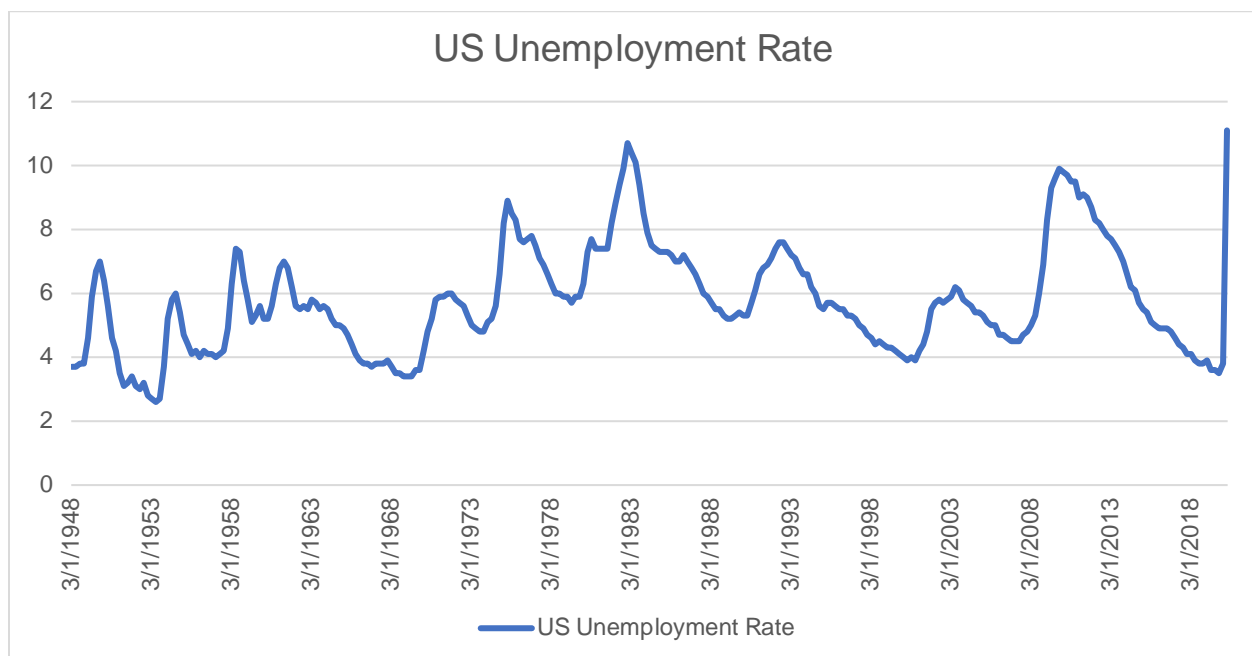


AndCo's Monthly Market Update

July 2020

THE ECONOMY

Despite continued concerns related to the increasing number of COVID-19 (Coronavirus) cases, the US economy continued to show signs of improvement in June. For the month, the number of new US jobs grew by 4.8 million after having increased by roughly 2.5 million in May.¹ Importantly, the number of new jobless claims continues to fall, albeit at a painfully slow rate. According to the June labor report from the Bureau of Labor Statistics, the number of jobs lost from the peak of the economy in February through June is a staggering 14.7 million.² The unemployment rate continues to edge lower, down to 11.1% in June.³ To put some context around what these numbers represent, at the peak of the Financial Crisis in 2009, the US unemployment rate was 10.0%. Looking further back, the US has only experienced this level of unemployment twice since the end of World War II. Certain sectors of the economy were disproportionately affected by the loss of jobs: travel and leisure, hospitality and retail-related companies. While many of these jobs should likely return as the country begins to re-open, there is also a high probability that some of them will not. The resulting slack in the US labor markets will likely remain for some time causing downward pressures on wages.



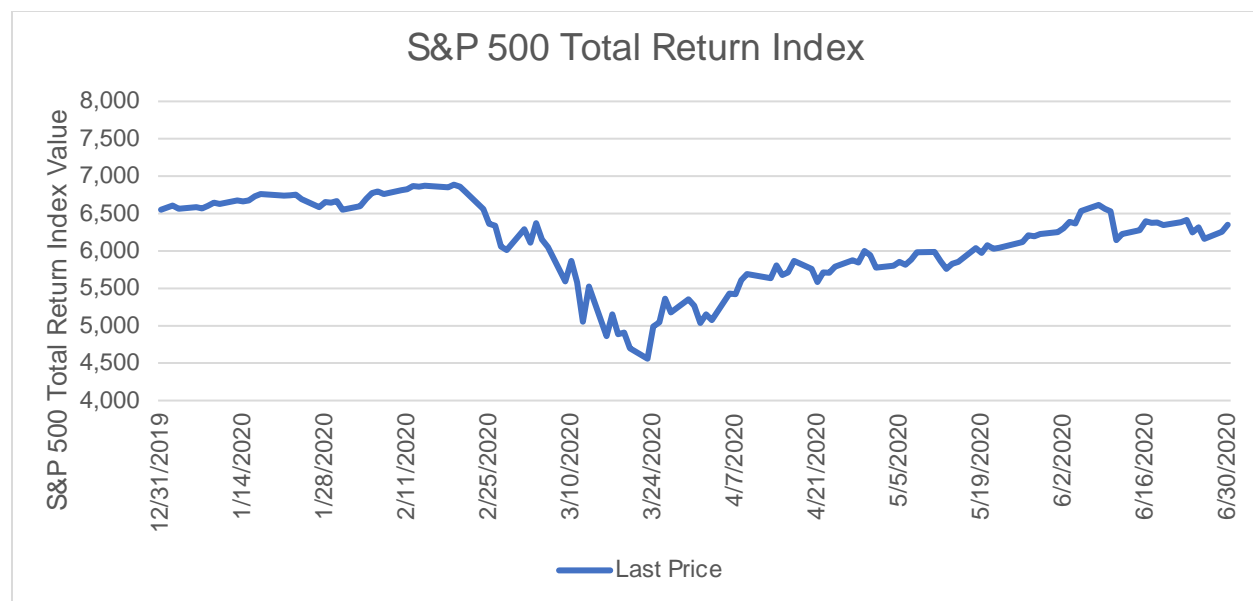
Source: Bloomberg



As we have discussed in previous Market Updates, the path to economic recovery here in the US is largely dependent on the psychological mindset of the consumer given that consumption drives roughly 70% of the economy. Said differently, consumers generally need to feel good about themselves and their prospects moving forward to resume normal spending which will allow the economy to heal. Consumer sentiment is beginning to improve based on the University of Michigan Sentiment reading which rose to 78.9 in June, up from 72.3 in May.⁴ While still far below the 100.8 reading in February, the trend higher suggests that as States open up their economies and people return to work, consumption could likely improve. We can see further evidence of this recovery in spending in the US personal savings rate which declined to 23.2% in May from the peak of 32.2% in April.⁵ While some of the decline in savings can be attributed to the transfer of payments that many Americans received as part of the US government's stimulus package, it is likely that some of the decline in savings is making its way into the economy in the form of consumer spending. We can see evidence of this in the recent retail sales numbers which showed that sales increased month-over-month by 17.7% in May, after having declined by -16.4% in April.⁶ While it is likely that the economy will continue to go through periods of fits-and-starts as the pandemic lingers, the general trajectory of the economy appears to be improving.

EQUITIES

Amid signs of improving economic conditions, equity markets continued their strong performance in June with the S&P 500 Index returning roughly 2.0% while small cap stocks, as measured by the Russell 2000 Index returned 3.5%.⁷ Despite the strong recent returns, the S&P 500 remains under water for the year having returned -3.1% as of June 30th.⁸ Digging a bit deeper, growth stocks continue to lead the way as evidenced by the continued outperformance of the S&P Technology Sector. For the month of June, the sector returned 7.1%.⁹ Much of the relative outperformance of technology-related companies can be attributed to the fact that investors likely expect the largest companies (Amazon, Apple, Facebook, Google and Microsoft) to continue to grow earnings despite the pandemic. Another interesting factor that may play a part is that the US economy is undergoing somewhat of a technological evolution as a result of the pandemic response. Consumers are clearly shopping more online at the expense of brick-and-mortar retailers as they social distance due to COVID-19 fears and restrictions. In addition, technology solutions such as Zoom© and Microsoft Teams© videoconferencing have largely taken the place of in-office meetings. While it is too early to tell whether these changes will become persistent structural and behavioral shifts, investors are clearly focused on companies with the ability to grow revenues that will justify their relatively high P/E multiples.



Source: Bloomberg as of June 30, 2020

Reversing a recent trend, global stocks outperformed US stocks in June with the MSCI ACWI ex-US gaining 4.5%, while the MSCI Emerging Market Index rallied roughly 7.4%. A number of countries have shown recent economic improvement, most notably Japan and China, as steps have been taken to reopen their economies. China's economy, in particular, has rebounded sharply as evidenced by the rise in China's PMI to 55.7 during the month of June, rising above the 50.0 level signifying growth. Despite this, there are reasons for concern in China given the rise in geopolitical tensions related to the crackdown in Hong Kong and lingering trade issues with the US. That said, stronger growth in China is a positive signal for global and emerging markets which have lagged the US over all trailing time periods shown below.

Index	YTD	1-Year	3-Years	5-Years	10-Years
S&P 500	-3.1%	7.5%	10.7%	10.7%	14.0%
Russell 2000	-13.0%	-6.6%	2.0%	4.3%	10.5%
MSCI ACWI ex-US (nr)	-11.0%	-4.8%	1.1%	2.3%	5.0%
MSCI Emerging Markets (nr)	-9.8%	-3.4%	1.9%	2.9%	3.3%

Source: Morningstar as of June 30, 2020

FIXED INCOME

US interest rates were largely unchanged as measured by the 10-Year US Treasury. During their June meeting, the Federal Reserve Bank (Fed) signaled that interest rates will remain low for the foreseeable future in an attempt to provide the economy with liquidity due to perceived "considerable risks." The Fed further committed to purchasing roughly \$80 billion in US Treasury and Agency mortgage bonds monthly, while also purchasing corporate bonds and ETFs to support the market. Despite the expansion of the Fed's balance sheet and the myriad of programs designed to support the economy, inflation remains relatively subdued and the US dollar remains strong relative to most developed market currencies. That said, the recent rise in gold prices is



interesting and worth following for its historical inflation implications. Perhaps the market is trying to tell us something about what to expect down the road if global central banks keep interest rates near the zero-bound. Credit markets were generally positive during the month with investment grade corporate bonds returning roughly 2.0%, while high yield bonds returned roughly 1.0%.¹⁰ Corporate bond spreads were bifurcated during the month with investment grade spreads narrowing while high yield spreads widened.

Appendix

1. Bloomberg as of July 3rd, 2020
2. <https://www.bls.gov/news.release/empisit.nr0.htm>
3. Bloomberg as of July 3rd, 2020
4. Bloomberg as of July 12th, 2020
5. Bloomberg as of May 31st, 2020
6. Bloomberg as of June 16th, 2020
7. Bloomberg as of June 30th, 2020
8. Bloomberg as of June 30th, 2020
9. Bloomberg as of June 30th, 2020
10. Bloomberg as of June 30th, 2020

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