

June 2020

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 6/30/2020

Global Overview

Global equity markets produced one of the best quarters in a decade despite the ongoing pandemic and worldwide recession. Chinese stocks and global technology stocks led the charge within equities. Emerging market debt and high yield credit continued to perform well within the fixed income asset class, with help from accommodative monetary policy.

U.S. Markets & Economy

June capped off one of the best quarters for the U.S. equity markets in decades. The S&P 500 Index closed the quarter up 20.5% and is down just 3.1% year-to-date. The tech-heavy NASDAQ Index reached all-time highs in June and is up 12.1% year-to-date, highlighting how the mega-cap technology stocks are dominating market returns. Equity gains primarily occurred early in the month, as investors reacted to a shocking May jobs report where the Bureau of Labor Statistics reported 2.5 million jobs were added in the month, defying expectations of further job losses. Additionally, optimism regarding declining Covid-19 case counts and the low percentage of positive tests drove much of the month's early gains until a re-acceleration of cases and the potential for further state-mandated lockdowns tempered equity markets in the second half of the month. Economic data continues to be mixed during the re-opening process. The employment situation is still the worst this country has faced since the Great Depression, and consensus GDP expectations remain negative for the year. Conversely, home-buying data appears robust, and personal consumption has rebounded nicely from March and April levels. The Treasury yield curve flattened throughout the month as the increased concern over rising Covid-19 cases pushed down the long-end of the curve. Credit spreads tightened during the month as the Fed expanded their support of the credit markets by pledging to buy corporate debt directly rather than through ETF vehicles. Over \$1 trillion of corporate debt was issued thus far in 2020, twice the pace of issuance at this point in 2019. Corporations are taking advantage of the generous Fed backstops in addition to record-low interest rates.

- The Russell 2000 Index returned 3.5% in June and finished the quarter up over 25%. Small caps were hit hard during March's meltdown and are still down 13.0% year to date, despite the stellar second-quarter numbers.
- The Bloomberg Barclays Aggregate Index returned 0.6% in the month, led by credit and securitized assets like mortgage-backed securities. Bank loans outperformed high yield debt during June but still trail year-to-date.

International Markets & Economy

Both developed non-U.S. and emerging market equities outperformed the U.S. during June. The EU is working their way back to normalcy, though member countries are deviating in their re-opening plans and travel restrictions. The ECB increased its pandemic emergency purchase programme (PEPP) by €600 billion and will extend the purchase schedule to (at least) June 2021. The ECB held the deposit facility interest rate position at the current -0.5% level, though market participants are pricing in another cut this year. Italy, one of the countries hardest struck by Covid-19 cases and deaths, began to re-open its borders to EU member countries, hoping for a rebound in its tourism sector that makes up roughly 13% of GDP. Japan has struggled to recover manufacturing and industrial production on pace with other developed countries and its equity market reflects those challenges; Japan was one of only three MSCI EAFE countries to post a negative return in June. Germany, France, and Hong Kong led the MSCI EAFE Index to a positive 3.4% return in the month. Hong Kong equity markets rebounded in June following the crash in May that was caused by China's plan to enforce a security law on the "independent" nation. Mainland Chinese investors bought up billions worth of shares of Chinese state-owned stocks trading on the hang seng (Hong Kong) exchange, and that basket of stocks performed superbly alongside domestically-listed China A-shares. MSCI Emerging Markets Index heavyweights China, Taiwan, and Korea each returned over 8% during the month due to improving local consumer demand and easing Covid-19 border controls from qualified "low-risk" countries.

- The MSCI Emerging Markets Index (USD) returned 7.4% in June. Similar to the U.S., a large portion of the EM Index is in technology-oriented securities, which have led the way globally for the entirety of 2020.

In the News

- One of the most devastating impacts of Covid-19 was the remarkable slowdown in both the manufacturing and services sectors. As China and most European nations have recovered towards pre-crisis production levels in the manufacturing sector, consumer activity has been slower to return. China looks to be the furthest along in this sense, as its service sector recovered in May after sharply contracting from February through April. Major monetary and fiscal programs enacted by Chinese policy-makers were successful at offsetting the drag created by wide-scale lockdowns, keeping cash in the pockets of consumers and creating the opportunity for retail spending when things re-opened. Dissenters to these policy decisions would argue that China has crossed a fiscal threshold, further increasing its total debt burden (corporate and governmental) to over \$40 trillion or 300% of GDP this year. Major European nations, on the other hand, have not recovered to pre-crisis levels when observing consumer-oriented measures. For example, Germany, the world's fourth-largest economy, has seen consumer spending decrease drastically from earlier in the year despite being among the most recovered European nations in terms of manufacturing. Germany highlights the difficulty many of the more mature economies may face in their recovery from the ongoing recession. Unlike the fast-growing nation of China, Germany has more limited fiscal options as they are less likely to be able to grow their way out of the kind of debt burden China has raised to combat the recession. The lingering effects on consumer demand and spending habits may be around for years in some of the world's developed economies.
- The market has experienced P/E expansion during this quarter's historic rebound. Multiple expansion occurs when the prices of a stock rises greater than the valuation metric being used to measure the stock. Since the pandemic has set in, corporate earnings guidance and analysts' earnings estimates have varied significantly due to difficulty of forecasting earnings during times of significant stress. P/E multiples have expanded because forward-looking equity investors are pricing stocks with consideration over a longer horizon where Covid-19 is (hopefully) expected to be resolved in the next 12-36 months, whereas earnings analysts are unable to generate forecasts as accurately that far in the future. Adding additional fuel to the multiple expansion fire, the Fed has pushed bond rates so low that investors are pressured to invest in riskier assets, such as equities, in attempt to meet required return targets. Second quarter earnings reports will be significant in understanding if the current valuation of the S&P 500 Index is justified by the earnings, or if the largest companies in the U.S. still have a long way to go to make up lost income from the first quarter.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation ²
	Latest	2020 ¹	2021 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	-5.00	-8.54	1.93	11.10	0.73	-	-	1.22
China	-33.80	-3.67	4.51	3.70	2.90	7.08	6.88	3.25
Japan	-2.20	-7.32	-0.53	2.60	0.00	107.19	107.64	0.10
United Kingdom	-7.70	-13.96	4.97	3.90	0.27	1.23	1.27	0.93
Euro Area	-13.60	-9.10	4.50	7.30	0.48	1.12	1.14	0.85
Germany	-8.60	-8.76	1.67	3.50	-0.45	1.12	1.14	0.86
France	-19.70	-14.07	5.22	8.70	0.06	1.12	1.14	0.33
Italy	-19.60	-14.01	5.29	6.30	1.76	1.12	1.14	0.29
Canada	-8.20	-9.43	1.53	13.70	0.55	1.37	1.31	0.76
India	1.20	-7.28	8.07	23.50	4.65	75.66	69.78	5.45
Mexico	-4.90	-8.58	2.00	3.30	6.06	22.95	19.13	2.15
Brazil	-6.00	-9.10	2.40	12.60	2.53	5.47	3.84	2.40

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, Bureau of Economic Analysis, and *The Economist*

1. Euro Area data forecasted by The World Bank, all other forecasted data from OECD

2. In terms of CPI All Items

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	2.65	19.36	(5.77)	2.84	6.70	6.90	9.95
	BBgBarc US Agg Bond TR USD	0.63	2.90	6.14	8.74	5.32	4.30	3.82
	Russell 3000 TR USD	2.29	22.03	(3.48)	6.53	10.04	10.03	13.72
	DJ Industrial Average TR USD	1.82	18.51	(8.43)	(0.54)	9.08	10.62	12.99
	NASDAQ Composite PR USD	5.99	30.63	12.11	25.64	17.88	15.07	16.91
	MSCI EAFE NR USD	3.40	14.88	(11.34)	(5.13)	0.81	2.05	5.73
	FTSE Treasury Bill 3 Mon USD	0.01	0.14	0.52	1.56	1.72	1.15	0.61
Bloomberg Commodity TR USD	2.28	5.08	(19.40)	(17.38)	(6.14)	(7.69)	(5.82)	
Domestic Equities	S&P 500 TR USD	1.99	20.54	(3.08)	7.51	10.73	10.73	13.99
	S&P MidCap 400 TR	1.26	24.07	(12.78)	(6.70)	2.39	5.22	11.34
	S&P SmallCap 600 TR USD	3.74	21.94	(17.85)	(11.29)	0.56	4.48	11.24
	Russell 1000 TR USD	2.21	21.82	(2.81)	7.48	10.64	10.47	13.97
	Russell 1000 Growth TR USD	4.35	27.84	9.81	23.28	18.99	15.89	17.23
	Russell 1000 Value TR USD	(0.66)	14.29	(16.26)	(8.84)	1.82	4.64	10.41
	Russell Mid Cap TR USD	1.80	24.61	(9.13)	(2.24)	5.79	6.76	12.35
	Russell Mid Cap Growth TR USD	2.34	30.26	4.16	11.91	14.76	11.60	15.09
	Russell Mid Cap Value TR USD	1.13	19.95	(18.09)	(11.81)	(0.54)	3.32	10.29
	Russell 2000 TR USD	3.53	25.42	(12.98)	(6.63)	2.01	4.29	10.50
	Russell 2000 Growth TR USD	3.84	30.58	(3.06)	3.48	7.86	6.86	12.92
	Russell 2000 Value TR USD	2.90	18.91	(23.50)	(17.48)	(4.35)	1.26	7.82
	International Equities	MSCI ACWI Ex USA NR USD	4.52	16.12	(11.00)	(4.80)	1.13	2.26
MSCI EAFE NR USD		3.40	14.88	(11.34)	(5.13)	0.81	2.05	5.73
MSCI EAFE Growth NR USD		3.24	16.95	(3.53)	4.15	5.91	5.52	7.78
MSCI EAFE Value NR USD		3.57	12.43	(19.27)	(14.48)	(4.43)	(1.59)	3.53
MSCI Japan NR USD		(0.01)	11.61	(7.12)	3.10	2.97	3.45	6.09
MSCI AC Asia Ex Japan NR USD		8.37	16.71	(4.74)	1.69	3.61	4.41	5.91
MSCI Europe NR USD		4.07	15.26	(12.78)	(6.78)	(0.00)	1.46	5.65
MSCI United Kingdom NR USD		1.44	7.79	(23.26)	(17.73)	(3.93)	(2.46)	3.90
MSCI EAFE Small Cap NR USD		1.37	19.88	(13.11)	(3.52)	0.53	3.81	8.02
MSCI EM NR USD	7.35	18.08	(9.78)	(3.39)	1.90	2.86	3.27	
Fixed Income	BBgBarc US Govt/Credit TR USD	0.87	3.71	7.21	10.02	5.87	4.74	4.13
	BBgBarc US Govt/Credit Interm TR USD	0.62	2.81	5.28	7.12	4.43	3.46	3.13
	BBgBarc US Govt/Credit Long TR USD	1.55	6.23	12.82	18.91	10.32	8.98	7.84
	ICE BofA US High Yield TR USD	0.97	9.61	(4.78)	(1.10)	2.94	4.58	6.48
	Credit Suisse HY USD	0.92	10.00	(5.27)	(1.78)	2.64	4.28	6.27
	S&P/LSTA Leveraged Loan TR	1.14	9.70	(4.61)	(1.99)	2.07	2.89	4.17
	FTSE WGBI NonUS USD	0.96	2.98	1.04	0.86	2.87	3.32	1.81
	BBgBarc Gbl Agg Ex USD TR	1.01	3.38	0.61	0.71	2.52	2.89	1.98
REITs	FTSE Nareit All REITs TR	2.74	13.96	(15.01)	(8.36)	2.65	6.11	10.05
	Wilshire US REIT TR USD	2.29	10.56	(17.77)	(12.30)	0.23	3.98	9.22

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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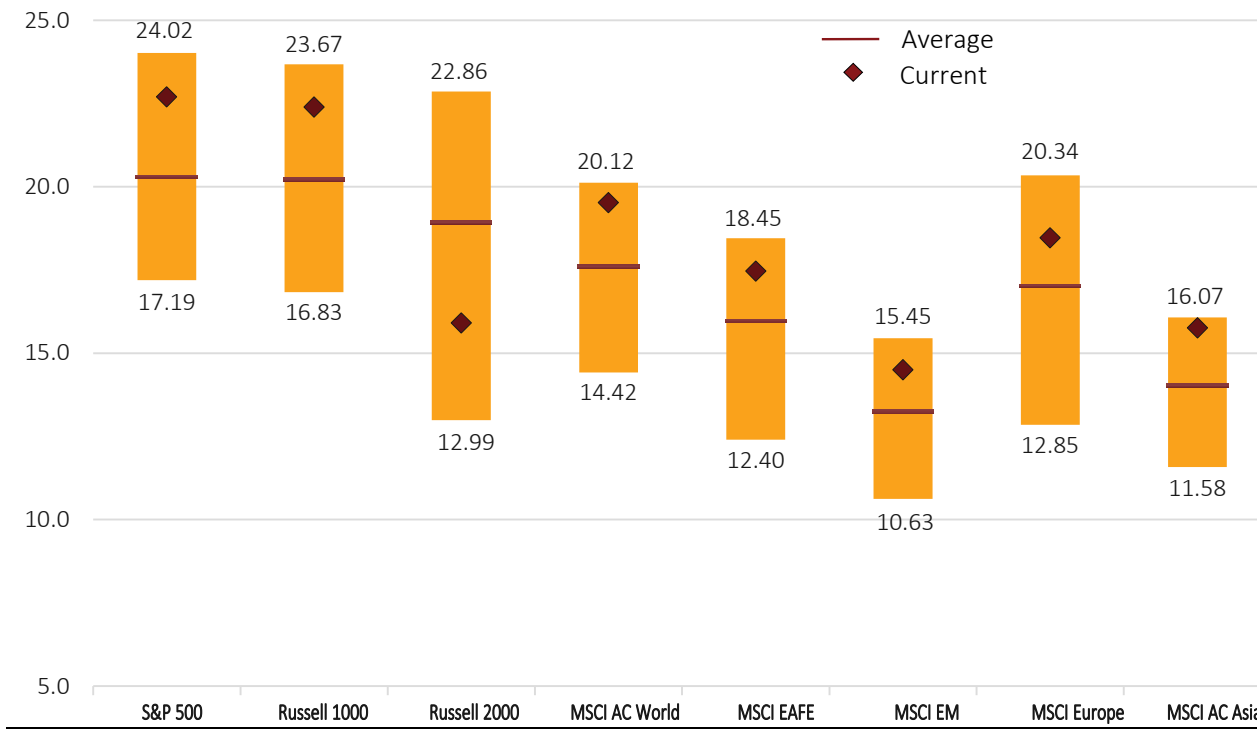
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S&P 500 Price Level



Source: Standard & Poors

Current P/E vs. Trailing 5-Year High, Low, Average

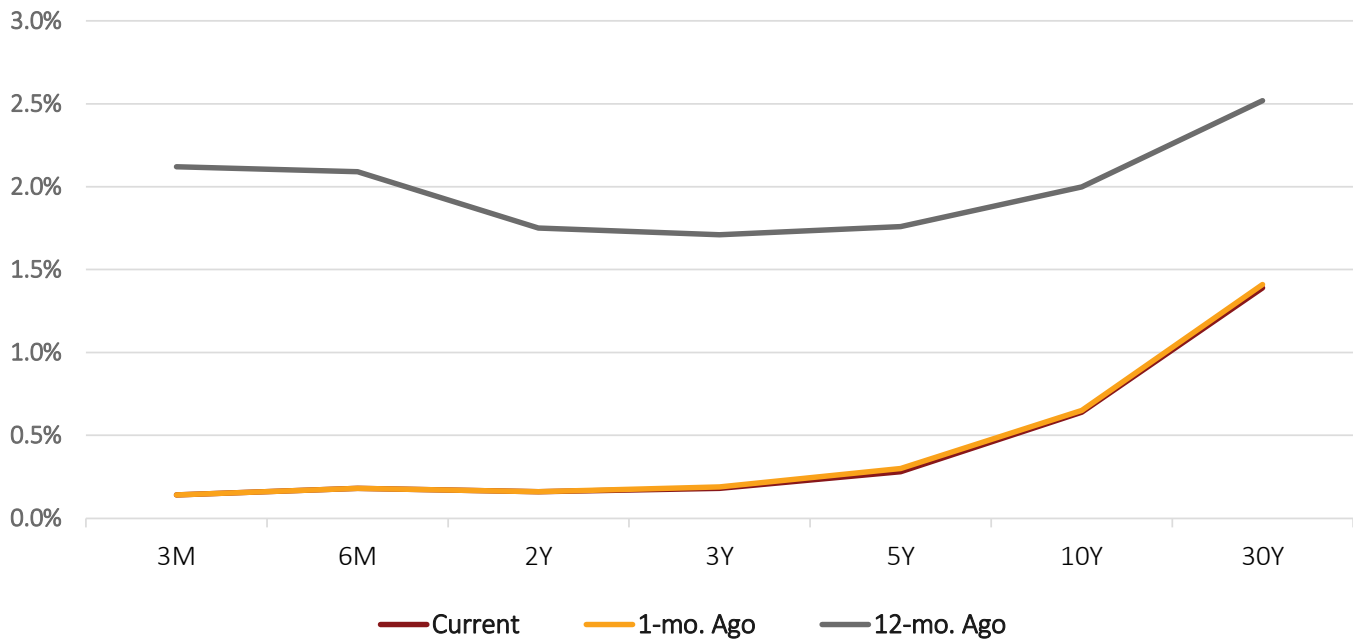


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Month	Dec-18	Dec-18	Mar-20	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

U.S. Treasury Yield Curves

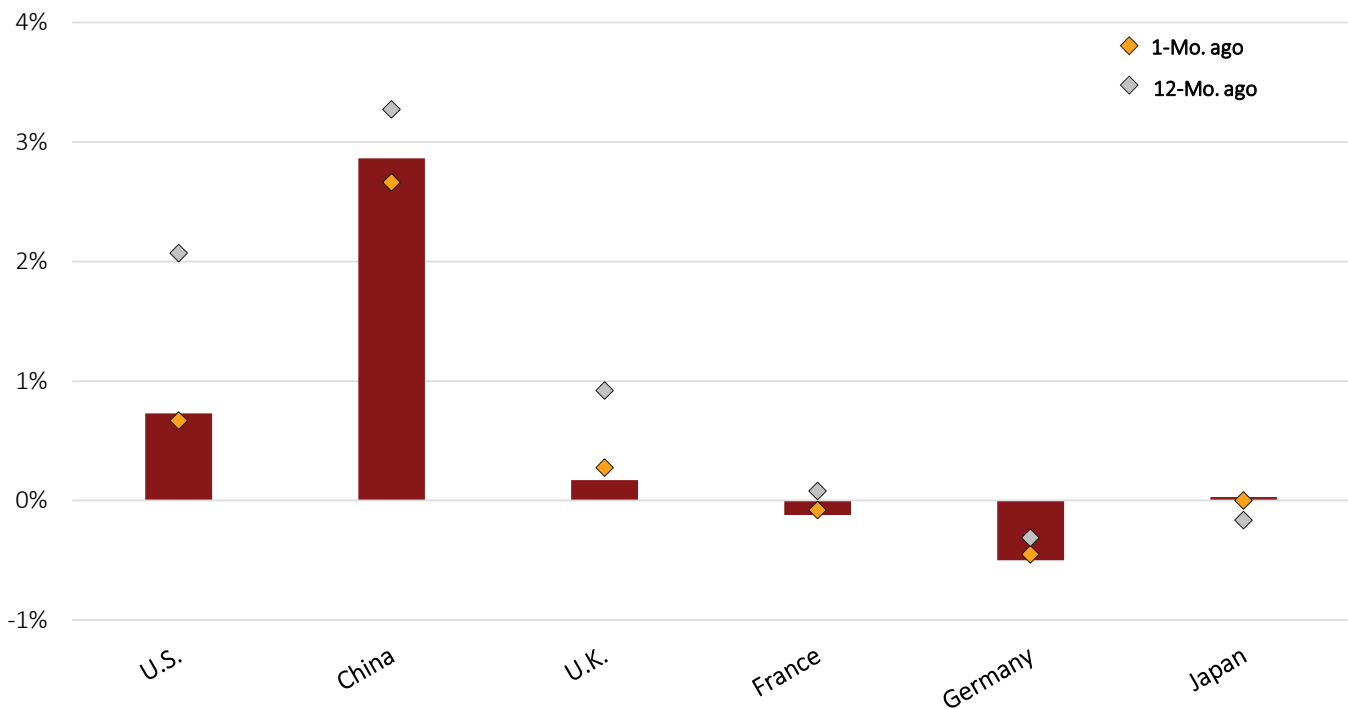
as of 6/30/2020



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

10-Year Sovereign Yields

as of 6/30/20 (most recently available)



Source: Federal Reserve Bank of St. Louis, Wall Street Journal, Trading Economics

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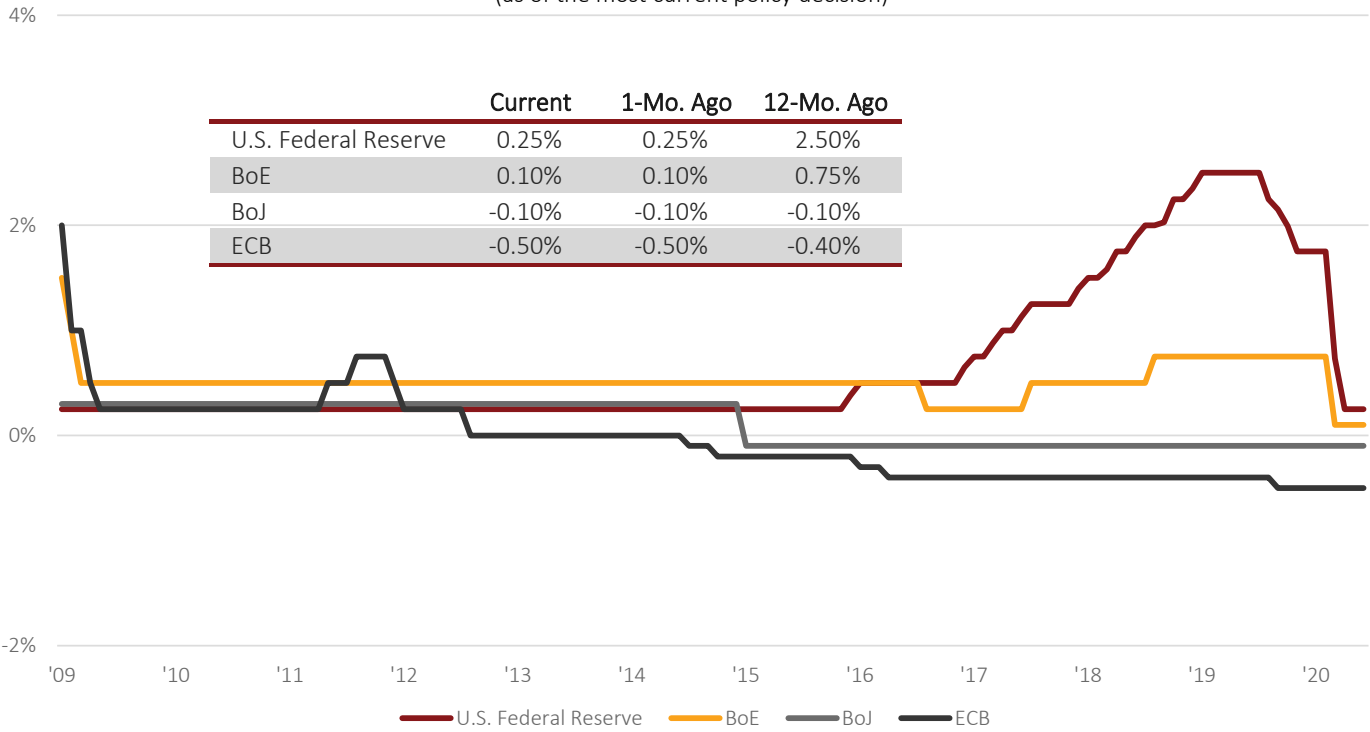
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Central Bank Policy Rates

(as of the most current policy decision)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trade Economics

Corporate Bond Average Spread (bps)

