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Clear Direction in a Complex World

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Mid-Year Insights – July 2020

We hope that this letter finds you safe and healthy. It has certainly been a different world these last few months. It has been tragic for some, disrupting for all, and our lives will be changed forever in many ways. Life will eventually get back to “normal”, but there may be a new way of doing things, better in some ways but perhaps not so good in others.

Over time, we have all learned that life is full of difficult periods and trying circumstances but it is not that we have problems, because we all do, it is how we respond and solve our problems that makes us stronger and better as individuals and as a nation. All pandemics end at some point and this one will too.

As for the financial markets, markets staged a historic rebound in the second quarter driven by an initial peak in the growth of coronavirus infections in April; economic reopening across the United States and the rest of the world, hopes for a COVID-19 vaccine, and continued stimulus from global central banks, including the Federal Reserve.

The end of the first quarter marked the lows for markets so far in 2020 as new coronavirus cases in the U.S. began to peak in mid-April thanks to the historic economic shutdown. That peak and initial decline in new COVID-19 cases throughout April gave investors and markets hope that the economic shutdown would not last into the summer and the S&P 500 rallied materially as a result, gaining over 12% in April.

The rebound continued in May, as the spread of the coronavirus continued to slow, paving the way for economic reopening in the U.S and abroad. By the end of May, all 50 states had at least partially reopened their economies which led to a stronger-than-expected economic recovery. Meanwhile, markets were supported by continued economic stimulus from both the Federal government, via unemployment checks and “PPP loans” to businesses, and the Federal Reserve, via bond purchases. The S&P 500 rallied more than 4% in May, while the Nasdaq Composite turned positive for 2020—a development that seemed almost impossible during the depths of the March declines.
But the two-plus-month rally was interrupted in mid-June, thanks to a sudden resurgence in coronavirus cases. Numerous states, including Florida, Texas, Arizona and California saw coronavirus

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cases begin to increase mid-month, and by the last week of June, new daily COVID-19 cases in the U.S. hit an all-time high. As a result, volatility edged higher into the end of June, although the market reaction was muted compared to the volatility in February and March as the increased case count had not put extreme stress on various state healthcare systems.

Looking forward, as we begin a new quarter and the second half of 2020, the macroeconomic outlook has improved substantially since March, and stocks have responded accordingly with a very strong rally off the March lows. But the last two weeks of June were a stern reminder that much uncertainty remains, and during the next several months we will learn whether the coronavirus outbreak will peak, and if the economic recovery we've seen since April can continue. Those factors, along with the increasing influence of politics given the November election, will impact markets in the months ahead.

2nd Quarter Market Performance Review – A Historic Rebound

The major U.S. stock indices all enjoyed a strong rebound and substantial gains in the second quarter, and just like in the first quarter, the tech-heavy NASDAQ notably outperformed the other three major indices. In the most recent quarter, that outperformance was due to large-cap tech companies being viewed as the longer-term beneficiaries from changing work and shopping trends in response to the pandemic, specifically "work from home," cloud computing and online shopping.

On a sector level, performance was the opposite of the first quarter, as all 11 S&P 500 sectors finished the second quarter with positive returns. Traditionally defensive sectors, those that are less sensitive to changes in economic activity such as utilities, consumer staples, and healthcare, relatively underperformed after outperforming in the first quarter, and again that's historically typical when stock market gains are driven by expectations for improving economic growth.

Cyclical sectors, those that are more sensitive to changes in economic activity such as energy, consumer discretionary, and materials, outperformed in the second quarter along with the technology sector. Energy, the worst performing sector in the first quarter, was the best performing sector in the second quarter, thanks to a significant rebound in oil prices and growing expectations for a global economic recovery.

US Equity Indexes	Q2 Return	YTD
S&P 500	18.63%	-3.08%
DJ Industrial Average	16.33%	-8.43%
NASDAQ 100	29.07%	16.89%
S&P Midcap 400	22.59%	-13.01%
Russell 2000	24.87%	-12.98%

Source: YCharts, as of June 30th, 2020

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International markets also rallied in the second quarter as European and Asian economies re-opened, and those regions saw a consistent decline in new COVID 19 cases throughout the quarter. Emerging markets, whose economies are typically more sensitive to changes in expected global growth, modestly outperformed foreign developed markets and the S&P 500 thanks to a declining U.S. dollar paired with rising hope for a global economic rebound, following successful reopening in Asia and parts of Europe.

International Equity Indexes	Q2 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	15.16%	-11.07%
MSCI EM TR USD (Emerging Markets)	20.54%	-9.67%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	17.15%	-10.76%

Source: YCharts, as of June 30th, 2020

Longer-duration bonds outperformed those with shorter durations in the second quarter as global central bank commentary stated that rates would stay low for years to come, which anchored shorter duration bonds and in turn, increased the appeal of higher yielding, longer-maturity bonds.

Corporate bonds, in a sharp reversal from the first quarter, saw solidly positive returns in the second quarter thanks to optimism surrounding the economic reopening process combined with the Federal Reserve actively buying corporate bonds in an effort to ensure adequate liquidity. Investment-grade bonds outperformed high yield corporate bonds, due in part to that active buying from the Fed as well as lingering worries about how weaker companies would fare over the longer term as the global economy slowly reopens.

US Bond Indexes	Q2 Return	YTD
BBgBarc US Agg Bond	2.80%	6.14%
BBgBarc US T-Bill 1-3 Mon	0.02%	0.49%
ICE US T-Bond 7-10 Year	0.60%	11.15%
BBgBarc US MBS (Mortgage-backed)	0.24%	3.50%
BBgBarc Municipal	2.27%	2.08%
BBgBarc US Corporate Invest Grade	9.54%	5.02%
BBgBarc US Corporate High Yield	10.88%	-3.80%

Source: YCharts, as of June 30th, 2020

3RD Quarter Market Outlook

Markets enjoyed a historic rebound in the second quarter, thanks to an initial peak in coronavirus cases, continued government support and a quicker-than-anticipated economic recovery. Like markets, society also made a substantial rebound in the second quarter, as economies have at least partially reopened in all 50 states, people are starting to return to the office, some families are taking summer vacations, and there's even the hope for a return of sports and other cultural staples in the coming weeks and months. Indeed, we have come a long way from those panicked days of late March.

But while we all welcome this progress, it would be a mistake to think uncertainty and market volatility are behind us.

The outlook for the spread of the coronavirus is still very unclear, as new cases hit record highs in late June, providing a somber signal that the virus will be with us, in one form or another, for some time to come.

Regarding the economy, while progress has been better-than-expected, it's important to remember that the current level of economic activity remains far below the levels of a year ago. Despite the gains seen in the second quarter, there remains a long road ahead for the U.S. economy to return to pre-pandemic levels.

Politically, markets have largely ignored the looming presidential election so far this year, but that's likely to change in the coming months, and it's reasonable to assume the outlook for the election will typically begin to influence not just specific sectors, but also the broad markets during the third quarter.

Finally, while essential to the economic recovery so far in 2020, the historic government stimulus unleashed on the U.S. economy has also resulted in an explosion of debt and surging deficits, and we all know over the longer term, this trajectory is likely not sustainable and that is something we are mindful of as we craft long-term investment plans.

So, as we start the second half of the year, there's been a lot of progress on the economic and biological fronts, but a lot of uncertainty still remains. However, we can take comfort in the fact that there are still many tailwinds on these markets, including historic support and stimulus not only from the Federal Reserve, but also from every major global central bank. Additionally, global governments are stimulating their economies in ways that haven't been seen since the end of World War II, and the global medical community is united in a historic effort to produce a vaccine for COVID-19.

Bottom line, investors are currently facing a lot of unknowns as we begin the second half of 2020, but there are also powerfully positive forces supporting markets.

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We all know that past performance is not indicative of future results, but history has shown that a long-term approach combined with a well-designed and well-executed investment strategy can often overcome periods of heightened volatility, market corrections, and even bear markets. And, we've seen that again so far in 2020.

At Zick Whitted Taub Investment Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of this year is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a personal allocation target based on your financial position, risk tolerance, and investment timeline.

Finally, we thank you for your ongoing confidence and trust and please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Sincerely,

Allen Zick, CFP®	Brad Whitted, CPFA	Alex Taub, CRPC®
Financial Advisor	Financial Advisor	Financial Advisor

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Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transitions costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Commodities' investing is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuation even during periods when prices overall are rising. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

Barclays Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities and the Asset-Backed Securities indices.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks.

MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI Emerging Markets Index is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2007 the MSCI ACWI consisted of 48 country indices comprising 23 developed and 25 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil.

The S&P MidCap 400® provides investors with a benchmark for mid-sized companies.

LBMA Gold Price refers to the London Bullion Market Association (LBMA) Gold Price.

S&P GSCI (Broad- Based Commodities) is a leading measure of general price movements and inflation in the world economy.

Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.
The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.
The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase.
The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations.
The Barclays Capital US Aggregate Index is an unmanaged market value weighted performance Benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, and mortgage backed securities with a maturity of at least 1 year.
The **Bloomberg Barclays US Mortgage Backed Securities (MBS) Index** tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
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