

# Q2

## Quarterly Market Review

Second Quarter 2020

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This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

## Overview:

Market Commentary

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

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Select Currency Performance  
vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Fixed Income

Impact of Diversification

# Quarterly Market Commentary

Second Quarter 2020 – July 13, 2020

Before we dive into the usual quarterly investment insights, here's some fun trivia:

***Did you know you have to count to 1,000 before you'll find the letter "a" in a spelled-out number?***

We thought you could use that break from the torrent of mid-year market commentaries on 2020's bipolar extremes. The general theme has been how quickly global markets sold off and came back—even as economic and sociopolitical headlines continued to stoke bonfires of ongoing upheaval.

And the year is only half over.

We've seen comparisons to [Rip Van Winkle](#), who could have slept through the extraordinary turmoil and awakened in June with only minor changes to his 60/40 stock/bond portfolio. We're also seeing predictions that 60/40 portfolios have entered into a [lost decade](#) of paltry performance. [Still other forecasters](#) (perhaps to cover all grounds) suggest we're in a time with "equal reasons for caution and optimism." No kidding.

So, what's it going to be for the rest of 2020? As always, with respect to your investments, we have no idea what to expect as

an encore through year-end. Instead, we agree with [Jason Zweig](#), who wrote this in his recent "Intelligent Investor" e-newsletter:

***"The first half of 2020 should remind us that investing isn't about conquering markets; it's about mastering ourselves."***

In this context, perhaps our trivial pursuit is not so disconnected after all. We know markets are highly likely to deliver inflation-busting returns to those who can patiently "count to a thousand" while riding out the inevitable downturns. We also know investment success can take longer than you might think—potentially much longer.

Similar to what you might have first guessed about the elusive "a" in our numbering system, the initial assumptions we make about investing are often off-target until we take the time to think them through. As such, we continue to remind you of the evidence on how to persistently participate in markets, lost and found. We also continue to recommend allocating your wealth appropriately (for you) between the market's higher-risk, higher-expected-return extremes, and the sheltering calm of more stable, but lower-returning holdings.

Have we mastered the right balance for you and your personal financial goals? If not, let us know, so we can help you revisit your ideal allocations. In the meantime, let others conquer the markets, as you consider these additional words from Zweig:

***"To be an intelligent investor is to recognize that you're in a lifelong struggle for self-control— an unending effort to keep yourself from yielding to fear or greed, believing that you know what the future holds or letting short-term news knock your long-term plans off track."***







Again, let us know if we can help you and your financial plans remain on track.

Eric Hutchens

*Senior Investment Consultant &  
Chief Investment Officer*

# Quarterly Market Summary



















## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
<b>2Q 2020</b>	<b>STOCKS</b>					<b>BONDS</b>	
	<b>22.03%</b>	<b>15.34%</b>	<b>18.08%</b>	<b>11.17%</b>		<b>2.90%</b>	<b>1.76%</b>
							
<b>Since Jan. 2001</b>							
Avg. Quarterly Return	2.1%	1.4%	2.7%	2.3%		1.2%	1.1%
Best Quarter	22.0% 2020 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3		4.6% 2001 Q3	4.6% 2008 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4		-3.0% 2016 Q4	-2.7% 2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

# Long-Term Market Summary

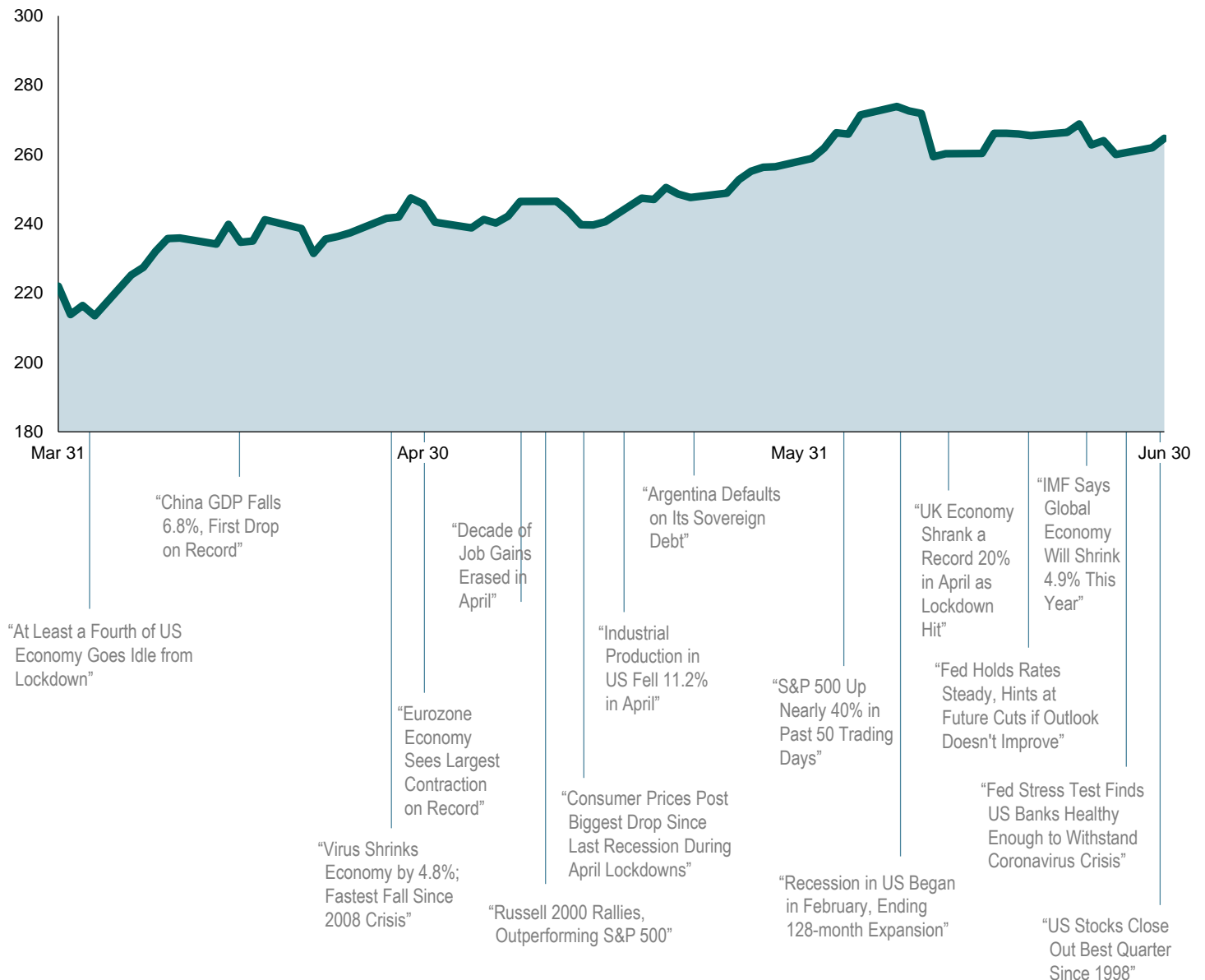
## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	6.53% 	-5.42% 	-3.39% 	-15.91% 	8.74% 	4.00% 
5 Years	10.03% 	2.01% 	2.86% 	1.62% 	4.30% 	4.49% 
10 Years	13.72% 	5.43% 	3.27% 	6.97% 	3.82% 	4.20% 

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# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2020



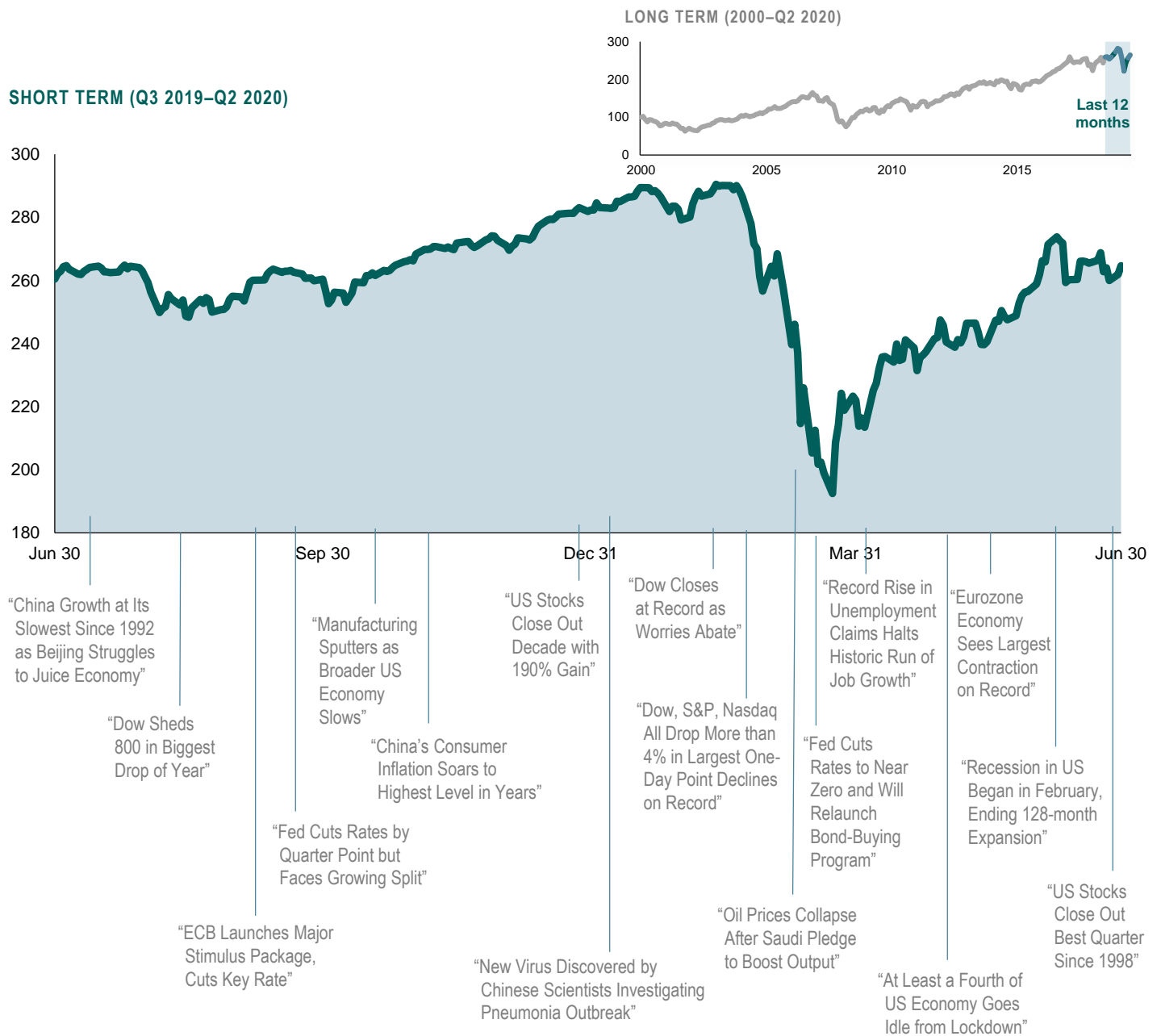
*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

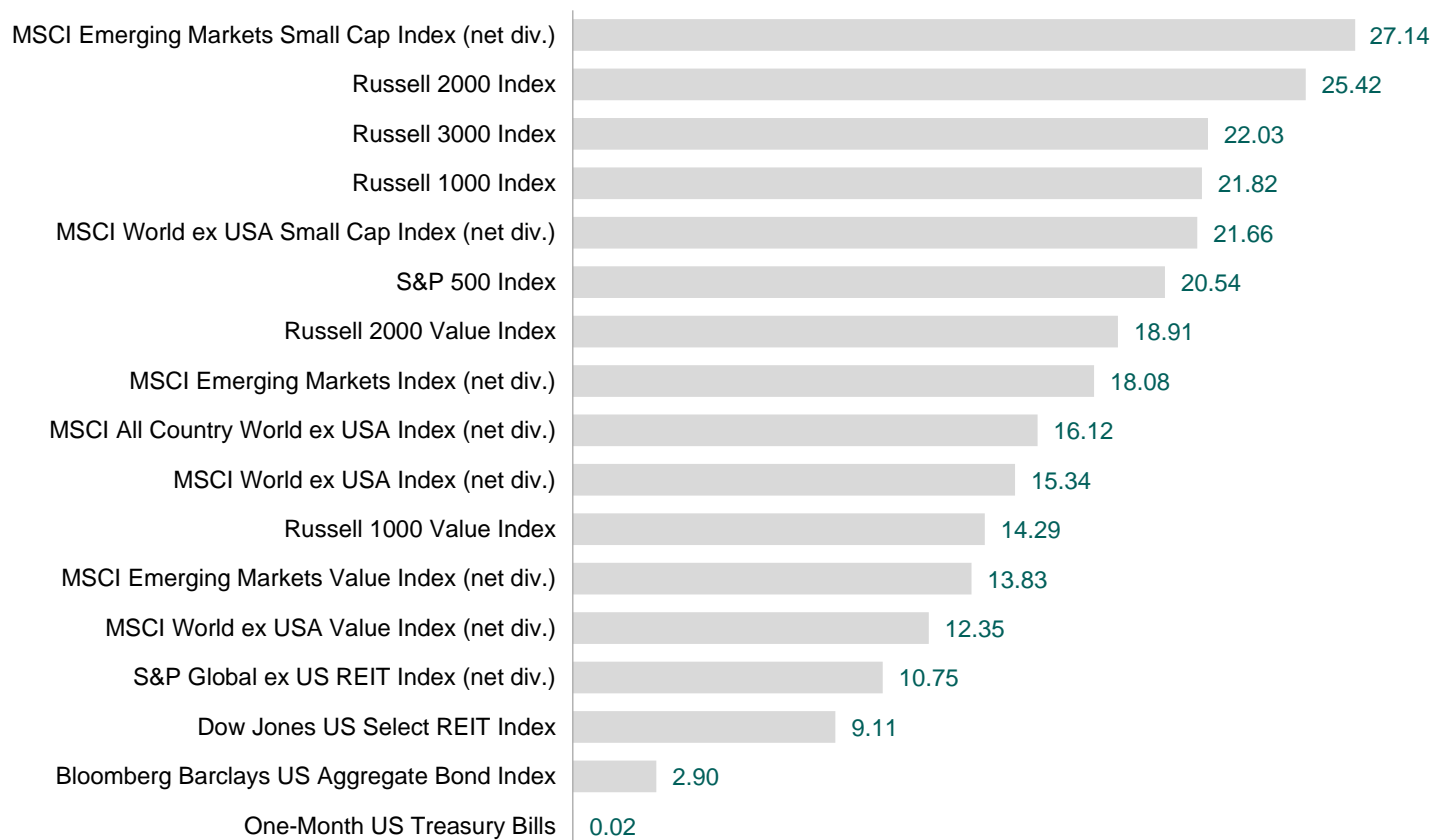
# World Asset Classes

## Second Quarter 2020 Index Returns (%)

Equity markets around the globe posted positive returns in the second quarter. Looking at broad market indices, US equities outperformed non-US developed markets and emerging markets.

Value stocks underperformed growth stocks, and small caps outperformed large caps.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



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# US Stocks

## Second Quarter 2020 Index Returns

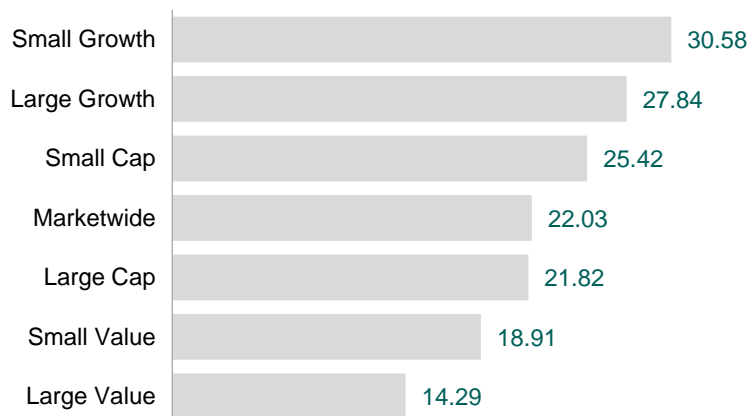
The US equity market posted positive returns for the quarter, outperforming non-US developed markets and emerging markets.

Value underperformed growth in the US across large and small cap stocks.

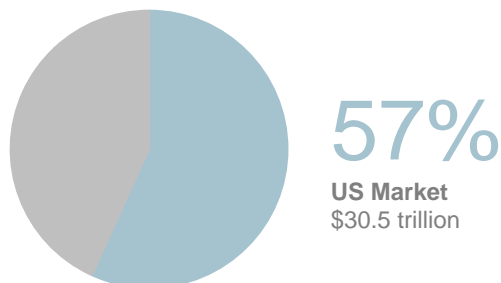
Small caps outperformed large caps in the US.

REIT indices underperformed equity market indices.

### Ranked Returns (%)



### World Market Capitalization—US



### Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Growth	9.81	23.28	18.99	15.89	17.23
Large Cap	-2.81	7.48	10.64	10.47	13.97
Small Growth	-3.06	3.48	7.86	6.86	12.92
Marketwide	-3.48	6.53	10.04	10.03	13.72
Small Cap	-12.98	-6.63	2.01	4.29	10.50
Large Value	-16.26	-8.84	1.82	4.64	10.41
Small Value	-23.50	-17.48	-4.35	1.26	7.82

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is source and owner of trademarks, service marks, and copyrights related to Russell Indexes. MSCI data © MSCI 2020, all rights reserved.

# International Developed Stocks

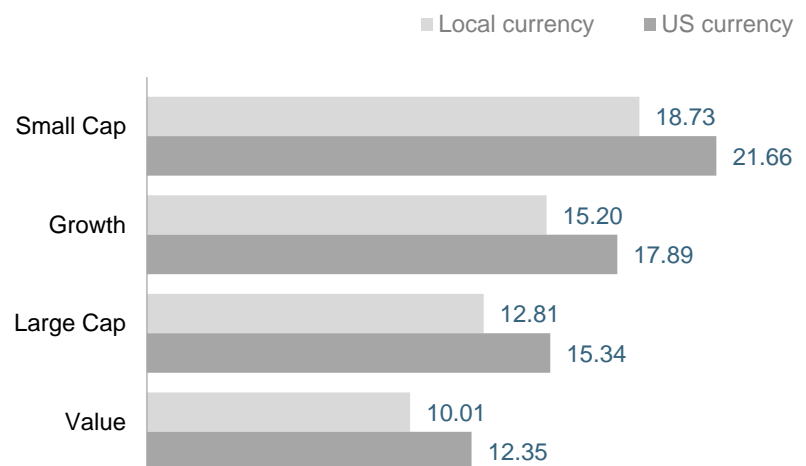
## Second Quarter 2020 Index Returns

Developed markets outside the US underperformed both the US equity market and emerging markets equities for the quarter.

Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

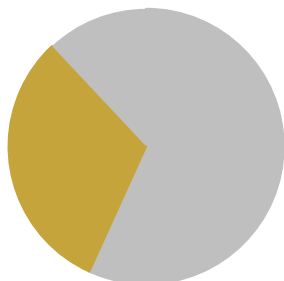
### Ranked Returns (%)



### World Market Capitalization— International Developed

**31%**

International  
Developed Market  
\$16.7 trillion



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-3.11	4.25	5.93	5.29	7.36
Large Cap	-11.49	-5.42	0.84	2.01	5.43
Small Cap	-12.87	-3.20	0.53	3.56	7.26
Value	-19.96	-15.14	-4.42	-1.46	3.36

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# Emerging Markets Stocks

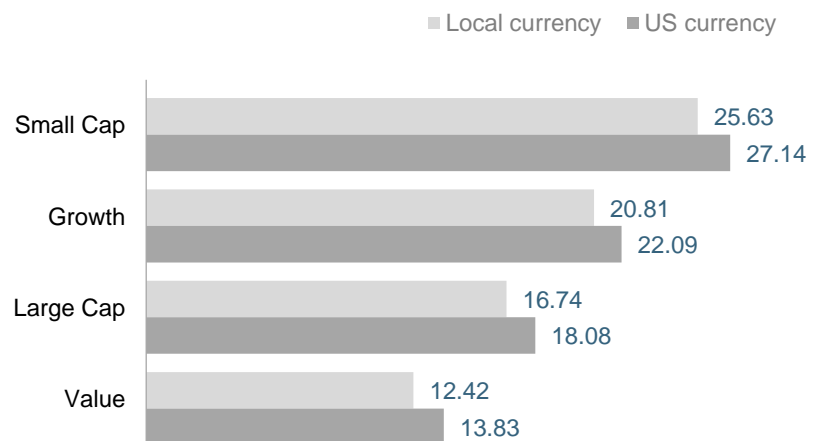
## Second Quarter 2020 Index Returns

Emerging markets underperformed the US equity market but outperformed developed ex US equities for the quarter.

Value stocks underperformed growth stocks.

Small caps outperformed large caps.

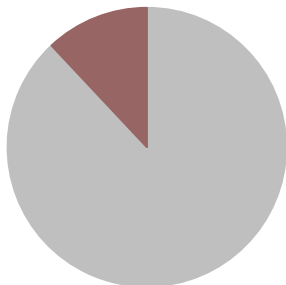
### Ranked Returns (%)



### World Market Capitalization— Emerging Markets

**12%**

Emerging  
Markets  
\$6.4 trillion



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-1.52	9.67	6.19	6.35	5.76
Large Cap	-9.78	-3.39	1.90	2.86	3.27
Small Cap	-12.74	-8.82	-2.95	-1.38	1.78
Value	-18.05	-15.74	-2.64	-0.80	0.66

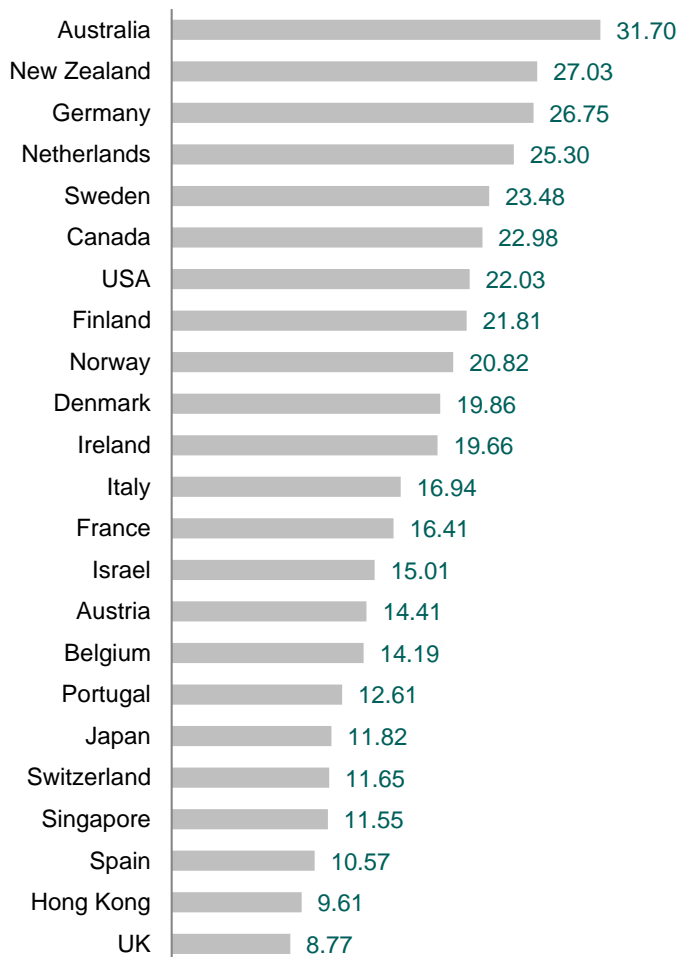
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# Select Market Performance

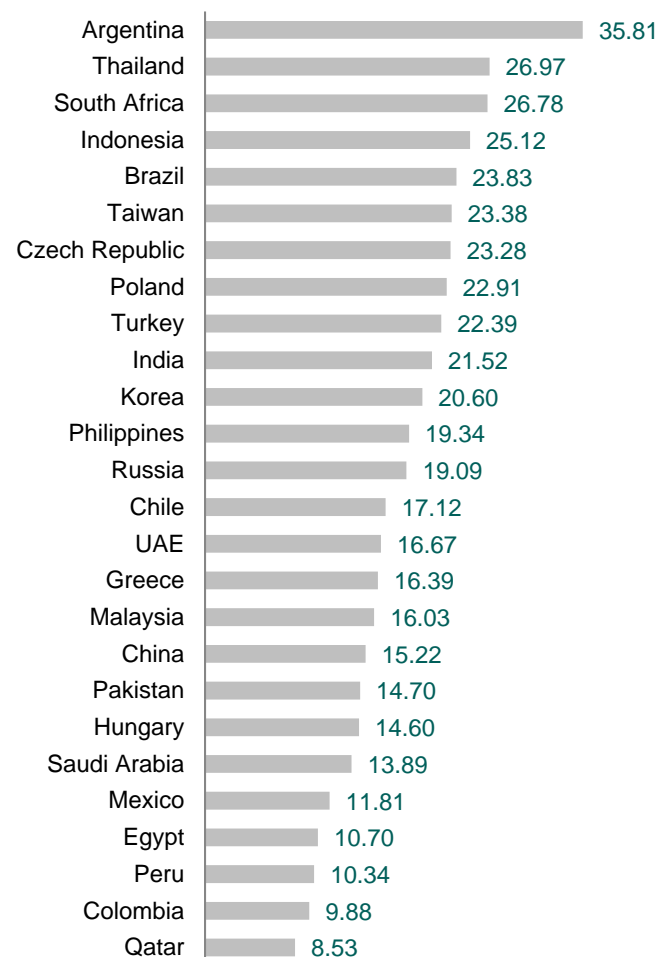
## Second Quarter 2020 Index Returns

In US dollar terms, Australia and New Zealand recorded the highest country performance in developed markets, while the UK and Hong Kong posted the lowest returns for the quarter. In emerging markets, Argentina and Thailand recorded the highest country performance, while Qatar and Colombia posted the lowest performance.

### Ranked Developed Markets Returns (%)



### Ranked Emerging Markets Returns (%)



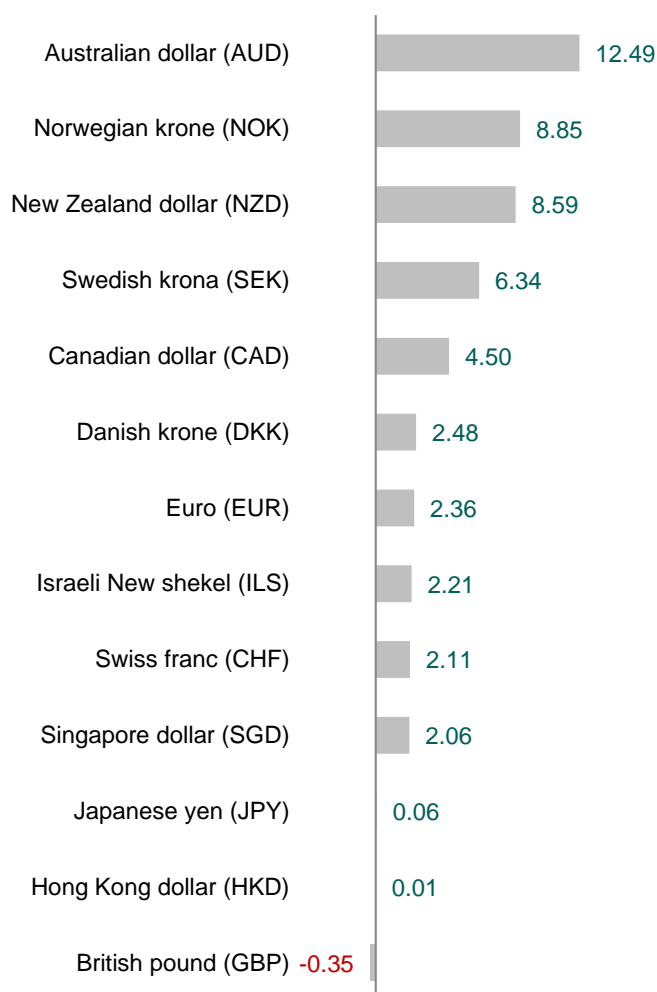
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. MSCI Index returns are in USD net of dividend withholding taxes. Country returns are the country component indices of the MSCI World ex USA IMI for all countries except the United States, where the Russell 3000 index is used instead. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# Select Currency Performance vs. US Dollar

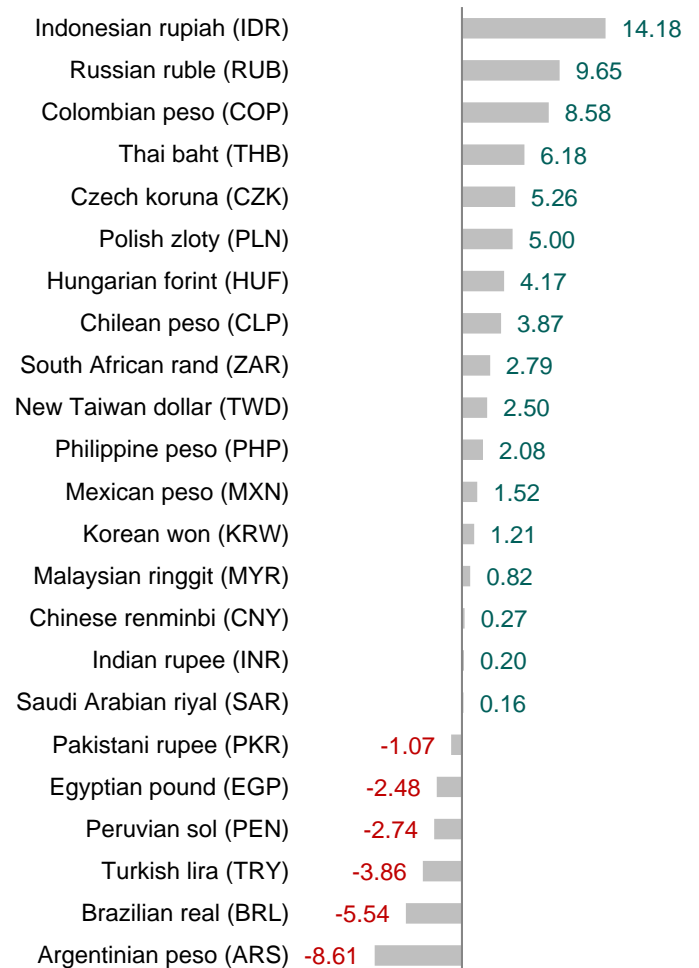
Second Quarter 2020

In developed markets, most currencies appreciated vs. the US dollar except for the British pound. In emerging markets, currency performance vs. the US dollar was mixed. Most currencies generally appreciated vs. the US dollar, but others, notably the Argentinian peso and Brazilian real, depreciated.

## Ranked Developed Markets Returns (%)



## Ranked Emerging Markets Returns (%)



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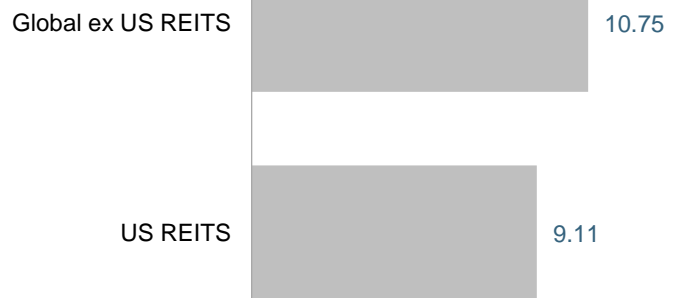
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# Real Estate Investment Trusts (REITs)

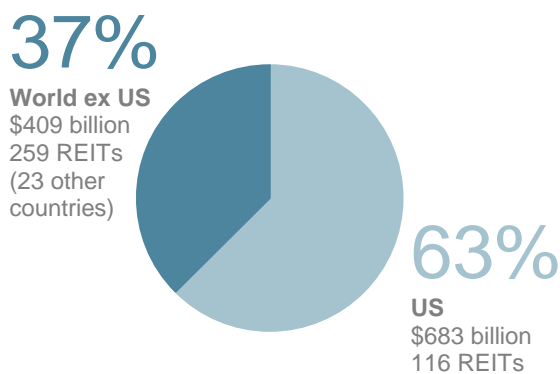
## Second Quarter 2020 Index Returns

US real estate investment trusts underperformed non-US REITs in US dollar terms during the quarter.

### Ranked Returns (%)



### Total Value of REIT Stocks



### Period Returns (%)

Asset Class	* Annualized				
	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	-22.01	-17.71	-1.99	2.45	8.27
Global ex US REITS	-25.25	-19.44	-2.37	-0.11	5.73

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Commodities

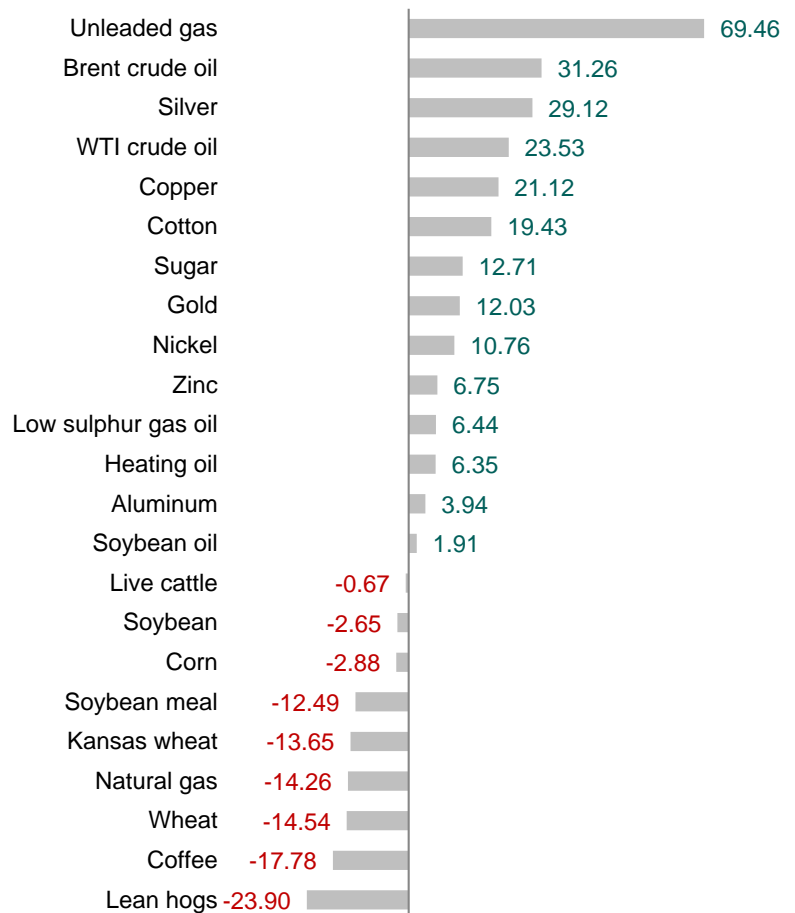
## Second Quarter 2020 Index Returns

The Bloomberg Commodity Index Total Return returned 5.08% for the second quarter.

Unleaded gas and Brent crude oil were the best performers, returning 69.46% and 31.26%, respectively.

Lean hogs and coffee were the worst performers, declining 23.90% and 17.78%, respectively.

### Ranked Returns (%)



### Period Returns (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	5.08	-19.40	-17.38	-6.14	-7.69	-5.82

# Fixed Income

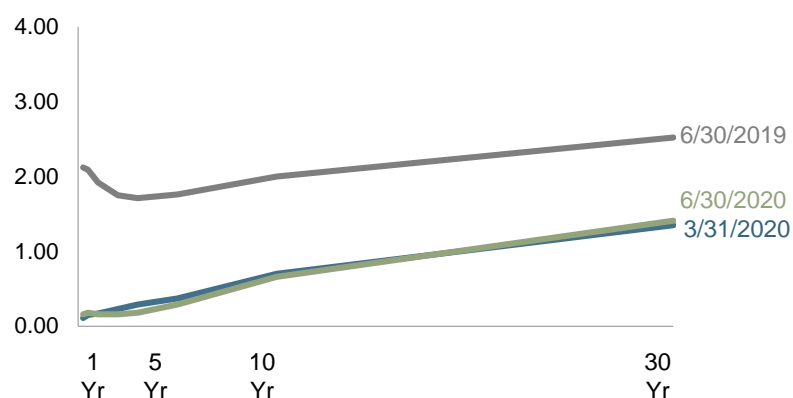
## Second Quarter 2020 Index Returns

Interest rate changes were mixed in the US Treasury fixed income market in the second quarter. The yield on the 5-Year US Treasury Note decreased by 8 basis points (bps), ending at 0.29%. The yield on the 10-year note decreased by 4 bps to 0.66%. The 30-Year US Treasury Bond yield increased by 6 bps to 1.41%.

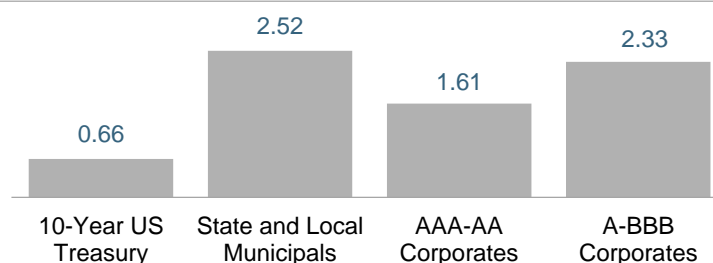
On the short end of the curve, the 1-Month T-bill yield rose by 8 bps to 0.13%, while the 1-year T-bill yield fell by 1 bp to 0.16%. The 2-year note finished at 0.16% after a yield decrease of 7 bps.

In terms of total returns, short-term corporate bonds returned 5.59% for the quarter. Intermediate corporates returned 7.63%. The total return for short-term municipal bonds was 2.38%, while intermediate-term muni bonds returned 3.19%. General obligation bonds outperformed revenue bonds.

### US Treasury Yield Curve (%)



### Bond Yields across Issuers (%)



### Period Returns (%)

Asset Class	QTR	YTD	1 Year	*Annualized		
				3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	10.18	-3.80	0.03	3.33	4.79	6.68
Bloomberg Barclays US TIPS Index	4.24	6.01	8.28	5.05	3.75	3.52
Bloomberg Barclays US Aggregate Bond Index	2.90	6.14	8.74	5.32	4.30	3.82
Bloomberg Barclays Municipal Bond Index	2.72	2.08	4.45	4.22	3.93	4.22
FTSE World Government Bond Index 1-5 Years	1.41	2.11	2.27	1.86	1.68	0.62
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.53	2.79	3.96	3.09	2.38	1.96
Bloomberg Barclays US Government Bond Index Long	0.28	20.97	25.14	11.96	9.21	7.71
ICE BofA US 3-Month Treasury Bill Index	0.02	0.60	1.63	1.77	1.19	0.64
ICE BofA 1-Year US Treasury Note Index	-0.03	1.69	2.86	2.25	1.54	0.95

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Global Fixed Income

## Second Quarter 2020 Yield Curves

Changes in government bond interest rates in the developed markets were mixed for the quarter.

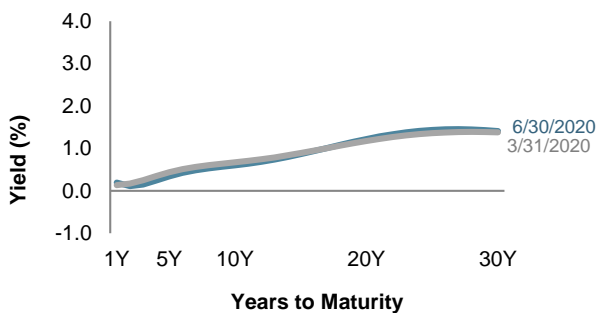
Longer-term bonds generally outperformed shorter-term bonds in global developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan, while all maturities finished the quarter negative in Germany.

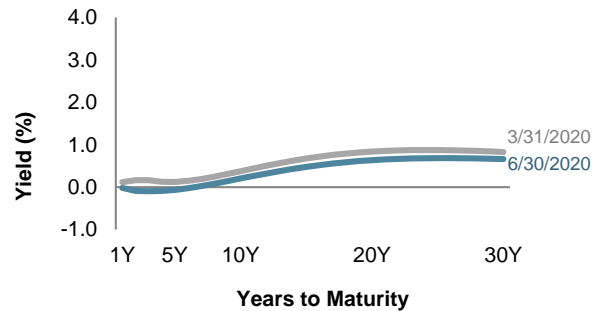
Changes in Yields (bps) since 3/31/2020

	1Y	5Y	10Y	20Y	30Y
US	5.7	-9.9	-6.9	4.6	3.1
UK	-13.5	-18.9	-17.1	-20.2	-16.9
Germany	1.2	-4.0	-1.5	-3.2	-3.3
Japan	-3.0	2.2	0.0	8.9	16.1
Canada	-21.0	-24.6	-24.5	-33.1	-32.6
Australia	1.4	6.1	10.7	7.0	8.9

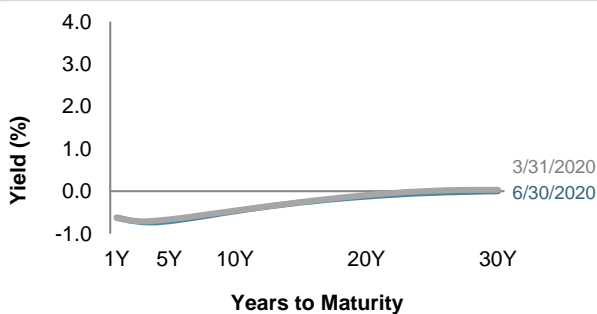
### US



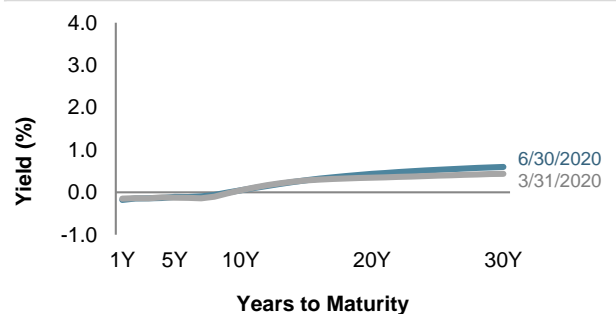
### UK



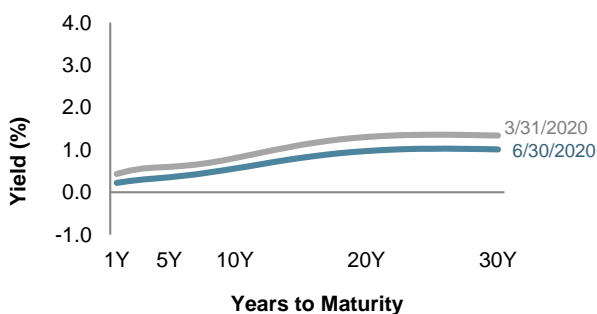
### Germany



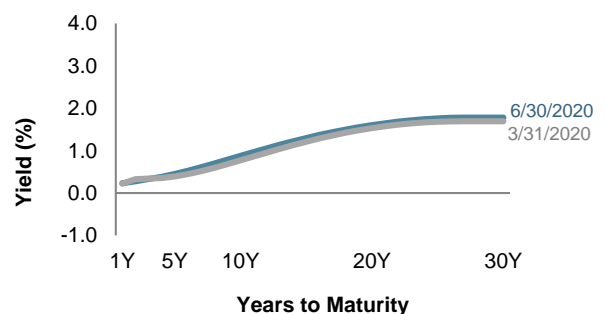
### Japan



### Canada



### Australia

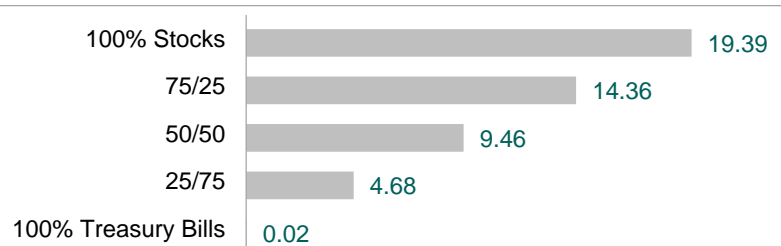


# Impact of Diversification

Second Quarter 2020

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Ranked Returns (%)

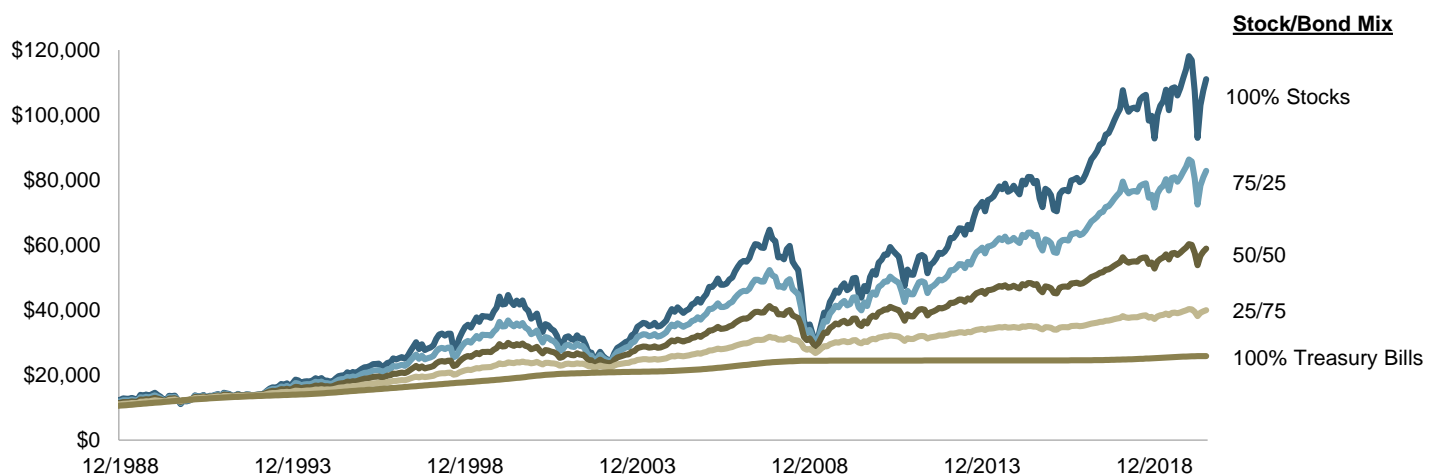


## Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Treasury Bills	0.39	1.35	1.62	1.07	0.55	0.23
25/75	-0.86	2.10	3.12	2.73	2.97	3.49
50/50	-2.34	2.57	4.48	4.29	5.31	7.00
75/25	-4.05	2.75	5.67	5.72	7.57	10.51
100% Stocks	-5.99	2.64	6.70	7.03	9.74	14.02

## Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).