



MARKET UPDATE

QUARTER 2, 2020

In the first quarter of the year the coronavirus brought a quick end to the longest period of economic expansion on record, resulting in many U.S. equity indices declining around 35% in just under six weeks. What followed was not what many had expected. In the second quarter U.S. equities produced their strongest quarterly return in more than 20 years.ⁱ

For the quarter, domestic large company stocks (S&P 500) increased 20.54% while small company stocks (Russell 2000) increased 25.42%, with growth stocks faring better than value stocks across all market capitalizations. The weakest sectors within the economy were utilities and consumer staples, while consumer discretionary, energy and technology were stronger sectors by comparison.ⁱⁱ

The U.S. dollar depreciated against most major foreign currencies during the quarter. A decrease in value of the U.S. dollar enhances returns when investing in foreign securities while an increase in the dollar's value reduces returns for U.S. investors holding foreign securities. For the quarter, the MSCI EAFE Index (in U.S. dollars) increased 14.88% while the MSCI EAFE Index (in local currency) increased 12.60%.ⁱⁱⁱ

The demand for U.S. Treasuries decreased modestly during the quarter, pushing yields higher with lower bond prices (bond yields move inversely to bond prices). The yield on 10-year Treasury bonds started at 0.62% on April 1 and rose to 0.66% by quarter end. For the quarter, the Barclays U.S. Aggregate bond index (a blended composite) increased 2.90%.ⁱⁱⁱ

On June 10, the Federal Reserve's Open Market Committee maintained the target range for the federal funds rate to between 0% and 0.25%. This is the same range for federal funds that we saw after the financial crisis set in December of 2008, which remained for seven years. Economists will make projections as to when the Fed will begin increasing rates but considering Fed Chairman Powell's comments in a post-meeting press conference it does not appear to be any time soon.ⁱⁱⁱ

Looking forward it is reasonable to expect that the financial markets could remain quite bumpy throughout 2020 and speculation will continue as to how quick or slow the recovery out of the pandemic will be. Rob Lovelace, vice chairman of the Capital Group Companies, recently shared his viewpoint in a midyear outlook. "Because the slowdown was the result of government policy – not economic imbalances or rising rates – we can see what recovery can look like when policies are relaxed. And that to me is reassuring."^{iv}

The particulars of every challenging market environment are unique, but despite the important questions about the future that remain with the coronavirus, we can see what the recovery can look like.

I welcome your input and as always, should you have any questions or concerns, or if there is a change in your investment time horizon or financial circumstances, please contact me at your convenience.

Written by North Star Resource Group

(Average Annual Returns chart on next page)

AVERAGE ANNUAL RETURNS FOR PERIODS ENDING 6/30/2020						
INDEX	2ND Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
S&P 500	20.54%	-3.08%	7.51%	10.73%	10.73%	13.99%
Russell 2000	25.42%	-12.98%	-6.63%	2.01%	4.29%	10.50%
MSCI EAFE (U.S. dollars)	14.88%	-11.34%	-5.13%	0.81%	2.05%	5.73%
Barclays US Aggregate Bond	2.90%	6.14%	8.74%	5.32%	4.30%	3.82%
BENCHMARK COMPOSITES	2ND Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
Aggressive Growth	20.40%	-7.32%	0.99%	6.11%	7.02%	11.12%
Growth	16.87%	-4.15%	3.19%	6.23%	6.68%	9.82%
Conservative Growth	13.04%	-0.80%	5.66%	6.55%	6.48%	8.53%
Income and Growth	9.48%	1.78%	7.04%	6.27%	5.84%	6.98%
Income	6.17%	4.60%	8.78%	6.33%	5.49%	5.70%

You cannot invest directly in an index. Past performance is not indicative of future results. The S&P 500 Index measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index's performance directly proportional to the company's value. The Russell 2000 Index measures the total return of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ. Investments in smaller company and micro-cap stocks generally carry a higher level of volatility and risk over the short term. The MSCI EAFE Index is the Morgan Stanley Capital International Index and is designed to measure the total return of the developed stock markets of Europe, Australia and the Far East. Investment risks associated with international investing, in addition to other risks, include currency fluctuations, political and economic instability and differences in accounting standards when investing in foreign markets. The Barclays US Aggregate Bond Index is a market-weighted index that includes U.S. government, corporate, and mortgage-backed securities, rated investment grade or higher, with maturities up to 10 years. The Benchmark Composite returns are a weighted average of index data comprised in the following manner. Aggressive Growth is 45% S&P 500, 25% Russell 2000 and 30% MSCI EAFE. Growth is 35% S&P 500, 20% Russell 2000, 25% MSCI EAFE and 20% Barclays US Aggregate Bond. Conservative Growth is 30% S&P 500, 10% Russell 2000, 20% MSCI EAFE and 40% Barclays US Aggregate Bond. Income and Growth is 20% S&P 500, 5% Russell 2000, 15% MSCI EAFE and 60% Barclays US Aggregate Bond. Income is 15% S&P 500, 5% MSCI EAFE and 80% Barclays US Aggregate Bond. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. Tracking Number 3153033/DOFU 7-2020

¹ Michael Wursthorn, "Stocks End Best Quarter in Decades, Defy Crisis" Wall Street Journal, July 1, 2020:A1

² Morningstar Direct

³ Wesbury, B., Stein, R., "The Fed is Committed to Low Rates", First Trust,

<https://www.ftportfolios.com/Commentary/EconomicResearch/2020/6/15/the-fed-is-committed-to-low-rates>, Accessed 6 July 2020.

⁴ Huntington, C., Casey, Mark., Franz, J., "U.S. Midyear Outlook: From recession to recovery", Capital Group,

https://www.capitalgroup.com/advisor/insights/articles/us-midyear-outlook-2020.html?sfid=431302827&cid=80102861&et_cid=80102861&cgsrsc=SFMC&alias=E-btn-LP-12-A2cta-Advisor, Accessed 6 July 2020.