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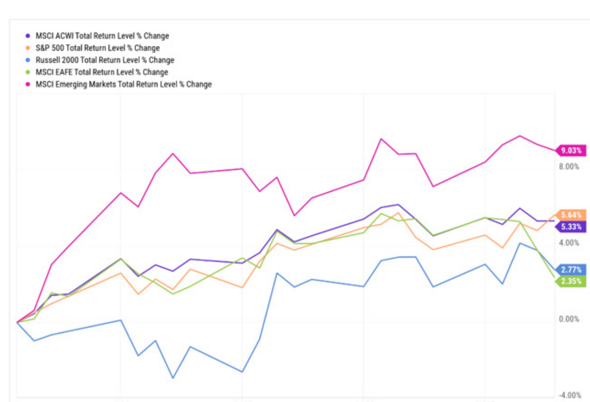
JULY 2020
Market & Economic Update

"DURING THE MONTH OF JULY, THE MSCI ACWI INDEX GAINED 5.33%, BRINGING THE GLOBAL STOCK INDEX JUST 0.27% SHY OF BREAKING EVEN, YTD."

Market Overview

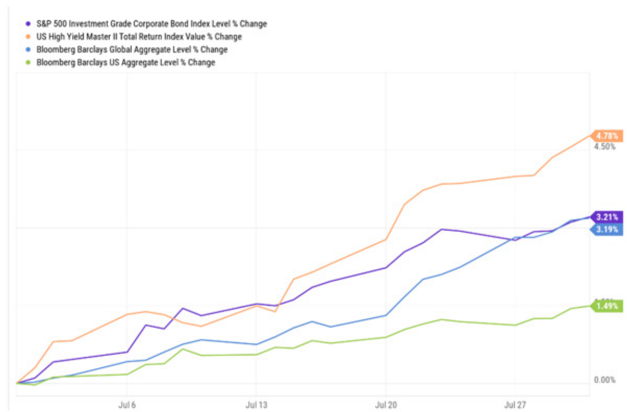
In July, even as major economic indicators show signs of a reversal amidst the return to lockdowns around the world, foreign and domestic stock markets continued their unfaltering ascent. During the month of July, the MSCI ACWI Index gained 5.33%, bringing the global stock index just 0.27% shy of breaking even, YTD. Similarly, the MSCI Emerging Markets stock Index experienced sizable gains of 9.03% during July, bringing the YTD total return to a loss of just 1.60%. Domestically, while both large and small caps experienced gains, on a YTD basis results are mixed. Specifically, the S&P 500 gained 5.64% during the month, bringing the index further into the green with a 3.19% gain YTD. The Russell 2000, however, while notching a 2.77% gain for July, is still significantly in the red, having posted a decline of 8.97% from the beginning of the year through July 31st.



Source: yCharts

"AT THE FRONT END OF THE CURVE, THE 2-YEAR PEAKED AT THE BEGINNING OF JULY WITH A YIELD OF 0.15% BEFORE FALLING TO END THE MONTH AT THE LOW-POINT OF 0.11%."

Turning now to fixed income, Treasury yields remained largely range bound, ending the month slightly lower on both ends of the yield curve on expectations of continued aggressive monetary and fiscal expansion. At the front end of the curve, the 2-year peaked at the beginning of July with a yield of 0.15% before falling to end the month at the low-point of 0.11%. On the longer side, this relationship continued as the 10-year began the month yielding 0.69%, its highest level for the month, before declining to its lowest point of 0.55% where it ended July. Looking forward, we continue to expect rates to remain largely range-bound as the Federal Reserve indicated at its most recent press conference in late July that it is "not even thinking about thinking about raising interest rates, and (the recovery) will take continued support for both monetary and fiscal policy." In fixed income markets, major indices notched gains across the board, as even perceived high-risk instruments inched closer toward YTD gains. The Bloomberg Barclays US Aggregate and Global Aggregate earned 1.49% and 3.19% respectively for the month, up 7.61% and 5.87% YTD. Riskier high-yield assets experienced sizeable increases, with the US High Yield Master II Index ending July with a 4.78% gain – bringing it just 0.01% from breaking even YTD. Safer investment-grade instruments gained 3.21% throughout the month, up 9.47% YTD.



Source: yCharts

Notably, the high-yield portion of the fixed income market played a solid game of "catch-up" in the month of July, bringing the index closer to flat on the year as well as tightening the gap on corporate bond spreads as shown in the following graph from Capital Economics.

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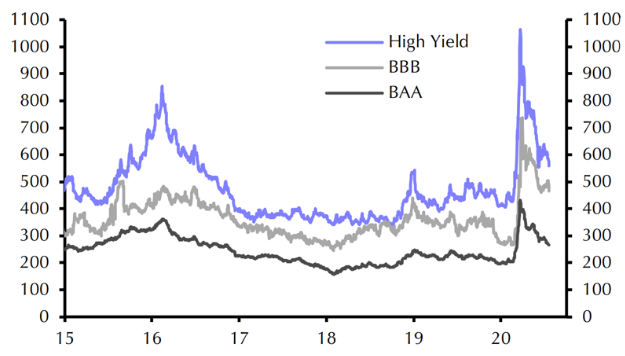
"DOMESTICALLY, JULY SOLIDIFIED THE REVERSAL OF DECLINING COVID-19 TRENDS AS CASES ROSE BY MORE THAN 1.9 MILLION, MORE THAN DOUBLE THE NUMBER OF NEW CASES RECORDED IN ANY SINGLE PREVIOUS MONTH."

This relentless pursuit for yield is especially interesting considering 2020 is on pace to have the highest number of retail bankruptcies in a decade, according to a recent S&P Global Market Intelligence report, with the current YTD number of bankruptcies totaling 43 at the end of July.

Chart 46: Corporate Bond Spreads (bp)



Source: Capital Economics

Retailers and service providers alike have all but forgotten of the potential for a quick "V" recovery, as many restaurants open for service in the streets or spare parking lots. This is just one example of consumer-facing businesses scrambling to grapple with the new-norm of a restricted operating environment as cases continue to climb throughout the country and hotspots emerge throughout the world. Domestically, July solidified the reversal of declining COVID-19 trends as cases rose by more than 1.9 million, more than double the number of new cases recorded in any single previous month. On a brighter note, however, significant progress has continued to be made on the push to develop a vaccine for the virus, as both Moderna/NIH's and Pfizer/BioNTech's candidates entered Phase III trials during the month. This is the most significant trial in a vaccination's approval process and one of the final benchmarks prior to the vaccine seeking regulatory approval, which the companies currently aim to achieve as soon as October.

"OF THESE, 84% REPORTED EARNINGS ABOVE EPS ESTIMATES AND IN AGGREGATE' COMPANIES ARE REPORTING EARNINGS THAT ARE 21.8% ABOVE ESTIMATES."

The US government has placed several orders to multiple candidate vaccine trials and has begun funding vaccine production sites in hopes of achieving operational capacity as soon as a vaccine receives approval from the relevant authorities.

MAJOR COVID-19 VACCINE CANDIDATES

CANDIDATE	SPONSOR	PROGRESS
Covishield	Oxford-AstraZeneca	Phase III
Coronavac	Sinovac	Phase III
2 candidates	Sinopharm	Phase III
mRNA-1273	Moderna-NIAID	Phase III
BNT162b2	Pfizer-BioNTech	Phases II/III
Ad5-nCoV	CanSinol-Beijing Institute of Biotech	Phase II
RBD-Dimer	Anhui Zhifei Longcom-IMCAS (China)	Phase II
N/A	Chinese Academy of Medical Sciences	Phase I/II
Ino-4800	Inovio -International Vaccine Institute	Phases I/II
N/A	Osaka University-AnGeS-Takara	Phases I/II

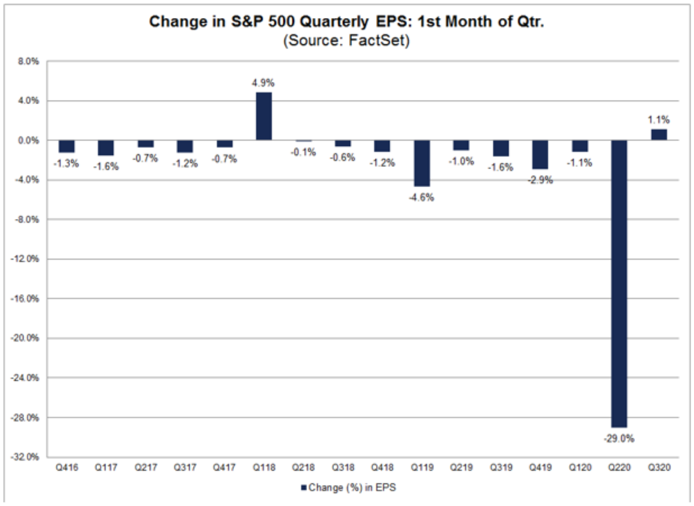
Source(s): WHO, Company press releases

On the earnings front, it appears that after a majority of companies pulled earnings guidance for the year. Most analysts assumed the worst and were perhaps overly-pessimistic to their EPS forecast revisions.

As the dust settles, the adaptability of many companies to the new challenges of a pandemic operating environment can be shown in FactSet's latest earnings reports released July 31st. As of that date, 63% of companies that comprise the S&P 500 have reported actual earnings results for the second quarter of 2020. Of these, 84% reported earnings above EPS estimates and in aggregate' companies are reporting earnings that are 21.8% above estimates. If these measurements prove to be accurate when 100% of companies have reported, it will mark the highest such earnings surprise since FactSet began collecting data in 2008. While beating estimates is certainly bullish for equities, the reality of the situation is extremely bleak when compared with hard data. The blended earnings decline, a metric which combines actual results for companies that have reported and estimated results for those that have yet to report, stood at -35.7% for Q2 2020, a number which – if accurate – would mark the largest year-over-year decline in earnings reported by the Index since Q4 2008.

"DESPITE AN INCREASINGLY STRICT OPERATING ENVIRONMENT, THE US CENSUS' ADVANCED ESTIMATE FOR RETAIL AND FOOD SERVICES SHOWED A 7.5% MONTH-OVER-MONTH INCREASE IN SALES FOR JUNE"

Looking forward, it appears the overly negative sentiment towards earnings has been slightly corrected as analysts have raised their earnings expectations for the third quarter of 2020 up 1.1% to a decline of -22.9%.

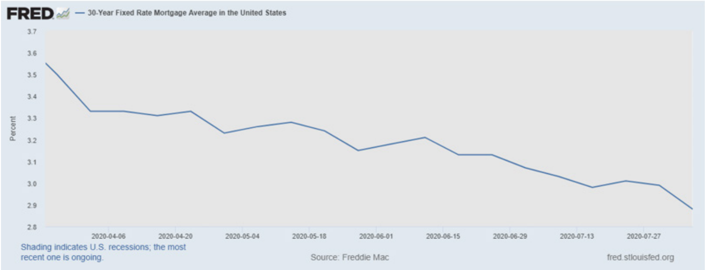


US Economy

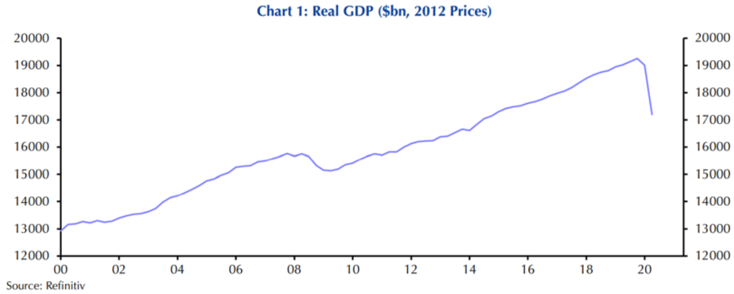
The US economy continued its recovery from March/ April lows, though experiencing significant missteps during the month as many states reemployed lockdowns, international demand once again subsided, and confidence in the recovery faltered. This slow but steady increase in business activity was enjoyed on both a supplier and consumer front, as shown by the additional data released throughout July capturing the effects of gradual economic reopening (and some re-imposed closures) in June. Despite an increasingly strict operating environment, the US Census' advanced estimate for retail and food services showed a 7.5% month-over-month increase in sales for June, bringing the category to a 1.1% year-over-year increase. In addition, the average rate on a 30-year fixed-rate-mortgage (FRM) fell to a historic low of 2.98% in mid-July before edging up slightly towards the end of the month. As of July 23rd, the 30-year FRM stood at 3.01% which enables 15.6 million homeowners to benefit from a reduction of at least 0.75% with an

"THIS MARKS THE STEEPEST DECLINE IN ECONOMIC ACTIVITY SINCE THE GOVERNMENT STARTED KEEPING RECORDS IN 1947"

average monthly savings of $289, as reported by Black Knight. With an aggregate savings of more than $4.5 billion a month, this is poised to be a serious tailwind for the home-owning American consumer.



Speaking more on older but still relevant data, the Bureau of Economic Analysis (BEA) released its preliminary estimate for real Gross Domestic Product (GDP) in the second quarter of 2020. In the report, the BEA estimates that the US Economy experienced a 32.9% year-over-year decline in economic activity, or a quarterly decline of about 9%. This marks the steepest decline in economic activity since the government started keeping records in 1947 and compares to the slightly less substantial quarterly drop of 5% experienced in the first quarter of the year. The decrease in GDP was led by a 34.6% decline in consumption spending as the lockdowns in late March and April forced consumers to stay home. Fiscal stimulus contributed towards a 2.7% increase in government spending, a number which would have been larger had there not been a 5.6% drop in state and local spending amidst their drop in tax revenue.



Turning now to the data available for the month of July, the resurgence of COVID-19 is certainly beginning to follow through to aggregate economic readings. Specifically, on the consumer front, unemployment

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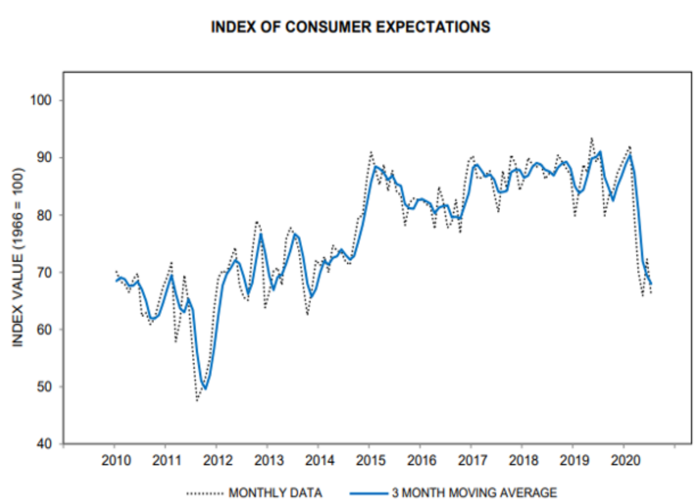
“THE NEWS OF A RETURN TO LOCKDOWN, INCREASES IN UNEMPLOYMENT AND DECREASES IN ECONOMIC ACTIVITY HAS TAKEN A TOLL ON THE MINDS OF THE CONSUMER.”

has ended its nearly two-month trend of declines and experienced several instances of weekly increases in mid-to-late July. As for the week ending July 25th, the advance figure for seasonally adjusted initial unemployment claims increased by 12,000 to 1,434,000. With this, the 4-week moving average increased for the first time in 4 weeks by 6,000 to 4,368,500, followed by an increase in the unemployment rate of 0.5% to 11.6%. With an unemployed population of 17,018,000, the 4-week moving average was still observed to decrease by 435,000 to 17,058,250.

The news of a return to lockdown, increases in unemployment and decreases in economic activity has taken a toll on the minds of the consumer. In its most recent report, the University of Michigan Survey of Consumers showed consumer confidence sinking further in late July. The index notched across the board declines in the Indexes of Consumer Sentiment, Current Economic Conditions, and Consumer Expectations. Of note is the decline in the Index of Consumer Expectations, which decreased from 72.3 in June to 65.9 in July, which is tied with the 6-year low recorded in May. While this marks a decrease of around 26% for each index compared to the same month one year prior, the sentiment index has remained largely trendless over the past 4 months, averaging 73.7. As consumer expectations fade, the US Dollar experienced significant declines throughout the month, with the index that measures the dollar against six other major currencies on track for its worst month since 2011. The US Dollar index has slipped nearly 7% in the last three-month period.



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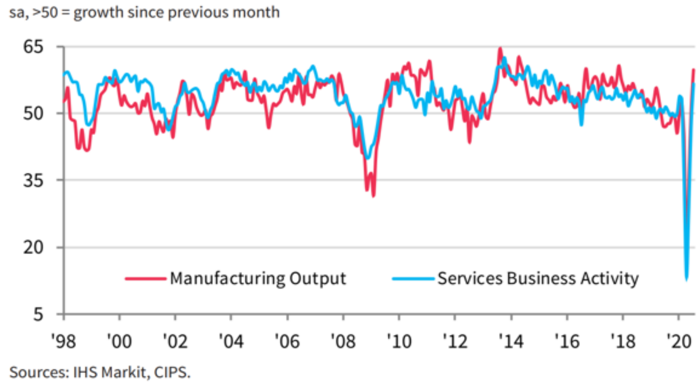
"EUROZONE PMI COMPOSITE OUTPUT INDEX ROSE FROM 48.5 IN JUNE TO A 25-MONTH HIGH OF 54.8"

International Update

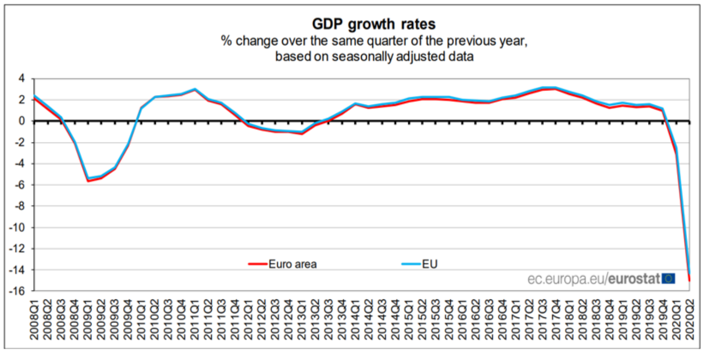
Looking now at international economies, many of the trends experienced domestically can be seen abroad. On the producer side, according to provisional PMI survey data, business activity across the Eurozone rose for the first time since February, growing at the fastest rate in just over two years. Specifically, the

Eurozone PMI Composite Output Index rose from 48.5 in June to a 25-month high of 54.8. Its components, the Eurozone Services PMI Activity Index and Eurozone Manufacturing PMI Output Index rose to 55.1 and 54, respectively. While these readings signal a return to growth for the private sectors throughout Europe, job cutting remained widespread as many firms continued to scale back capacity, especially in the manufacturing sector. Expectations, however, continued to improve as the expectations for future output rose to five-month highs in both manufacturing and services.



Sources: IHS Markit, CIPS.

July marked the first estimate of Q2 2020 GDP data for the EU as reported by Eurostat. In its preliminary report, the department showed economic activity falling on a quarterly basis by 12.1% in the Euro Area and 11.9% in the EU. This compares with quarterly contraction rates of 3.6% and 3.2%, respectively, for the first quarter of 2020. These contraction rates are



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“ON A CONSUMER LEVEL, RELATIVE SUCCESS IN MITIGATING THE SPREAD OF THE VIRUS AND THE SUCCESSFUL REOPENING OF KEY ECONOMIES GAVE PLACE TO INCREASES IN CONSUMER CONFIDENCE THROUGHOUT THE EUROPEAN UNION AND EUROPEAN AREA.”

by far the steepest decline in economic activity since time series data began in 1995 and represent a year-over-year decline of 15% and 14.4% for the Euro Area and EU respectively. On a member state basis, Spain recorded the steepest quarterly decline of -18.5%, with Lithuania recording the most moderate, at -5.1%.

source: European Commission services

On a consumer level, relative success in mitigating the spread of the virus and the successful reopening of key economies gave place to increases in consumer confidence throughout the European Union and European Area. In July, as reported by the European Commission, the Economic Sentiment Indicator climbed to 82.3 and 81.8 in the Euro Are and EU, respectively. In total, this marks a recovery of around half of the combined losses of March and April. Looking forward, the Employment Expectations Indicator also improved markedly for the third month in a row, rising to 87.0 in both regions.

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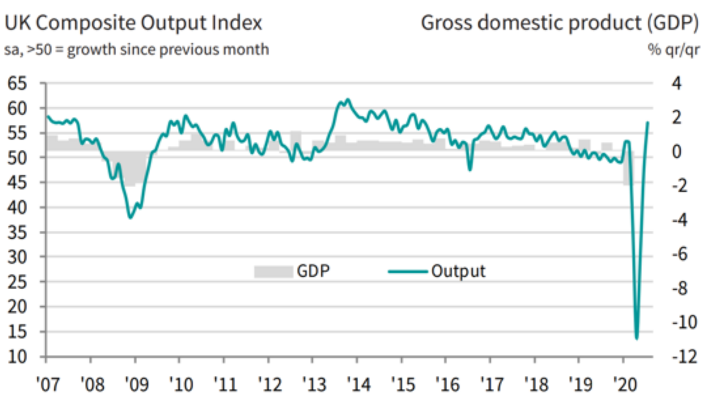
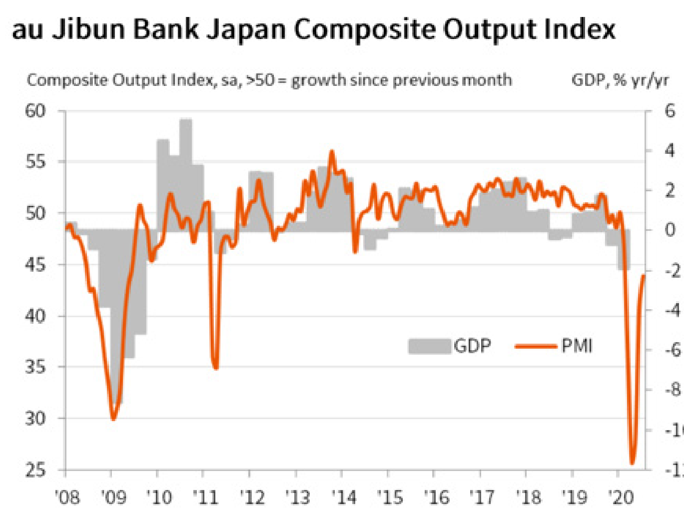
"THIS CONFIDENCE IN THE RECOVERY AND RESULTING UPTICKS IN ECONOMIC ACTIVITY ARE EXPECTED TO BE SOMEWHAT SHORT-LIVED, HOWEVER, AS NEW COVID-19 HOTSPOTS EMERGE"



Sources: IHS Markit, CIPS, Office for National Statistics.

This confidence in the recovery and resulting upticks in economic activity are expected to be somewhat short-lived, however, as new COVID-19 hotspots emerge across the European Bloc. Spain, France, Germany, Belgium, and The Netherlands have each reported a spike between 58 and 206 percent in new cases reported per 100,000 people in the past two weeks compared to that reported 14 days prior, according to a recent report from the World Health Organization (WHO). The seven-day rolling average of daily new cases was seen to begin rapidly increasing around July 6th to the 14th, only a few weeks after many of these economies reopened to limited services. Outside of the EU, economic conditions continued to see improvement. In the UK, for example, as lockdown restrictions throughout the country eased further, the Flash UK Composite Output Index rose nearly 10 points



Sources: au Jibun Bank, IHS Markit, Cabinet Office.

In Asia, however, while recovery made its way through many of the developed economies in the region, the economic downturn persisted in economies such as Japan. Specifically, the preliminary Japan Composite Output Index rose from 40.8 in June to 43.9 in July, indicating a more modest reduction in private sector business activity throughout the country. Using Japan as a case study since it is an economy largely reliant on trade flows, we are able to see that, despite the easing of emergency lockdown measures, the subdued global trade flows and restrictions on travel continue to have a long-lasting effect on the economy's recovery.

Summary of Multi-Asset Strategy

	Portfolio Weight	July 2020
Equity	100%	Positive (+)
Large Cap	90%	Positive (+)
Small Cap	10%	Positive (+)
Fixed Income	100%	Positive (+)
Investment Grade	80%	Positive (+)
Mortgage	20%	Positive (+)
Alternative	100%	Positive (+)
DALT	100%	Positive (+)
Cash (1)	15%	Neutral

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