+14.3%	+25.4%	+9.1%	+12.4%	+21.7%	+13.8%	+1.2%	+0.5%

Source: Morningstar Direct July 2020. Market segment (Index representation) as follows: U.S. Large-Cap Stocks (S&P 500 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets Value Index (net div)), U.S. Short-Term Bonds (ICE BofA 1-3Y US Corp&Govt TR), Global Bonds (FTSE WGBI 1-5 Yr Hdg USD).

In the U.S., small-cap stocks outperformed large-cap stocks in all style categories. Value stocks underperformed growth stocks in all style categories. Among the nine style boxes, small-cap growth stocks performed the best and large-cap value stocks experienced the least growth during the quarter.

U.S. Stocks Q2 2020

	Value	Core	Growth
Large	14.3%	21.8%	27.8%
Mid	19.9%	24.6%	30.3%
Small	18.9%	25.4%	30.6%

Source: Morningstar Direct July 2020. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth, Mid: Russell Mid Cap, Value, and Growth, Small: Russell 2000, Value, and Growth).

In developed international markets, all nine style boxes were positive for the quarter. International small growth stocks were the highest performer. Similar to the U.S., small-cap stocks outperformed large-cap stocks across all styles.

International Stocks Q2 2020

	Value	Core	Growth
Large	12.1%	14.5%	16.8%
Mid	14.1%	18.7%	21.3%
Small	16.4%	21.7%	26.4%

Source: Morningstar Direct July 2020. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value and Growth, Mid: MSCI World Ex USA Mid, Value, and Growth, Small: MSCI World Ex USA Small, Value, and Growth).

A diversified index mix of 65% stocks and 35% bonds would have gained 10.2% during the second quarter.

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65/35 Index Mix: 0.5% Cash (ICE BofA 3M US Trsy Note TR), 13.5% ST U.S. Fixed Income (ICE BofA 1-3Y US Corp&Govt TR), 21% Global Intermediate Bonds (FTSE WGBI Hdg USD), 10% U.S. Total Stock Market (Russell 3000 Index), 14% U.S. Large Value (Russell 1000 Value Index), 10% U.S. Small (Russell 2000 Index), 5% U.S. REITs (Dow Jones U.S. Select REIT Index), 13% Intl Large Value (MSCI World Ex USA Value Index (net div.)), 7% Intl Small (MSCI World Ex USA Small Index (net div.)), 6% Emerging Markets Value (MSCI Emerging Markets Value Index (net div)).

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal, and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.