

**DISLOCATION BETWEEN FUNDAMENTALS & PRICE**

During 1Q20 the global economy faced a shock unprecedented in modern economic history. A viral outbreak (COVID-19) that initiated in China spread swiftly across the globe bringing substantial loss of life and commerce. Global governments were forced to shut down large sections of their economies with billions of people directed to stay home to fight the spread of the virus. Economic visibility had largely disappeared by the end of the quarter. So how is it that much of the domestic equity market ended 2Q20 near all-time highs?

Monetary and fiscal policy makers in the US took decisive and unprecedented actions to provide liquidity to financial markets in an effort to place a floor under the economy. The Federal Reserve (Fed) dropped short-term rates from 1.50% to zero and announced they would purchase unlimited amounts of Treasury Bonds and Agency Mortgage-Backed Securities. Federal lawmakers passed a stimulus package of spending and tax breaks that totaled over \$2 trillion, or roughly 10% of GDP. This was followed by extensive balance sheet purchases by the Fed that for the first-time included investment grade and non-investment grade corporate bonds. From March to early June, the Fed's balance sheet grew from \$4.2 to \$7.2 trillion, over twice the growth seen during the great recession of 2008.

These extensive monetary and fiscal policy responses settled investor nerves and demonstrated “absolute” levels of support for the economy. This “absolute” support set a base for valuations and allowed investors to shift their focus beyond exceptionally poor near-term fundamentals. Fundamentals that included the loss of 22.2 million jobs in March and April, resulting in a record high 14.7% unemployment rate in May. Companies making up the S&P 500 Index saw earnings estimates decline by 37.0% in 2Q20, the largest decline in recorded history as reported by FactSet.

While few will argue the initial central bank actions were not appropriate, the continued support of financial markets, in particular the extended open market purchases of longer-dated Treasuries and corporate bonds has left many institutional investors asking if the central bank has over-stepped its bounds. Discounting of forward-looking expectations is the very essence of price discovery and the role of financial markets. But the extreme dichotomy between fundamentals and prices has some asking whether fundamentals are simply being ignored in favor of blindly following central bank policy. Has aggressive policy detached financial markets from the real economy? Actions, no matter how well intended, have consequences. If the central bank's role is too strong, then traditional fundamentals of valuation and risk management become less relevant and investors become emboldened by the very policies directed to protect them.

The stark influence of central bank policy on markets has led to the well-known quote “Don't fight the Fed”. While these are generally wise words, investors should not lose sight of fundamentals and basic risk management in the process. Eventually, even the Fed must answer to market fundamentals.

GLOBAL ECONOMIC LANDSCAPE

- May provided a huge upside surprise in the labor report and June delivered another strong result. The US job market has now recouped a third of the job losses incurred since the onset of the COVID-19 pandemic. Payrolls increased by 4.8 million in June, following an increase of 2.7 million in May. Construction

and manufacturing sectors have recovered nearly 60% of their losses. Service industries added 4.3 million jobs, 2.1 million in leisure and hospitality, 900k in trade and transportation and nearly 600k in education and health. Air travel employment continues to decline and remains one of the hardest hit industries.

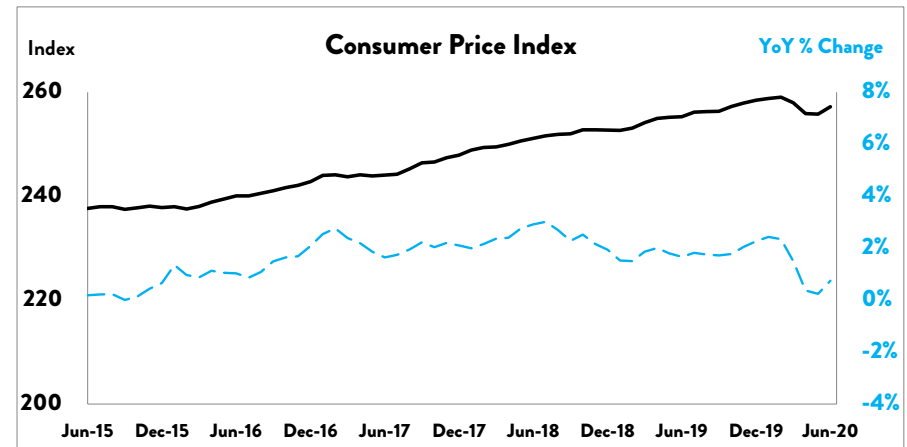
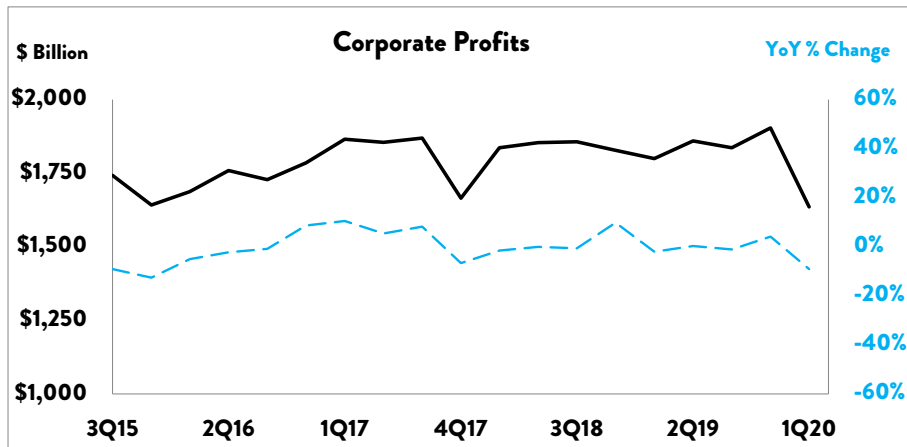
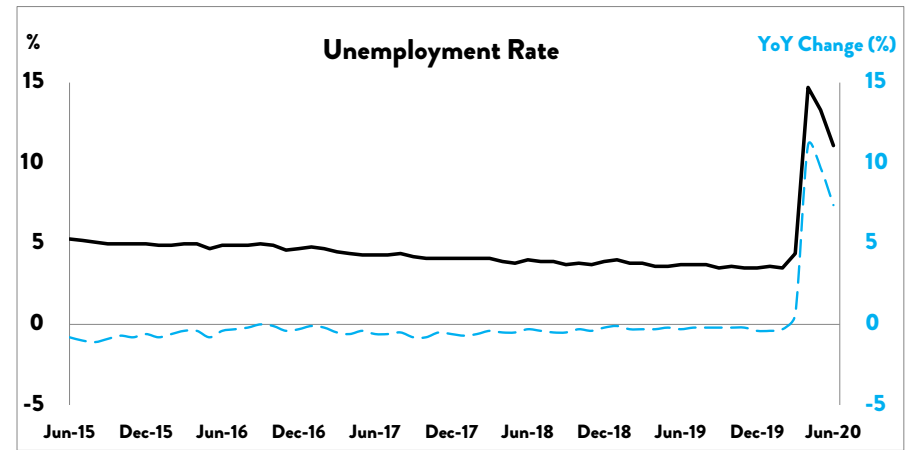
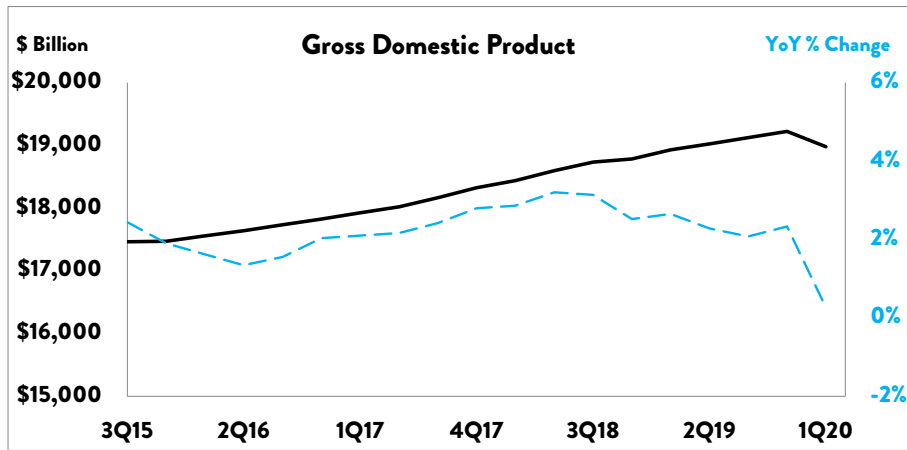
- ▶ Producer price inflation (PPI) declined 0.2% in June, versus expectations of a 0.4% gain. Food prices declined 5.2% while energy prices jumped 7.7% on supply/demand normalization. Headline PPI was largely unchanged at -0.8% year-over-year. The traditional core measure of inflation (excluding food and energy) rose 0.1% year-over-year.
- ▶ US home mortgage delinquencies surged to the highest level since November 2011. Total borrowers more than 30 days late jumped to 4.3 million in May after a record jump of 3.4 million in April, according to Back Knight. This translates to more than 8% of all US mortgages as either past due or in foreclosure.
- ▶ International economies are experiencing powerful short-term rebounds as global lockdowns are lifted. Italy, one of the countries hardest hit by the pandemic, saw retail sales rebound by nearly 25% in May with non-food sales rising over 65% in the same time-period. French industrial production followed suit, rising 19% with Germany increasing by 8%. Despite these increases, production remains 20% below pre-pandemic levels.

GLOBAL FINANCIAL MARKETS

- ▶ Global equity markets staged a largely unprecedented rally in 2Q20 as global central banks aggressively moved to counter the affects of broad economic closures due to the COVID-19 pandemic. The combination of accommodative monetary policy, supportive fiscal policy and the early stages of economies re-opening led to sharp reversals in investor sentiment during the quarter.
- ▶ While domestic large cap stocks led the rally, small cap stocks took over leadership as the quarter progressed. Growth stocks continued their dominance over value stocks on continued strong price momentum in information technology stocks. As the prospects for economic recovery improved during the quarter, cyclical value stocks within the energy, materials and consumer discretion sectors staged strong rallies to end the quarter.
- ▶ In direct contrast to 1Q20, there were few global equity markets that did not enjoy strong returns in 2Q20. Emerging markets were no exception, led by strong economic data out of China and a subsequent rolldown effect across Asian and Latin American trading partners.
- ▶ Not to be left out, global credit markets posted a sharp and broad recovery this quarter. US high yield bond spreads narrowed from a peak of 1,080 basis points over Treasuries on March 24th to 550 basis points by June 4th, representing the most powerful rally since the global financial crisis. Nearly all other global credit markets have followed suit. The sharp decline in Treasury yields has left the oft cited “risk-free” bonds as largely “return-free” as well. Expect the ownership of government bonds to continue gathering largely in the hands of central banks as private investors pursue higher returns in various parts of the credit world and increasingly equity markets.

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2Q2020 Economic Data



Key: — Economic Series

--- Year-Over-Year Change

Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	4,800,000	4,800,000	-20,787,000	-56,533	Jun-20
Unemployment Rate	11.1%	14.7%	3.5%	4.7%	Jun-20
Median Unemployment Length (Weeks)	11.1	13.2	4.0	9.8	Jun-20
Average Hourly Earnings	\$29.37	\$30.03	\$25.01	\$26.84	Jun-20

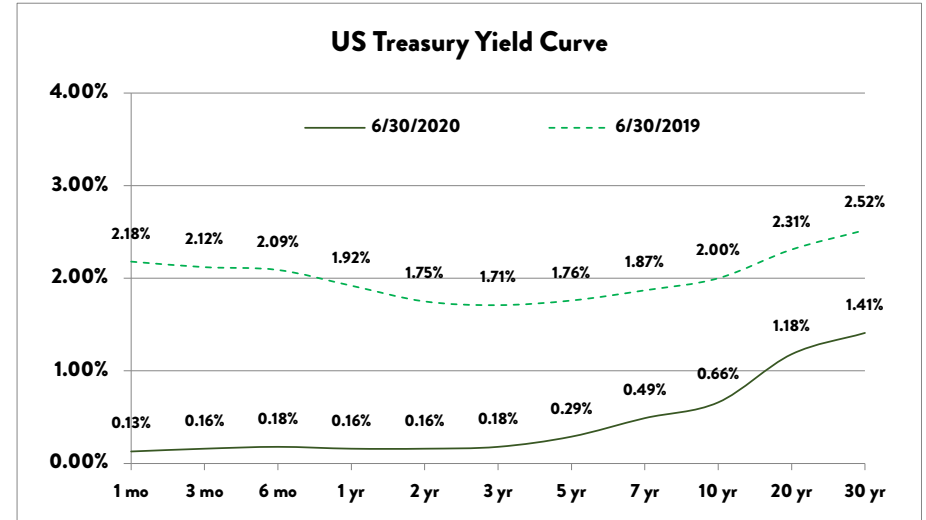
Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$2.07	\$2.88	\$1.79	-28.3%	Jun-20
Spot Oil	\$38.31	\$70.98	\$16.55	-46.0%	Jun-20
Case-Shiller Home Price Index	223.9	223.9	178.3	25.6%*	Apr-20
Medical Care CPI	521.1	521.1	446.7	16.7%*	Jun-20

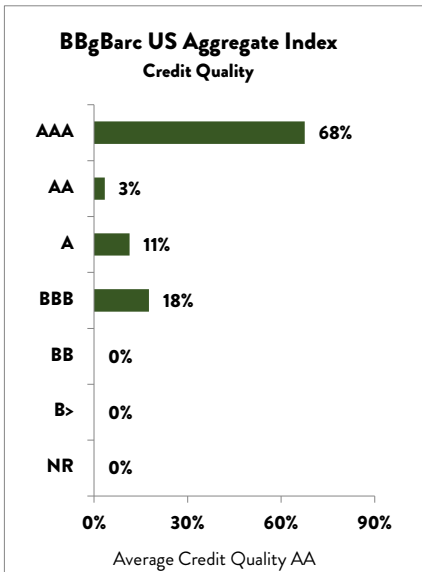
*% Off Low

2Q2020 Bond Market Data

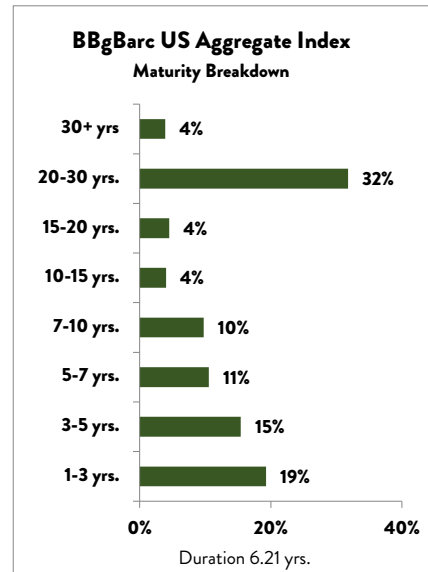
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.02%	0.66%	1.70%	1.71%	1.12%	0.60%
BBgBarc US Aggregate	2.90%	6.14%	8.74%	5.32%	4.30%	3.82%
BBgBarc Short US Treasury	0.04%	0.87%	1.95%	1.91%	1.31%	0.74%
BBgBarc Int. US Treasury	0.54%	5.82%	7.07%	4.11%	2.98%	2.56%
BBgBarc Long US Treasury	0.25%	21.20%	25.41%	12.04%	9.26%	7.74%
BBgBarc US TIPS	4.24%	6.01%	8.28%	5.05%	3.75%	3.52%
BBgBarc US Credit	8.22%	4.82%	9.07%	6.14%	5.54%	5.24%
BBgBarc US Mortgage-Backed	0.67%	3.50%	5.67%	3.97%	3.23%	3.06%
BBgBarc US Asset-Backed	3.54%	3.32%	4.68%	3.34%	2.67%	2.57%
BBgBarc US 20-Yr Municipal	2.56%	2.05%	5.06%	5.22%	4.81%	5.30%
BBgBarc US High Yield	10.18%	-3.80%	0.03%	3.33%	4.79%	6.68%
BBgBarc Global	3.32%	2.98%	4.22%	3.79%	3.56%	2.81%
BBgBarc International	3.38%	0.61%	0.71%	2.52%	2.89%	1.98%
BBgBarc Emerging Market	10.00%	-0.43%	2.96%	4.17%	5.18%	5.99%



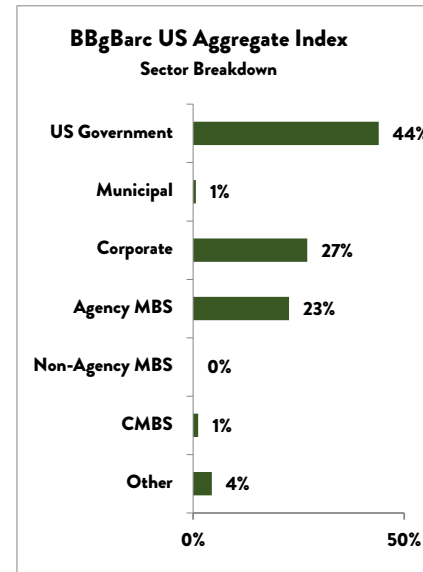
Source: Department of US Treasury



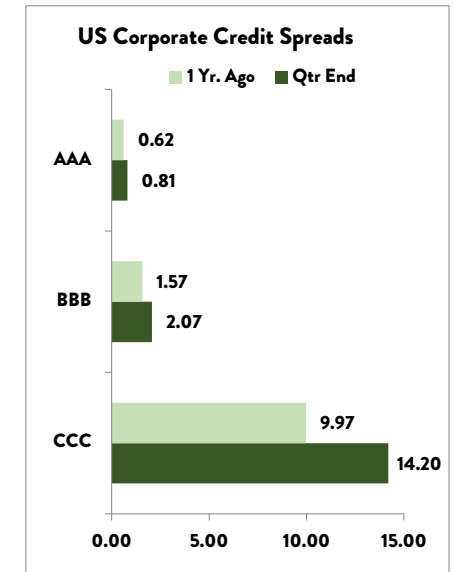
Source: Morningstar



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Source: Morningstar



Source: Federal Reserve / Bank of America

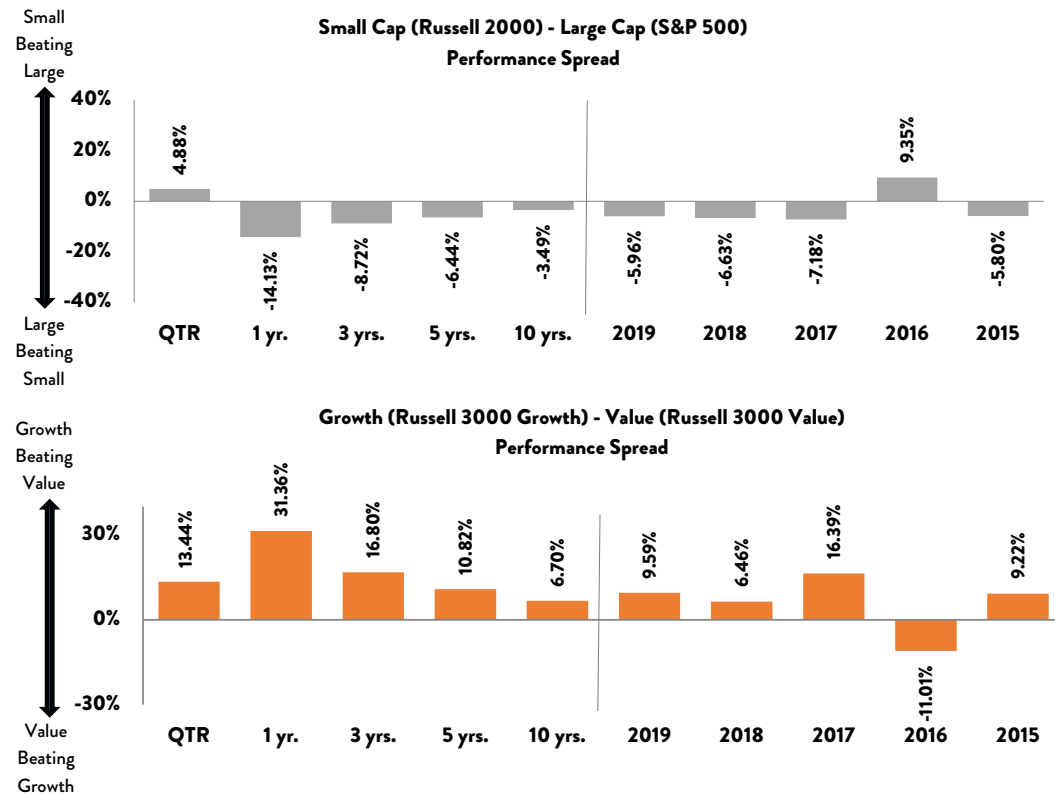
2Q2020 US Equity Market Data

Sectors Weights/Returns (ranked by quarter performance)

Index	Wgt.	Sector	QTR	YTD	1 yr.
	S&P 500 Index				
	11%	Consumer Discretionary	32.86%	7.23%	12.59%
	27%	Information Technology	30.53%	14.95%	35.90%
	3%	Energy	30.51%	-35.34%	-36.09%
	3%	Materials	26.01%	-6.92%	-1.11%
	11%	Communication Services	20.04%	-0.31%	11.08%
	8%	Industrials	17.01%	-14.64%	-9.02%
	15%	Health Care	13.59%	-0.81%	10.90%
	3%	Real Estate	13.22%	-8.53%	-2.01%
	10%	Financials	12.20%	-23.62%	-13.92%
	7%	Consumer Staples	8.12%	-5.66%	3.62%
	3%	Utilities	2.73%	-11.14%	-2.11%
S&P Midcap 400 Index					
	Wgt.	Sector	QTR	YTD	1 yr.
	1%	Energy	74.62%	-47.19%	-53.91%
	14%	Consumer Discretionary	51.83%	-5.98%	2.27%
	16%	Information Technology	27.93%	-4.24%	7.68%
	6%	Materials	25.31%	-14.45%	-11.15%
	11%	Health Care	23.29%	5.60%	12.41%
	16%	Industrials	23.15%	-13.10%	-6.47%
	4%	Consumer Staples	20.37%	-1.48%	3.22%
	2%	Communication Services	15.45%	-16.50%	-16.99%
	15%	Financials	13.97%	-23.77%	-18.87%
	10%	Real Estate	12.81%	-24.58%	-16.89%
	4%	Utilities	-0.41%	-20.97%	-20.10%
S&P Smallcap 600 Index					
	Wgt.	Sector	QTR	YTD	1 yr.
	3%	Energy	54.99%	-54.54%	-62.36%
	15%	Consumer Discretionary	53.83%	-13.13%	-6.00%
	5%	Materials	27.37%	-17.75%	-14.15%
	14%	Information Technology	22.64%	-9.29%	4.68%
	18%	Industrials	22.37%	-17.66%	-11.17%
	13%	Health Care	17.05%	-6.23%	2.92%
	4%	Consumer Staples	16.27%	-8.23%	1.73%
	8%	Real Estate	13.38%	-25.14%	-18.09%
	3%	Communication Services	12.36%	3.26%	4.68%
	15%	Financials	9.06%	-28.92%	-23.76%
	2%	Utilities	-5.03%	-14.08%	-8.37%

Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	20.54%	-3.08%	7.51%	10.73%	10.73%	13.99%
Russell 1000 Value	14.29%	-16.26%	-8.84%	1.82%	4.64%	10.41%
Russell 1000 Growth	27.84%	9.81%	23.28%	18.99%	15.89%	17.23%
Russell Mid Cap	24.61%	-9.13%	-2.24%	5.79%	6.76%	12.35%
Russell Mid Cap Value	19.95%	-18.09%	-11.81%	-0.54%	3.32%	10.29%
Russell Mid Cap Growth	30.26%	4.16%	11.91%	14.76%	11.60%	15.09%
Russell 2000	25.42%	-12.98%	-6.63%	2.01%	4.29%	10.50%
Russell 2000 Value	18.91%	-23.50%	-17.48%	-4.35%	1.26%	7.82%
Russell 2000 Growth	30.58%	-3.06%	3.48%	7.86%	6.86%	12.92%
Russell 3000	22.03%	-3.48%	6.53%	10.04%	10.03%	13.72%
DJ US Select REIT	9.11%	-22.01%	-17.71%	-1.99%	2.45%	8.27%



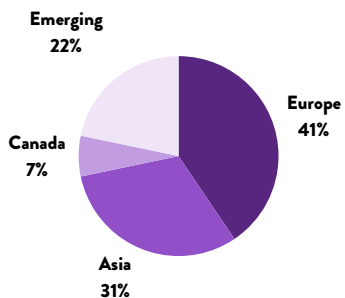
2Q2020 International Market Data

Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
MSCI ACWI ex-US	16.12%	-11.00%	-4.80%	1.13%	2.26%	4.97%
MSCI EAFE	14.88%	-11.34%	-5.13%	0.81%	2.05%	5.73%
Europe	15.26%	-12.78%	-6.78%	0.00%	1.46%	5.65%
United Kingdom	7.79%	-23.26%	-17.73%	-3.93%	-2.46%	3.90%
Germany	26.54%	-7.63%	-2.59%	-1.30%	1.80%	6.07%
France	16.15%	-15.86%	-10.27%	0.50%	3.46%	5.79%
Pacific	14.16%	-9.01%	-2.39%	2.31%	3.24%	5.98%
Japan	11.61%	-7.12%	3.10%	2.97%	3.45%	6.09%
Hong Kong	9.16%	-9.75%	-14.71%	0.93%	2.58%	7.40%
Australia	28.91%	-13.95%	-11.50%	0.83%	2.99%	5.22%
Canada	20.17%	-12.91%	-8.24%	1.13%	1.61%	2.71%
MSCI EM	18.08%	-9.78%	-3.39%	1.90%	2.86%	3.27%
MSCI EM Latin America	19.10%	-35.23%	-32.46%	-7.22%	-3.22%	-3.80%
MSCI EM Asia	17.82%	-3.50%	4.88%	4.10%	4.84%	5.81%
MSCI EM Eur/Mid East	15.97%	-19.99%	-16.78%	-0.29%	0.03%	-1.20%
MSCI ACWI Value ex-US	12.76%	-19.43%	-15.26%	-3.95%	-1.25%	2.79%
MSCI ACWI Growth ex-US	19.11%	-2.62%	5.80%	6.07%	5.61%	7.04%
MSCI ACWI Sm Cap ex-US	22.83%	-12.80%	-4.34%	-0.17%	2.50%	6.05%

Regional Exposure

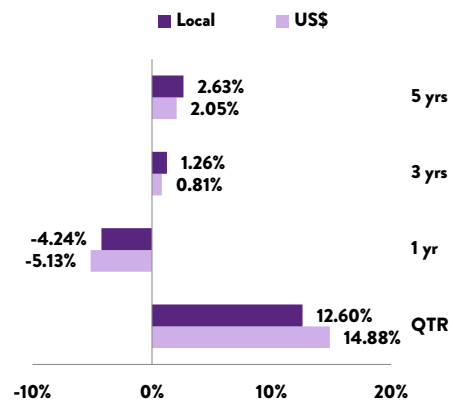
MSCI ACWI ex-USA



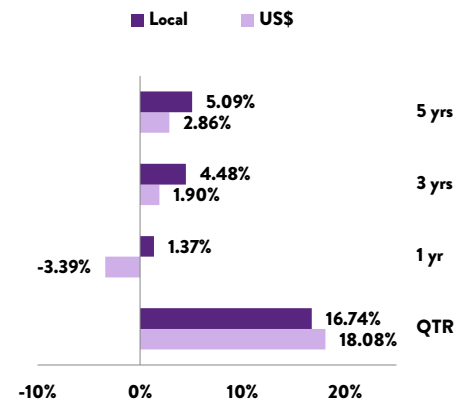
Top 10 Countries (MSCI AC World ex-USA)

Japan	16%
China	12%
UK	9%
France	7%
Switzerland	7%
Canada	6%
Germany	6%
Australia	4%
Taiwan	4%
South Korea	3%

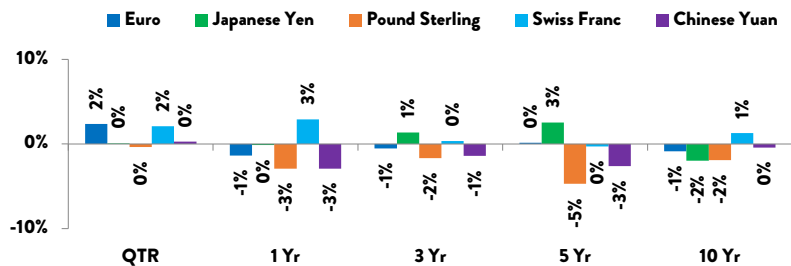
MSCI EAFE Index Return



MSCI Emerging Index Return

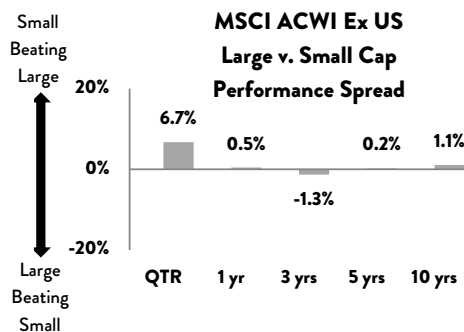


Foreign Currency v. US\$ Returns

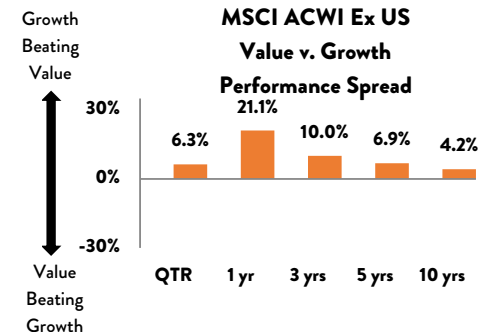


Exchange Rates	QTR	1Q20	4Q19	3Q19	2Q19	1Q19
Japanese Yen	107.77	107.53	108.67	108.11	107.84	110.68
Euro	0.89	0.91	0.89	0.92	0.88	0.89
British Pound	0.81	0.80	0.75	0.81	0.79	0.77
Swiss Franc	0.95	0.96	0.97	1.00	0.98	1.00
Chinese Yuan	7.07	7.08	6.96	7.15	6.87	6.71

MSCI ACWI Ex US Large v. Small Cap Performance Spread



MSCI ACWI Ex US Value v. Growth Performance Spread



Historical Market Returns

Ranked by Performance

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	2Q20
Emerging Markets 34.00%	Emerging Markets 32.14%	Emerging Markets 39.42%	US Bonds 5.24%	Emerging Markets 78.51%	Small Cap 26.85%	Core Real Estate 14.96%	Emerging Markets 18.22%	Small Cap 38.82%	Large Cap 13.68%	Core Real Estate 13.95%	Small Cap 21.30%	Emerging Markets 37.28%	Core Real Estate 7.36%	Large Cap 31.49%	US Bonds 6.14%	Small Cap 25.42%
Commod. 21.36%	Intl 26.65%	Intl 16.65%	Global Bonds 4.79%	High Yield 58.21%	Mid Cap 25.48%	TIPS 13.56%	Mid Cap 17.28%	Mid Cap 34.76%	Mid Cap 13.21%	Large Cap 1.38%	High Yield 17.12%	Intl 27.19%	Cash 1.69%	Mid Cap 30.54%	TIPS 6.01%	Mid Cap 24.61%
Core Real Estate 20.15%	Small Cap 18.37%	Commod. 16.23%	Cash 1.39%	Intl 41.45%	Emerging Markets 18.88%	US Bonds 7.84%	Intl 16.83%	Large Cap 32.39%	Core Real Estate 11.44%	US Bonds 0.55%	Mid Cap 13.79%	Large Cap 21.83%	US Bonds 0.01%	Small Cap 25.52%	Global Bonds 2.98%	Large Cap 20.54%
Intl 16.62%	Large Cap 15.79%	Core Real Estate 14.84%	TIPS -2.35%	Mid Cap 40.48%	Commod. 16.83%	Global Bonds 5.64%	Small Cap 16.35%	Intl 15.29%	US Bonds 5.97%	Cash 0.03%	Large Cap 11.95%	Mid Cap 18.52%	Global Bonds -1.20%	Intl 21.51%	Cash 0.66%	Emerging Markets 18.08%
Mid Cap 12.65%	Core Real Estate 15.27%	TIPS 11.64%	Core Real Estate -10.70%	Small Cap 27.17%	Core Real Estate 15.26%	High Yield 4.98%	Large Cap 16.00%	Global Balanced 14.46%	Small Cap 4.89%	TIPS -1.43%	Commod. 11.76	Global Balanced 15.87%	TIPS -1.26%	Global Balanced 18.86%	Core Real Estate -1.00%	Intl 16.12%
Large Cap 4.91%	Mid Cap 15.26%	Global Bonds 9.48%	Global Balanced -24.51%	Large Cap 26.46%	High Yield 15.12%	Large Cap 2.11%	High Yield 15.81%	Core Real Estate 12.95%	TIPS 3.64%	Global Balanced -1.45%	Emerging Markets 11.18%	Small Cap 14.65%	High Yield -2.08%	Emerging Markets 18.42%	Global Balanced -1.56%	Global Balanced 12.78%
Small Cap 4.55%	Global Balanced 14.53%	Global Balanced 9.07%	High Yield -26.16%	Global Balanced 20.49%	Large Cap 15.06%	Cash 0.06%	Global Balanced 11.06%	High Yield 7.44%	Global Balanced 3.17%	Mid Cap -2.43%	Core Real Estate 7.76%	High Yield 7.50%	Large Cap -4.38%	High Yield 14.32%	Large Cap -3.08%	High Yield 10.18%
Global Balanced 4.16%	High Yield 11.85%	US Bonds 6.97%	Small Cap -33.79%	Commod. 18.91%	Intl 11.15%	Global Balanced -0.97%	Core Real Estate 9.76%	Cash 0.07%	High Yield 2.45%	Global Bonds -3.15%	Global Balanced 5.38%	Global Bonds 7.39%	Global Balanced -5.30%	US Bonds 8.72%	High Yield -3.80%	Commod. 5.08%
Cash 3.25%	Global Bonds 6.64%	Mid Cap 5.60%	Commod. -35.65%	TIPS 11.41%	Global Balanced 9.40%	Mid Cap -1.55%	TIPS 6.98%	US Bonds -2.02%	Global Bonds 0.59%	Small Cap -4.41%	TIPS 4.68%	Core Real Estate 6.66%	Mid Cap -9.06%	TIPS 8.43%	Mid Cap -9.13%	TIPS 4.24%
TIPS 2.84%	Cash 4.85%	Large Cap 5.49%	Large Cap -37.00%	Global Bonds 6.93%	US Bonds 6.54%	Small Cap -4.18%	Global Bonds 4.32%	Global Bonds -2.60%	Cash 0.04%	High Yield -4.46%	Intl 4.50%	US Bonds 3.54%	Small Cap -11.01%	Commod. 7.69%	Emerging Markets -9.78%	Global Bonds 3.32%
High Yield 2.74%	US Bonds 4.33%	Cash 4.44%	Mid Cap -41.46%	US Bonds 5.93%	TIPS 6.31%	Commod. -13.32%	US Bonds 4.21%	Emerging Markets -2.60%	Emerging Markets -2.18%	Intl -5.66%	US Bonds 2.65%	TIPS 3.01%	Commod. -11.25%	Global Bonds 6.84%	Intl -11.00%	US Bonds 2.90%
US Bonds 2.43%	Commod. 2.07%	High Yield 1.87%	Intl -45.53%	Cash 0.16%	Global Bonds 5.54%	Intl -13.71%	Cash 0.08%	TIPS -8.61%	Intl -3.86%	Emerging Markets -14.90%	Global Bonds 2.09%	Commod. 1.70%	Intl -14.20%	Core Real Estate 4.41%	Small Cap -12.98%	Cash 0.02%
Global Bonds -4.49%	TIPS 0.41%	Small Cap -1.57%	Emerging Markets -53.33%	Core Real Estate -30.40%	Cash 0.15%	Emerging Markets -18.42%	Commod. -1.06%	Commod. -9.52%	Commod. -17.00%	Commod. -24.60%	Cash 0.25%	Cash 0.71%	Emerging Markets -14.58%	Cash 2.30%	Commod. -19.40%	Core Real Estate -1.74%

Global Balanced is composed of 60% MSCI World Stock Index, 35% BBgBarc Global Aggregate Bond Index, and 5% US 90-Day T-Bills.