MARKET INSIGHTS

from Ziegler Capital Management

May 2020 Market Commentary

WRITTEN: JUNE 1, 2020

After April's strong rebound, stock returns were positive again in May with the S&P 500 posting a 4.82% return. The S&P 500 is up about 38% from the March 23 low and is approximately 10% below the February 19th all-time high. COVID-19 continues to dominate headlines. Most U.S. states have started to gradually open their economies on a phasing in basis with social distancing. Central Bank and Governments stimulus measures have helped reduce economic damage.

U.S. GDP was revised downward to -5.0% versus a projected 4.8% contraction during the first quarter. This is the biggest quarterly fall since a -8.4% reading in the fourth quarter of 2008 in the depths of the Great Financial Crisis. Forecasts for the second quarter remain significantly negative with some economists projecting extremes such a -40% reading which would be the lowest ever since reporting began in 1947. There is a wide range of projections because of market uncertainty. The U.S. is very likely in a "formal" recession. However, the U.S. Congressional Budget office is forecasting a sharp rebound to an annualized rate of +21.5% in the third quarter. While this would be an extreme bounceback, it would not fully recover from the negative readings from the first and second quarters. Much of this forecasted rebound is based on a significant reopening of the U.S economy and further containment of COVID-19. Significant hiccups in this area could derail these projections.

Jobless claims now exceed 40.8 million people, although the weekly pace of claims has subsided since peaking at the end of March. There is some light at the end of the tunnel,

Returns by Sector

	S&P 500		Russell 2000	
Sector	**YTD**	**May, 2020**	**YTD**	**May, 2020**
Communication Services	0.21	6.01	-19.34	6.17
Consumer Discretionary	2.11	4.95	-17.32	17.04
Consumer Staples	-5.35	1.51	-7.79	7.55
Energy	-34.49	1.88	-49.10	-3.33
Financials	-23.40	2.60	-29.73	-0.05
Health Care	1.60	3.30	2.59	8.63
Industrials	-16.87	5.94	-19.30	7.06
Information Technology	7.29	7.05	-3.73	7.68
Materials	-8.90	6.98	-24.86	7.52
Real Estate	-9.88	1.92	-26.80	0.40
Utilities	-6.77	4.41	-10.16	2.95
TOTAL RETURN	**-5.00**	**4.82%**	**-15.89%**	**6.48%**

Source: Bloomberg

ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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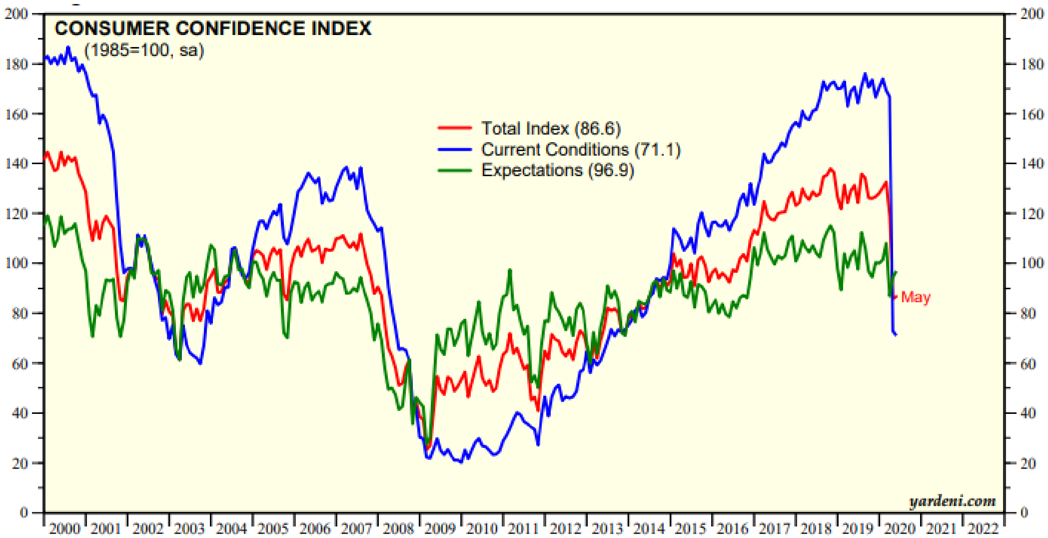
as the number of people receiving unemployment benefits for consecutive weeks has fallen for the first time since the start of the pandemic. Wage and salary income in the U.S fell 8% in April, but overall personal income rose 10.5%. This is due to the $3 trillion in transfer payments which was significantly aided by the additional $600 per week in federaly funded unemployment assistance on top of what individual states provide. The savings rate is a stunning 33%. If the economy opens fairly quickly, this may be a tailwind for growth. If it opens slowly, then savings will likely be used for sustenance.

The U.S. Federal Reserve remains extremely supportive and has significantly enhanced liquidity in the fixed income market with its commitment to purchase unlimited government bonds, investment grade corporate bonds, and certain high yield securities ("fallen angels") if the issuer had an investment grade rating prior to March 22.

On a year-to-date basis, there remains a sizeable return disparity between large and small company stocks and between growth and value. In May, however, small company stocks outperformed large company stocks and the growth/value dispersion was more muted. While the Russell 2000 outperformed the S&P 500 in both April and May, it remains almost 11% behind on a year-to-date basis. Small cap stocks have lead the way out of recession 9 of the last 10 times and this may be showing the signs of this pattern again. There is a long way to go and time will tell. The growth / value disparity remains – on a year-to-date basis through May 31st, the Russell 1000 Growth has returned 5.23% whereas the Russell 1000 Value has returned -15.70%. Similarly, in Small Cap stocks – the Russell 2000 Growth has returned -6.65% and the Russell 2000 Value has returned -25.66% on a year-to-date basis through May 31.

West Texas Intermediate (WTI) finished May at $35.29 a barrel, a sharp increase from April's close at $18.84/barrel. Oil prices jumped 88% in May (the biggest monthly gain ever) on anticipation of improved demand after the coronavirus pandemic sapped worldwide consumption by roughly 30%. U.S. production cuts are balancing out the supply glut, but demand still has not bounced back entirely.

Consumer confidence slightly increased in May to 86.6 from a revised 85.7 in April, following rapid declines in the previous two months. The index is composed of consumer's assessment of present conditions and future expectation of the economy. The consumer is responsible for approximately 70% of the U.S. economy. While consumer confidence has fallen, it remains at much higher levels than the 2008



Source: The Conference Board.
As of May 27, 2020

Great Financial Crisis showing optimism going forward. The expectations component to the index has returned to early 2019 levels.

The U.S. Bloomberg Barclays Aggregate Index returned 5.47% for the year to date period through May 29th including a return of 0.47% during May. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury ending May with a yield of 0.65% after starting 2020 at 1.92%. Yields have been relatively unchanged since the end of March. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) ended May at 174 basis points after beginning the year at 93 basis points after peaking at 373 basis points on March 23.

The VIX ended May at 27.69, falling from the April reading of 35.14, and after peaking at 82.69 on March 16. Historically, volatility rises rapidly and often declines slowly. A VIX level of 30 implies annualized volatility of 30%, or daily moves of 1.9% in the market during the next 30 days. As a perspective, the S&P 500 has moved about 0.76% daily on average since 1990. While the VIX has fallen considerably from the current peak, volatility is still decently higher than average.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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