MARKET INSIGHTS

from Ziegler Capital Management

July 2020 Market Commentary

WRITTEN: AUGUST 3, 2020

The S&P 500 was positive again in July with a return of 5.62%. This was the fourth consecutive month of positive returns. The S&P 500 is now positive for the year with a return of 2.33% and has recovered most of its fall from the February 19 peak. The S&P 500 is up over 46% from the March 23 lows. Small cap stocks, as measured by the Russell 2000, were positive in July with a return of 2.73%. The Russell 2000 remains almost 13% behind the S&P 500 on a year-to-date basis as of July 31 with a return of -10.55%.

COVID-19 continues to dominate headlines. While most U.S. states have partially opened their economies with social distancing, some states have seen an uptick in cases and have paused their progress. Central Bank and Government stimulus measures across the globe continue to help reduce economic damage. There is talk of additional stimuli here in the U.S., although nothing has been finalized.

Second quarter GDP contracted 32.9% at an annualized rate (its previous estimate was -38%), the lowest reading since reporting began in 1947. Most of the economic pain occurred during the first half of the quarter when the U.S. economy was closed for a large part of business. Personal consumption, which historically accounts for about two-thirds of all activity in the U.S., was responsible for 25% of the second quarter drop. In assessing GDP, it is important to note that the United States reports GDP on an annualized basis versus quarter-over quarter. Second quarter GDP measured on a quarter-over-quarter basis was -9.5%. As a perspective, for the U.S. economy to actually contract 32.9% as a whole in 2020, GDP would need to contract in both the third and fourth quarters at a quarter-over-quarter rate similar to the second quarter. An

Returns by Sector - as of July 31, 2020

	S&P 500		Russell 2000	
Sector	**YTD**	**July 2020**	**YTD**	**July 2020**
Communication Services	6.47	6.79	-14.25	6.07
Consumer Discretionary	16.85	9.00	-4.71	8.35
Consumer Staples	0.90	6.97	-1.95	3.63
Energy	-38.67	-5.14	-49.72	2.33
Financials	-20.78	3.76	-28.22	-1.18
Health Care	4.56	5.43	6.56	-0.08
Industrials	-11.53	4.35	-11.15	4.50
Information Technology	21.40	5.62	2.87	5.07
Materials	-0.36	7.08	-17.54	5.42
Real Estate	-4.90	4.00	-22.69	0.16
Utilities	-4.19	7.80	-15.14	0.87
TOTAL RETURN	**2.33**	**5.62**	**-10.55**	**2.73**

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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annualized rise of over 20% 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. Current estimates for 2020 as a whole are now a -7.0% annualized contraction.

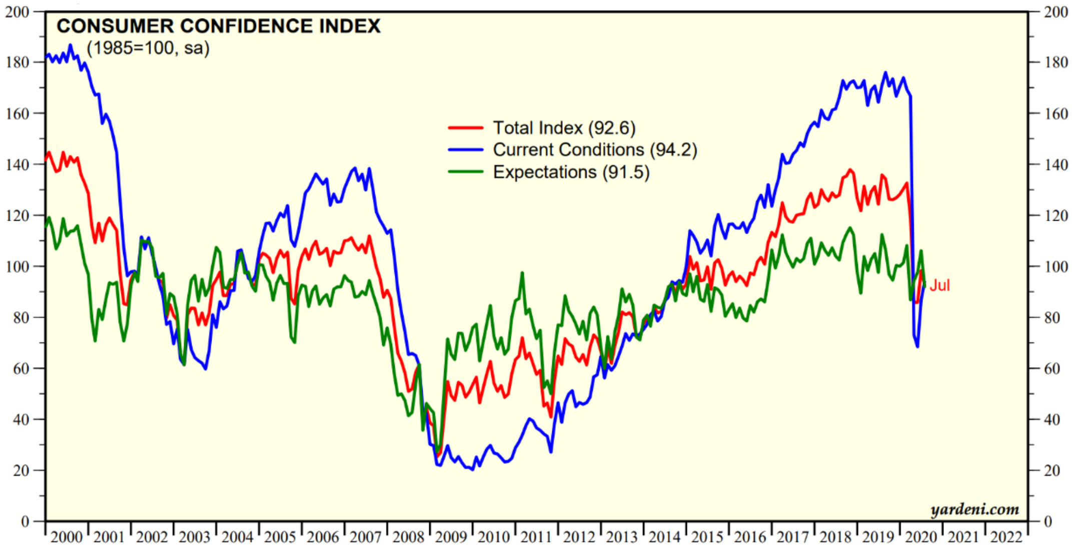
According to the National Bureau of Economic Research, the U.S. entered a recession in February and remains thereAccording to the U.S. Bureau of Labor Statistics, employment figures rose by 4.8 million jobs in June and the unemployment rate declined to 11.1% from 13.3% in May with continued resumption of economic activity that was curtailed earlier in the year. The strong month of job gains was driven by the leisure and hospitality sector that saw 2.1 million jobs added. This accounted for over 40% of gains during the month. Food services and drinking establishments saw an increase 1.5 million people, but remains 3.1 million lower than in February. The additional $600 weekly federally funded unemployment assistance (provided on top of state funded assistance) expired on July 31. There are current negotiations on continued assistance post-July 31, but nothing has been finalized. The U.S. savings rate was 19.0% in July after peaking at a stunning 32.2% in April. As previously discussed, this has the potential to be a significant growth driver if the economy continues to open quickly, however, it may be used for sustenance if states curtail business operations in their economies.

The U.S. Federal Reserve remains supportive and accommodative. In their most recent statement, they noted a recent pick-up in economic activity and employment, but note that they remain well below levels from the beginning of the year. In addition, they commented on the improvement in financial conditions over the most recent months that they believe reflects their policy measures to support the economy and the flow of stimulus to businesses and households. The Fed remains committed 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 (almost 13%) between large and small company stocks and between growth and value. After small company stocks outperformed in all three months of the second quarter, large company stocks (as measured by the S&P 500) outperformed small (as measured by the Russell 2000) in July with a return of 5.62% versus 2.73%. The growth/value disparity remains -- on a year-to-date basis through July 31, the Russell 1000 Growth has returned 18.26% whereas the Russell 1000 Value has returned -12.95%. Similarly, in Small Cap stocks, the Russell 2000 Growth has returned 0.27% and the Russell 2000 Value has returned -21.92% year-to-date through July 31.

West Texas Intermediate (WTI) finished July at $40.43, slightly higher than June’s close of $39.27 a barrel and significantly higher than April’s close at $18.84 per barrel. However, despite these gains WTI is still down considerably after beginning the year at $61.06 per barrel. Consumer confidence decreased in July to 92.6 from 98.3 in June, Large declines were reported in Michigan, Florida, Texas and California likely due to the resurgence of COVID-19 in those states particularly. 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 from 86.7 to 94.2 and the short-term outlook among consumers improved. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned 7.72% for the year-to-date time period through July 31 including a return of 1.49% during July. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury ending July with a yield of 0.54%, after finishing June at 0.66% and after starting 2020 at 1.92%. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) continued to normalize and ended July at 133 basis points. They began the year at 93 basis points and peaked at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended July at 23.89, falling from June's reading of 30.43 and down considerably from the March 16 peak of 82.69. Historically, volatility rises rapidly and often declines slowly. This has happened again in 2020. The VIX is now only slightly higher than its long-term average of approximately 20.

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.

ZIEGLER CAPITAL MANAGEMENT, LLC
70 West Madison Street | Suite 2400 | Chicago, Illinois | 60602 | www.zieglercap.com

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