

ECONOMIC & MARKET INSIGHTS

An Executive Summary for May 2020

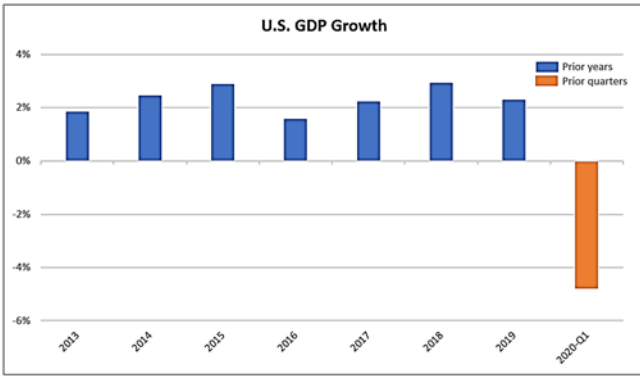
The capital markets continued to rally through May, fueled by a faster than expected reopening of the economy, optimism over a potential COVID-19 vaccine and the perception governments will do whatever it takes to fortify businesses and markets. All major asset classes gained ground for the month, supported by government stimulus and rising demand for riskier, higher yielding assets. The U.S. government has been more aggressive in terms of fiscal and monetary policies than most other countries, with the notable exception of Japan. Coronavirus-related measures now account for 13% of U.S. GDP and may go higher. The U.S. stock market has recently outperformed many developed and emerging markets, but unrest and contentious elections with major policy implications, could create a challenging environment in the months ahead.

In the equity markets, large cap technology stocks outperformed for the month, but market leadership rotated mid-month in favor of smaller companies and cyclical sectors such as financials and materials that were hardest hit during the coronavirus crash. Dividend stocks lagged as dividend cuts and fewer share buybacks reduced their yield advantage and expectations of higher tax rates made current income flows less appealing. The energy sector remained weak despite a rebound in energy prices. Real estate, both public and private, was hampered by fears that rent collection will deteriorate further and demand in the office, retail and hospitality sectors will not bounce back even as activity returns to normalcy. While additional near-term volatility is possible, earnings forecasts are building in sharp rebounds for many companies by 2021. Although there may appear to be a disconnect between the economy and the stock market, investors are focused on the long-term outcome for company results.

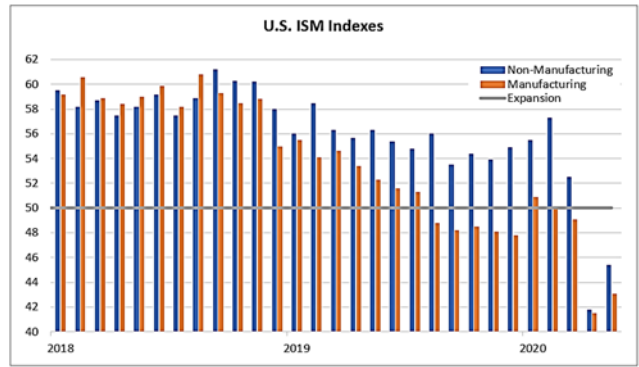
Fixed income markets continued to rebuild after the extensive sell-off and liquidity crunch experienced at the height of the coronavirus crisis. Long-term interest rates rose, and the yield curve steepened as the prognosis for the economy improved. Although Treasury yields remained near historic lows, with the 10-year skirting 1%, the risk of negative rates in the U.S. seems to have abated for now. Treasuries posted negative returns for the month, but other bond sectors had healthy gains. Improving sentiment, Fed asset purchases and upgraded fundamentals for some issuers shored up prices, sending credit spreads lower. Asset flows stabilized following the \$1 trillion shift into safe-haven money markets at the start of the coronavirus pandemic. Supply and demand were in balance as investors piled back into corporate and municipal bonds and lower rates caused new issuance to surge. Emerging market debt, buoyed by more stable currencies, also had a strong month.

Economic indicators originally pointed to a sharp slowdown in all segments of the economy but generally came in better than expected. Many key measures including business activity, retail sales and employment seem to have stabilized after rapidly deteriorating at the start of the health crisis. The housing market has been notably robust with building activity and home sales holding up well. Economic growth outside of the U.S. has shown a similar sharp decline, but some countries that were earlier in the coronavirus cycle, including China, show signs of resurgence. The sinuous path of the coronavirus and the retrenchment in global trade may set in motion economic decoupling between countries that will strengthen the case for global diversification.

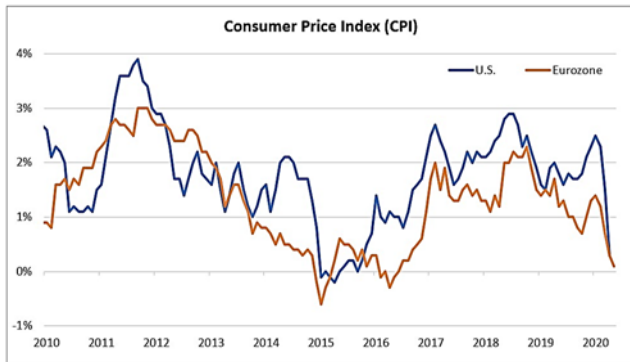
Recent events in the markets have once again proven that economic forecasting and market timing are nearly impossible tasks. Many market strategists believe the worst is behind us, but the global economy faces many risks. Although virus containment efforts appear effective, the number of cases is still rising globally, particularly in emerging countries. There is no concrete timeline for a vaccine or a reliable treatment. Tensions between the U.S. and China have reemerged and political uncertainty surrounding civil rights and the upcoming elections will influence investor sentiment. During this time of heightened uncertainty, maintaining a well-diversified investment strategy continues to make abundant sense.



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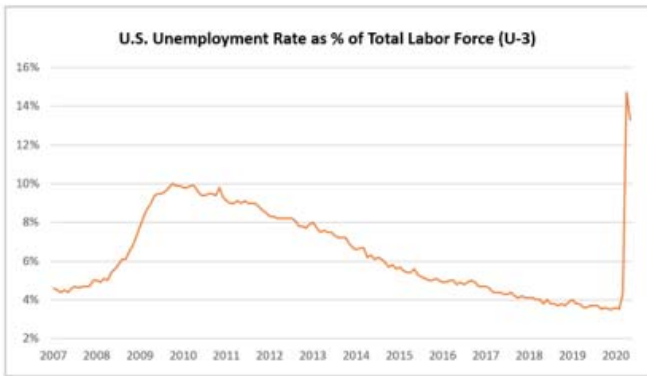
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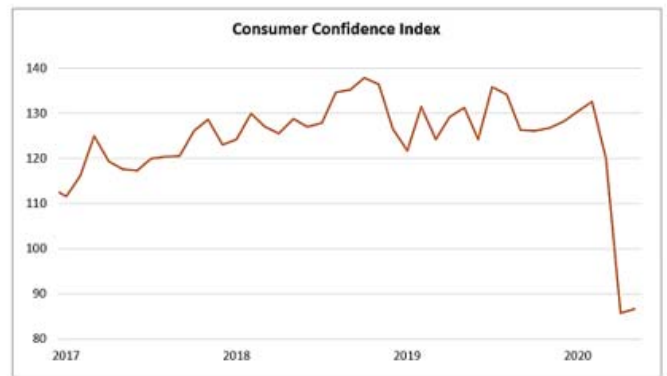
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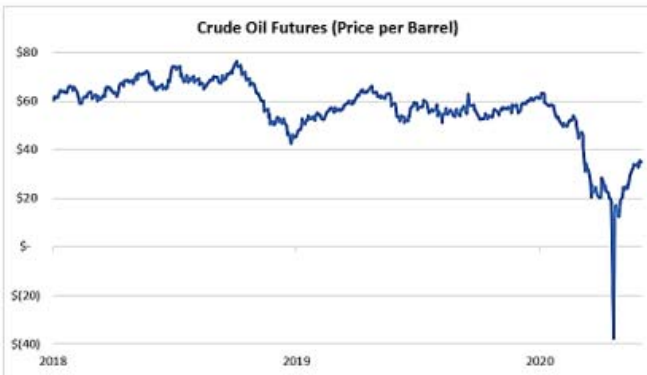
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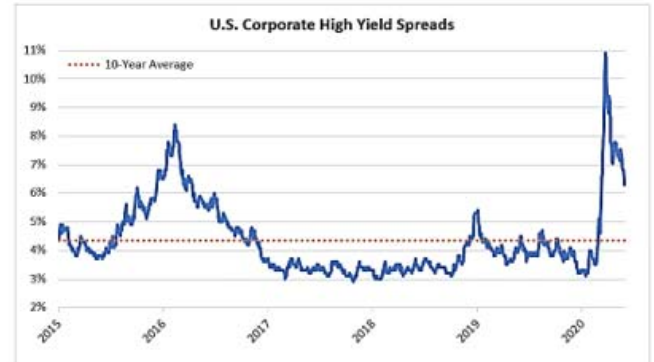
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