MARKET INSIGHTS

from Ziegler Capital Management

June 2020 Market Commentary

WRITTEN: JULY 2, 2020

After strong returns in April and May, the S&P 500 was positive again in June with a return of 1.98%. The second quarter return of 20.54% was the best quarterly return since 1998. The S&P 500 remains down for the year with a return of –3.12% and has recovered approximately 40% of its fall from the March 23 lows. Small cap stocks, as measured by the Russell 2000, outperformed the S&P 500 in June with a return of 3.12%, but remain almost 10% behind on a year-to-date basis through June 30.

COVID-19 continues to dominate headlines, as well as social unrest that began in late May in the wake of the death of George Floyd in Minneapolis. Most U.S. states have started to open their economies on a phasing in basis with social distancing, although some states have paused their progress due to an uptick in new cases towards the end of the month. Central Banks and Governments stimulus measures continue to help reduce economic damage. There is talk of additional stimuli, although nothing has been determined.

After a -5.0% contraction in the first quarter, GDP estimates for the second quarter are sharply negative with the U.S. Congressional Budget Office estimating an annualized decline of 38% in the second quarter with most of the pain occuring in April. This would be the lowest reading since reporting began in 1947. A rise of over 29% is projected in the third quarter, as the U.S further opens and the consumer is adapting to procedures in place as they go about their lives. The National Bureau of Economic Research announced on June 8 that the U.S. entered a recession in February. This marks the end of the expansion that began in June 2009 and lasted 128 months, the longest in the history of U.S. business cycles dating back to 1854.

Returns by Sector

	S&P 500		Russell 2000	
Sector	**YTD**	**June 2020**	**YTD**	**June 2020**
Communication Services	-0.30	-0.52	-19.16	0.22
Consumer Discretionary	7.20	4.98	-12.05	6.38
Consumer Staples	-5.67	-0.33	-5.38	2.61
Energy	-35.34	-1.30	-50.86	-3.46
Financials	-23.65	-0.33	-27.36	3.19
Health Care	-0.82	-2.38	6.64	3.95
Industrials	-15.22	1.98	-14.98	5.36
Information Technology	14.95	7.14	-2.09	1.71
Materials	-6.94	2.15	-21.78	4.10
Real Estate	-8.56	1.46	-22.82	5.77
Utilities	-11.13	-4.67	-15.87	-6.36
TOTAL RETURN	**-3.12**	**1.98%**	**-12.92%**	**3.53%**

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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According to the U.S. Bureau of Labor Statistics, employment figures rose by 4.8 million in June and the unemployment rate declined to 11.1% from 13.3% in June due to the continued resumption of economic activity that was curtailed in March and April. There were sharp gains in Leisure and Hospitality, Retail Trade, Education and Health Services, Other Services, Manufacturing and Business and Professional Services. The additional $600 weekly federally funded unemployment assistance (provided on top of state funded assistance) is scheduled to expire on July 31 and may be a catalyst for people to return to work. The U.S. savings rate was 23.2% in June after peaking at a stunning 32.2% in April. As discussed last month, this has the potential to be a significant growth driver if the economy continues to open quickly, and may be used for sustenance if not.

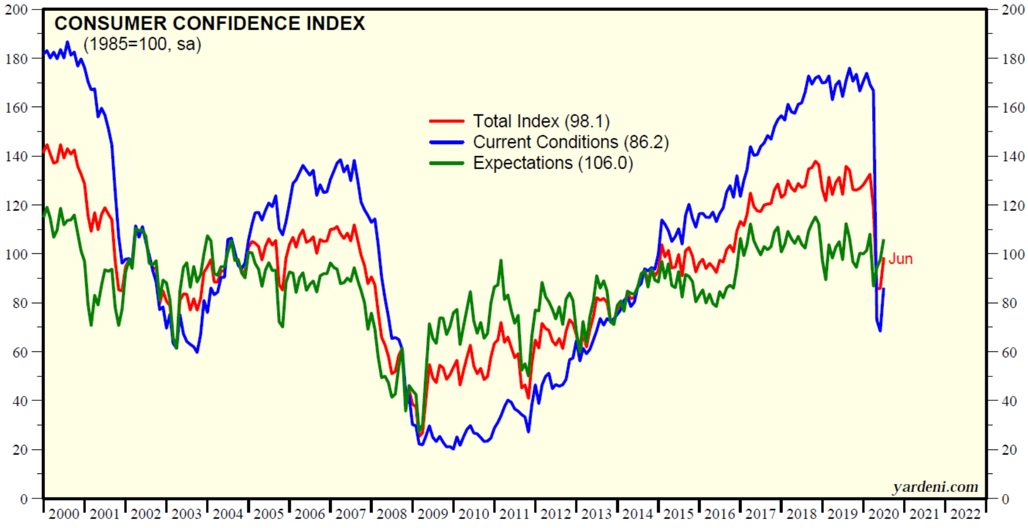
The U.S. Federal Reserve remains extremely supportive and has significantly enhanced liquidity in the fixed income market with its commitment to purchase unlimited government bonds, investment grade corporate bonds, and certain high yield securities ("fallen angels") if the issuer had an investment grade rating prior to March 22. The Primary Corporate Credit Facility, the ninth and last of the Fed's pandemic emergency response programs became operational at the end of June, providing further liquidity in the corporate bond market. The Fed continues to actively stress test U.S. banks and reported that "the results of our sensitivity analyses show that our banks can remain strong in the face of even the harshest shocks."

On a year-to-date basis, there remains a sizeable return disparity (approximately 10%) between large and small company stocks and between growth and value. However, in June, the Russell 2000 returned 3.12% versus the S&P 500 at 1.98% and has outperformed the S&P 500 in all three months of the second quarter. Small cap stocks have led the way out of recession 9 of the last 10 times and this may be showing the signs of this pattern again. The growth/value disparity remains -- on a year-to-date basis through June 30th, the Russell 1000 Growth has returned 9.81% whereas the Russell 1000 Value has returned -16.26%. Similarly, in Small Cap stocks, the Russell 2000 Growth has returned -3.07% and the Russell 2000 Value has returned -23.51% on a year-to-date basis through June 30.

West Texas Intermediate (WTI) finished June at $39.27 a barrel, higher than the May close of $35.29 per barrel and significantly higher than April's close at $18.84 per barrel. WTI had the best quarterly performance for U.S. crude since the third quarter of 1990 when it soared 131%. However, despite these gains WTI is still down over 34% since the start of the year.

Consumer confidence jumped to 98.1 in June from 86.6 in May, as consumers have raised hopes with the further opening of the economy, loosening of restrictions, and the improving employment situation. The index is composed of consumer's assessment of present conditions and future expectation of the economy. The present situation index, a component of consumer confidence, rose to 86.2 from 68.4 and the short-term outlook among consumers improved. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



The U.S. Bloomberg Barclays Aggregate Index returned 6.14% for the year-to-date period through June 30 including a return of 0.63% during June. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury ending June with a yield of 0.66% 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 June at 150 basis points after beginning the year at 93 basis points and peaking at 373 basis points on March 23.

The Volatility Index (VIX) ended June at 30.43, increasing from May's reading of 27.69, but down considerably from the March 16 peak of 82.69. 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 signficantly from the current peak, volatility is still 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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