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2020 DeMarche
Client Conference

September 23-25, 2020

*More information on
back cover*

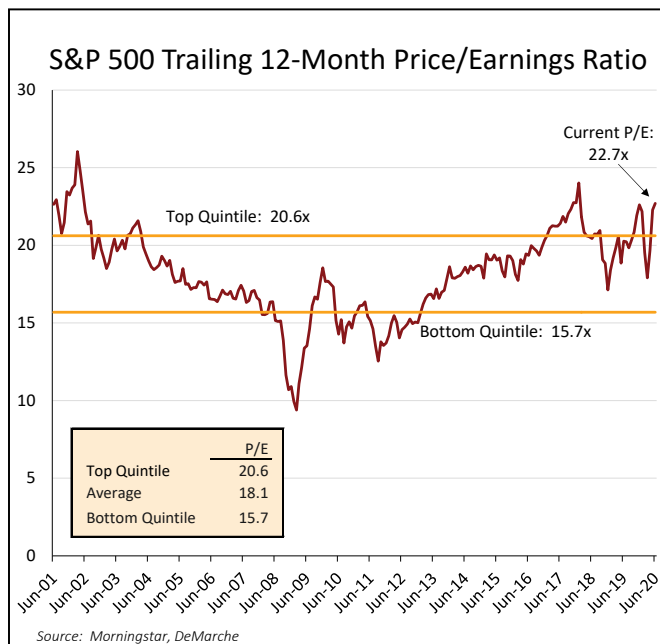
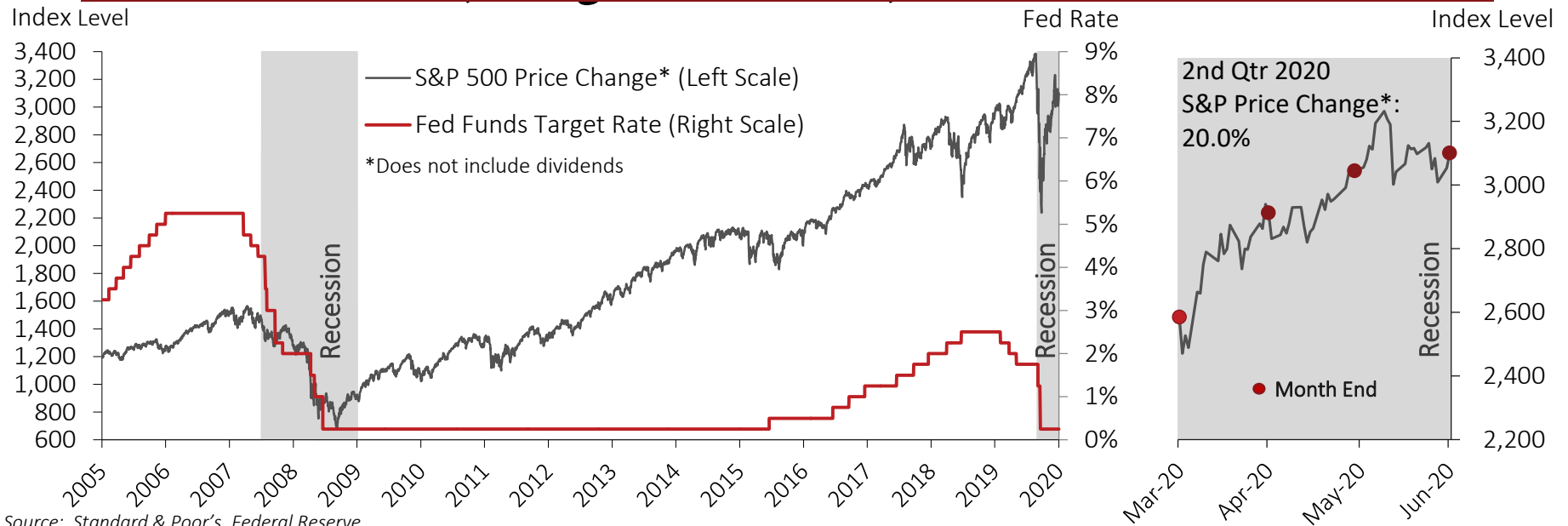
Capital Market Review

June 30, 2020

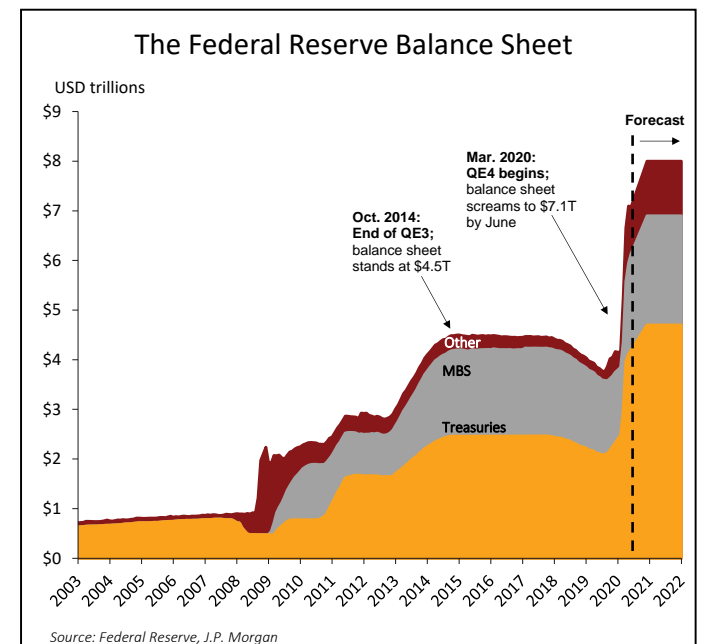


DeMarche

Infections, Injections, and Inflections



The S&P 500 index (and other global indexes) rebounded strongly in the 2nd quarter from the 1st quarter drawdown. The Federal Reserve instituted a bond-buying program to ensure liquidity in markets. This action completely reversed the balance sheet reduction trend started in 2017. The combination of monetary and fiscal stimulus injections during the quarter helped stabilize markets. The S&P 500, as measured by its P/E ratio, dropped at the end of the first quarter but rebounded with the market in the second quarter. The S&P 500 looks expensive but as the year marches on, more earnings clarity will present itself, impacting the trailing P/E ratio. Earnings expectations of companies (the "E") are highly variable during this time of uncertainty, and conclusions are hard to draw.



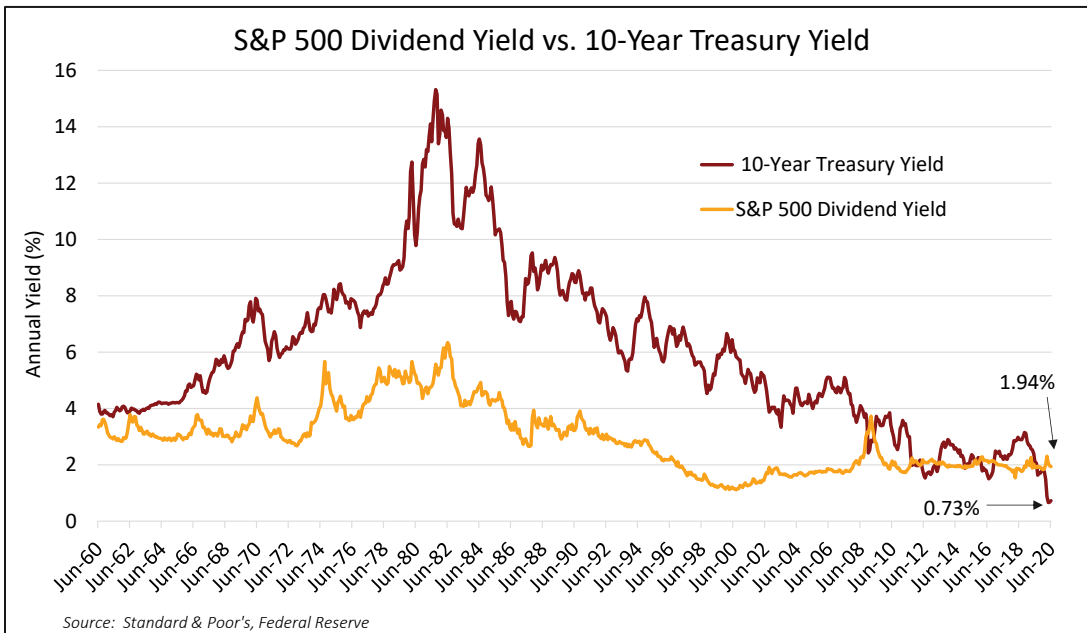
Broad Market Overview

June 30, 2020

INDEX	2 nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	19.4	-5.8	2.8	6.7	6.9	10.0
DeMarche 3000	20.8	-5.4	2.4	7.4	7.8	10.9
Russell 3000	22.0	-3.5	6.5	10.0	10.0	13.7
S&P 500	20.5	-3.1	7.5	10.7	10.7	14.0
MSCI EAFE USD	14.9	-11.3	-5.1	0.8	2.1	5.7
BlmBarc Aggregate	2.9	6.1	8.7	5.3	4.3	3.8
FTSE Non-US Gov't Bond	3.0	1.0	0.9	2.9	3.3	1.8
BlmBarc Global Aggregate	3.3	3.0	4.2	3.8	3.6	2.8
NCREIF (Private RE)	-1.0	-0.3	2.7	5.4	6.8	9.7
Bloomberg Commodity	5.1	-19.4	-17.4	-6.1	-7.7	-5.8

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized. *Does not include Canada or Brazil.

Indicator Year Ending 6/30	2020	2019	2018	2017	50-Year Average
GDP Annual Growth Rate	-9.5	2.0	3.3	2.2	2.7
Unemployment	11.1	3.7	4.0	4.3	6.2
Inflation (CPI)	0.6	1.7	2.9	1.6	3.9
10-Year Interest Rates	0.7	2.0	2.9	2.3	6.3



- Markets across the globe posed a significant comeback in the 2nd quarter. Even with the rally, year-to-date returns are still negative.
- Interest rates fell slightly and credit spreads tightened, driving fixed income returns higher in the quarter. Bond returns, as measured by the BlmBarc Aggregate, posted 2.9% for the quarter.
- Commodity prices also advanced as oil prices increased in the quarter after a dismal 1st quarter. Oil prices continued their downward trend in April before rebounding in May and June. Gold prices also increased during the quarter as central banks continue with unprecedented monetary stimulus. Agricultural prices increased due to bottlenecks in supply chains due to the virus.
- Interest rates along the curve fell precipitously in 2020 when the Fed cut their policy rate. Now the yield on the S&P 500 is higher than the 10-year Treasury by its widest margin in over 60 years. The S&P 500 dividend rate has been negatively influenced by the reduction and suspensions of some dividends by companies; however, the spread is now over 120 basis points. Returns on bonds are becoming less attractive despite their ability to provide for some diversification.

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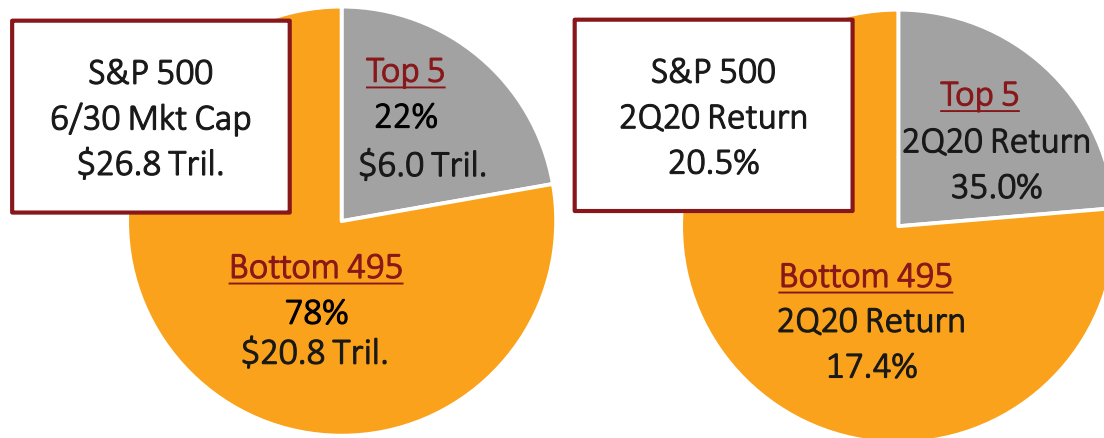
The Federal Reserve balance sheet increased in size by trillions of dollars in the 2nd quarter, continuing the trend from the 1st quarter. The balance sheet started the quarter at \$5.8 trillion and reached \$7.1 trillion in June as the Fed rolled out an unprecedented range of programs to keep credit flowing and shore up economic activity.
~Reuters

INDEX	2 nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	23.7	12.6	12.1	13.1	11.9	13.8
DeMarche Value	14.2	-13.6	-14.3	-1.9	1.3	6.4
DeMarche Aggressive	39.5	9.3	3.5	6.5	3.4	8.7
DeMarche Defensive	19.6	2.8	2.6	7.6	8.3	11.1
S&P 500	20.5	-3.1	7.5	10.7	10.7	14.0
S&P Mid-Cap 400	24.1	-12.8	-6.7	2.4	5.2	11.3
S&P Small-Cap 600	21.9	-17.9	-11.3	0.6	4.5	11.2
Russell 1000	21.8	-2.8	7.5	10.6	10.5	14.0
Russell 1000 Growth	27.8	9.8	23.3	19.0	15.9	17.2
Russell 1000 Value	14.3	-16.3	-8.8	1.8	4.6	10.4
Russell 2000	25.4	-13.0	-6.6	2.0	4.3	10.5
Russell 2000 Growth	30.6	-3.1	3.5	7.9	6.9	12.9
Russell 2000 Value	18.9	-23.5	-17.5	-4.3	1.3	7.8

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.

- Small cap stocks led in the quarter and made up some ground against large cap stocks. However, large cap stocks continued to lead small cap over the longer term by a wide margin. Over the past 12 months the Russell 1000 has outpaced the Russell 2000 by 14.1 percentage points.
- More narrowly, growth stocks continue to lead value within both large and small cap. Large cap growth has trounced value over the past 12 months by 32.1 percentage points. The large technology companies drove the index forward. Apple and Amazon posted quarterly returns of over 50%.
- Small cap growth stocks also outperformed their small cap value brethren. Over the past 12 months, small growth outperformed small value by 21 percentage points. During the 2nd quarter rebound, small-cap discretionary stocks drove the growth stocks forward. Over the longer term, health care and technology stocks lead in performance.
- The largest of the large-cap stocks are driving the returns of the overall index. How top-heavy was the return? The top 5 names that we all know (Apple, Microsoft, Amazon, Alphabet, Facebook) make up 22% of the market cap and have returned 35.0% for the 2nd quarter. The remaining 495 stocks make up 78% of the market cap, returned just 17.4% for the quarter; a great quarterly return, for sure, but it lagged the index by 3.1 percentage points.

The Rich Get Richer



Source: S&P 500, DeMarche

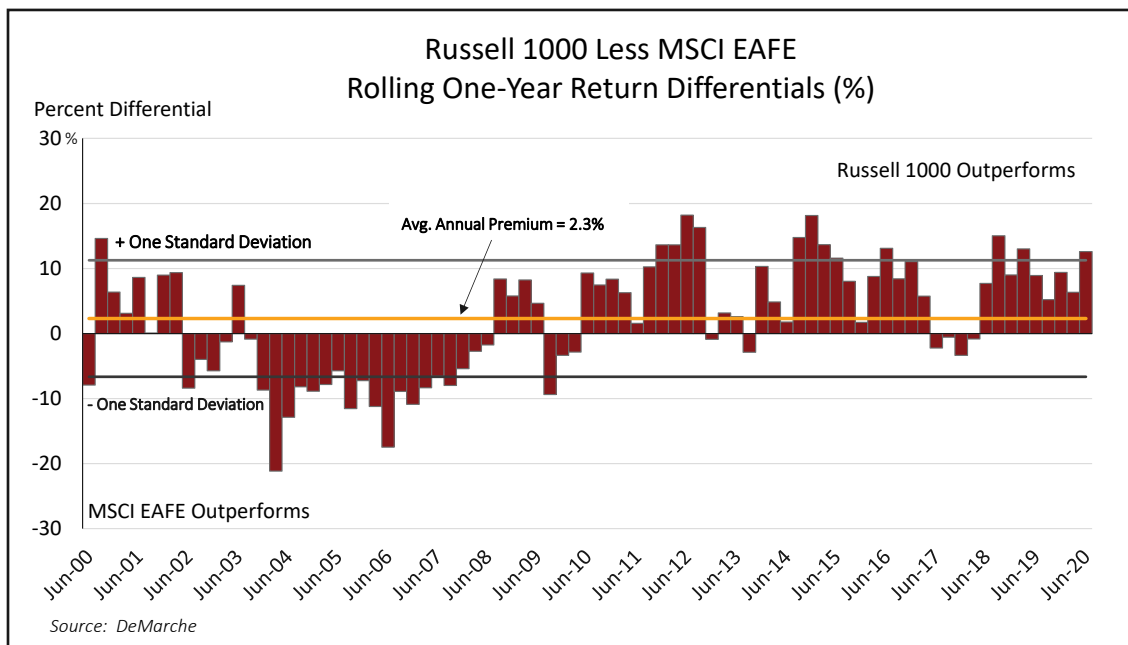
DeFact

After falling \$5.5 billion in the first quarter, dividend payouts for U.S. stocks declined \$42.5 billion in the second quarter of 2020, the largest reduction since the first quarter of 2009. The decline is due to massive dividend suspensions as companies had no time to ride out the virus as sales were cut off. As a pre-pandemic comparison, dividends increased by \$8.4 billion in the second quarter of 2019.

~ S&P Dow Jones Indices

INDEX	2 nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	12.6	-10.5	-4.2	1.3	2.6	6.9
MSCI EAFE USD	14.9	-11.3	-5.1	0.8	2.1	5.7
Growth	16.9	-3.5	4.2	5.9	5.5	7.8
Value	12.4	-19.3	-14.5	-4.4	-1.6	3.5
MSCI Japan	11.6	-7.1	3.1	3.0	3.4	6.1
MSCI AC Asia-ex Japan	16.7	-4.7	1.7	3.6	4.4	5.9
MSCI China	15.3	3.5	13.1	8.6	5.3	6.4
MSCI Germany	26.5	-7.6	-2.6	-1.3	1.8	6.1
MSCI France	16.1	-15.9	-10.3	0.5	3.5	5.8
MSCI UK	7.8	-23.3	-17.7	-3.9	-2.5	3.9
MSCI EAFE Small Cap	19.9	-13.1	-3.5	0.5	3.8	8.0
MSCI EM	18.1	-9.8	-3.4	1.9	2.9	3.3
MSCI All Country-ex US	16.1	-11.0	-4.8	1.1	2.3	5.0

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



- International stocks, like domestic stocks, moved forward in the 2nd quarter, rebounding from a dismal 1st quarter. Despite the rebound, the past 12-month returns of international and emerging market stocks still are negative. The economic slowdown caused by the virus has impacted every corner of the globe.
- The dollar weakened during the quarter, boosting international returns in dollar terms. While COVID-19 and the expansion of the Federal deficit pushed the dollar lower versus other currencies in the quarter, it has strengthened over longer term, negatively impacting international returns over those time periods.
- Emerging market stocks posted stronger returns than developed market stocks in the 2nd quarter. Although Chinese stocks have outperformed other EM countries year-to-date, the stocks of India, Taiwan, and South Korea all outperformed Chinese stocks in the 2nd quarter. These stocks fell harder in the 1st quarter and rebounded higher.
- Domestic stocks have continued to lead their international counterparts by an ever-widening margin. Over the past 12 months, the differential is over one standard deviation from the mean. And over the past 20 years, on average, international stocks have lagged annually by 2.3 percentage points. During the last 10 years the dollar has appreciated versus a trade-weighted basket of currencies, which provides a headwind to international stock returns.

DeFact

The dollar has trended mostly sideways this year, but is it expensive to foreign currencies or not? According to the Economist's "Big Mac Index" – the cost of a Big Mac in other countries – the euro is 19% undervalued. The average cost of a Big Mac in the U.S. is \$5.67, but costs \$4.60 (after conversion), which assumes a 0.73 euros to the dollar exchange rate. The current exchange rate is 0.90.

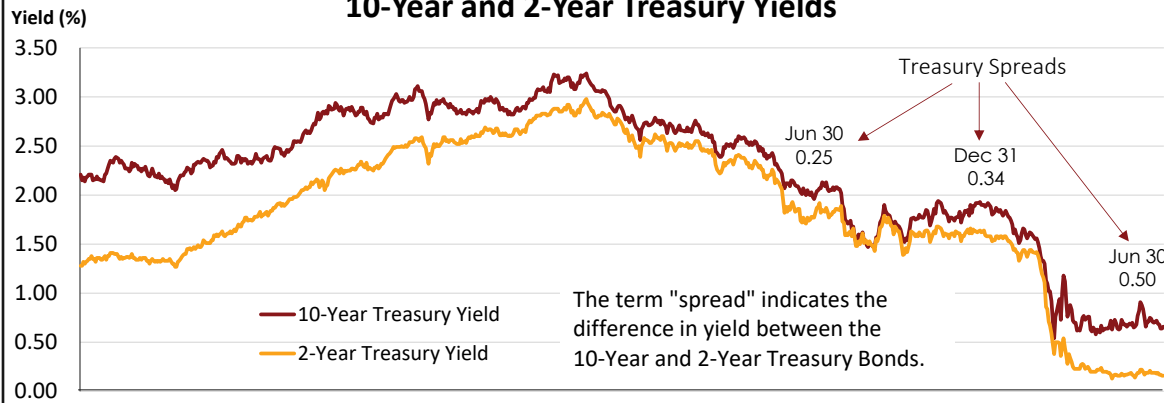
~The Economist

INDEX	2 nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
BlmBarc 1-3 Gov Credit	1.2	2.9	4.2	2.9	2.1	1.6
BlmBarc Aggregate	2.9	6.1	8.7	5.3	4.3	3.8
BlmBarc Gov Credit Long	6.2	12.8	18.9	10.3	9.0	7.8
BlmBarc US TIPS	4.2	6.0	8.3	5.0	3.7	3.5
Merrill Lynch High Yield	9.6	-4.7	-1.1	3.0	4.6	6.5
CSFB Leveraged Loan (bank loans)	9.7	-4.8	-2.3	2.1	2.9	4.3
BlmBarc Global Aggregate	3.3	3.0	4.2	3.8	3.6	2.8
JPM EmgMkt Bd Gbl Dvrsfd (hard)	12.3	-2.8	0.5	3.6	5.3	6.0

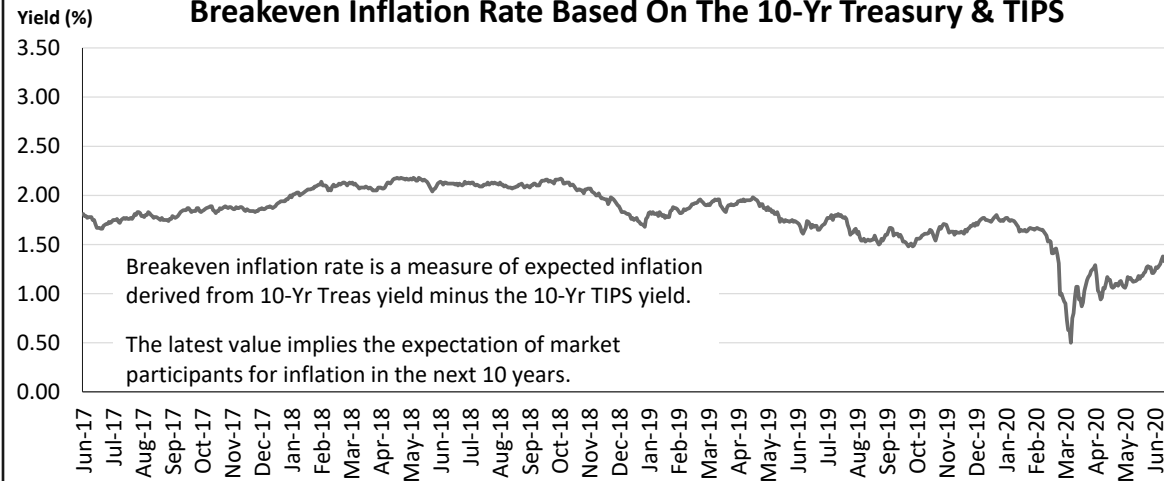
Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.

- Interest rates fell slightly along the Treasury curve during the quarter. The 2.9% quarterly return for the BlmBarc Aggregate was partly due to the tightening of investment grade credit spreads to Treasuries, plus slightly lower interest rates. Remember that corporate credit spreads dramatically widened in the 1st quarter.
- Lower-grade credit sectors, such as bank loans and high yield, rebounded significantly in the quarter as spreads tightened. Credit spreads widened out in the first quarter on concerns of bankruptcies and defaults of issuers. Trailing 12-month returns are still negative, reflecting the dismal 1st quarter.
- Emerging market debt posted a rebound quarter after a dismal 1st quarter. Year-to-date and 12-month returns are still below longer-term returns. As central bank across the globe signaled rapid monetary stimulus helping stabilize liquidity conditions, the riskier asset classes benefited and staged strong rallies.
- The charts to the left show the breakeven rate of inflation at below 1.5%, based upon the 10-year TIPS. Since the middle of 2019, the market has been expecting slowing inflation over the next decade. In response to the virus crisis, the Fed dropped rates but the spread between 10-year and 2-year T-notes remains positive. The expectation for inflation dropped to 50 basis points for a short time before rebounding. The rebound and an upward sloping yield curve signal that investors are expecting a pickup in economic activity in the near future and not a lingering recession.

10-Year and 2-Year Treasury Yields



Breakeven Inflation Rate Based On The 10-Yr Treasury & TIPS



Source: Federal Reserve Bank of St. Louis (FRED)

DeFact

In 1997, JC Penney was flying high. It had recently made a \$3.3 billion purchase of the Eckerd drug store chain and its stock price would eventually reach all time high in 1999. Sporting an "A" credit rating, it issued \$500 million in 100-year 7.375% coupon bonds, due 2097. They sold out. Today the company is in bankruptcy and is restructuring its debt. ~ Reuters

INDEX	2 nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	-1.0	-0.3	2.7	5.4	6.8	9.7
Apartment	-0.6	0.3	3.0	5.1	6.2	9.7
Industrial	1.0	3.6	10.3	12.7	12.8	12.9
Office	-0.5	0.8	4.0	5.8	6.4	9.0
Retail	-3.9	-5.8	-5.6	0.2	3.8	8.6
NCREIF Timberland	0.1	0.2	0.3	2.3	2.7	4.4
NCREIF Farmland	0.6	0.5	3.9	5.4	6.4	10.9
NAREIT (Public RE)*	14.0	-15.0	-8.4	2.7	6.1	10.1
Bloomberg Commodity	5.1	-19.4	-17.4	-6.1	-7.7	-5.8
HFR FOF Composite	7.5	-2.0	0.1	2.1	1.4	2.8
Conservative	4.9	-2.6	-1.1	1.7	1.3	2.5
Diversified	7.3	-1.0	0.9	2.6	1.6	2.9
Strategic	10.2	-2.9	-0.2	1.8	1.3	3.0

Private Market Indexes

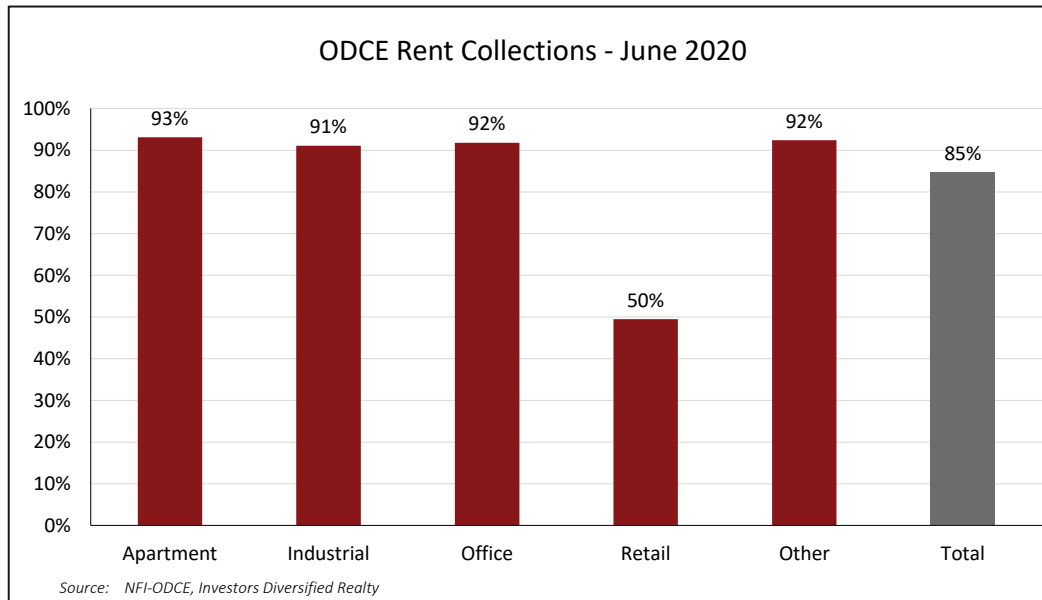
as of 12/31/2019

	Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Preqin Private Equity	4.7	15.5	15.5	15.1	13.3	13.7
Preqin Private Debt	2.0	7.6	7.6	7.5	6.6	8.9
Preqin Infrastructure	-1.7	6.6	6.6	8.9	9.3	9.8

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.

*Public RE is not a less liquid strategy. It is listed for comparative purposes.

- Real estate prices fell in the 2nd quarter. The most visible sign of the lockdown is the collapse of sales transactions, which fell sharply as social distancing rules went into effect. For example, Bloomberg reported that real estate transactions fell to \$11 billion in April, the smallest volume since April 2010. The low transaction volume means that prices may not yet fully reflect the crisis impact.
- REITs rebounded during the quarter but not to the extent of other domestic stocks during the quarter. However, the year-to-date return outperforms its small cap value brethren by 8.5 percentage points due to the much better downside performance on REITs in the first quarter as compared to value stocks, in general.
- Hedge funds advanced in June for the third consecutive month. As global equities advanced, so did equity long/short hedge fund strategies. Fixed income-based performance was driven by corporate credit. Strategies that relied upon macroeconomic exposures, such as currencies and commodities, were mixed.
- Real estate managers are having some difficulty in collecting rent in the 2nd quarter. The chart to the left tells us that retail real estate rent collections are far below other real estate sectors, but all have been affected. This is a concern because failure to collect rent could have a negative impact to property valuations down the road.



DeFact

Private equity appeared to notch a huge victory in June when the Labor Department issued guidance to clarify that 401(k) retirement plans could deploy money into private equity funds. But there is still a long list of questions to be answered before that practice could become the norm for trillions of dollars in defined contribution plans, such as the need to generate liquidity for 401(k) participants. ~PitchBook

Client Conference 2020

September 23-25, 2020

A VIRTUAL EVENT

Join us September 23-25 for the 37th Annual DeMarche Client Conference.

20/20 Vision: Managing the Unforeseen.

Together, we will look past the noise and focus on the critical investment issues, market forces, and industry trends that will impact your investment strategies and portfolio returns in 2020 and beyond.

2020 VISION

Research in Action Series

Visit the DeMarche website to read our new Research in Action series. Each month, we're publishing a new white paper on important topics for investors.

In just a few pages, these concise but informative reports provide the analysis you need to navigate the evolving investment landscape.

Each white paper is hyperlinked below:

- [Do Leading Indicators Actually Indicate?](#)
- [Avoiding a Jam: Your 401K Can Have Too Many Choices](#)
- [Stable Value Update](#)
- [The SECURE Act and Annuities – What does it mean for plan providers?](#)
- [Long-Dated Private Equity: A Problem Solved?](#)
- [Looking at Management Fees from a Different Perspective](#)
- [Fallen Angel Risk & the Need for Active Management](#)

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Join DeMarche for this webinar to learn how alternative asset classes can help enhance efficiency in your portfolio and which strategies make sense in the current market environment.

Date: Wednesday, August 12

Time: 9:00 -10:30 am Central Time

Online Registration Now Open! | <https://cvent.me/aQE2Nq>

Did you miss our last webinar? **Watch A Replay.**

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