

JUNE 2020



## Market Data

World Stock Market Indices  
 data as of 5/31/2020

	Diff (4/30/20)	% Change
S&P 500	3,044.31	131.88 4.53%
NASDAQ	9,489.87	600.32 6.75%
DOW JONES	25,383.11	1,037.39 4.26%
FTSE (UK)	6,076.60	175.39 2.97%
DAX (Germany)	11,586.85	725.21 6.68%
Hang Seng (Hong Kong)	22,961.47	-1,682.12 -6.83%
Nikkei (Japan)	21,877.89	1,684.20 8.34%

Source: Bloomberg. Please see descriptions of indices on Page 2.

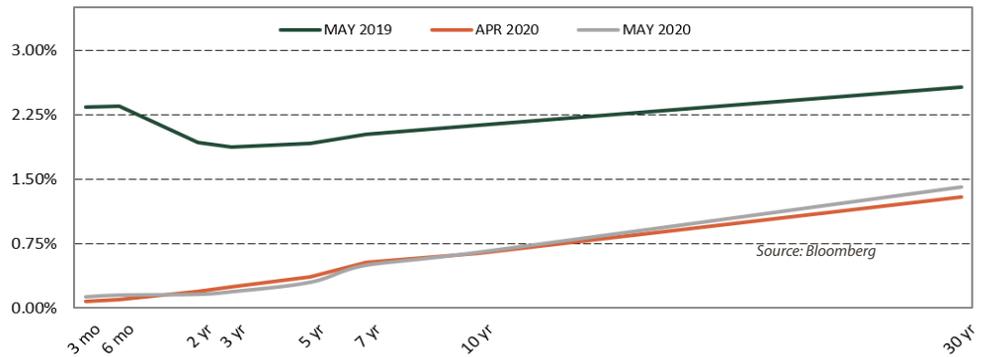
## Market Summary

The National Bureau of Economic Research has officially determined that the US economy entered a recession in February 2020, following a 128-month economic expansion. First quarter GDP declined 5.0% and the decline in second quarter GDP is expected to be more severe. More than 42.6 million people have filed for unemployment since mid-March, though many of those jobs are expected to return, and we saw some evidence of this in the May employment report. Economic data remains weak but is showing early signs of improvement, which suggests that the recession (which is the period between the peak of economic activity and the trough) may technically already be over. Market participants expect the economy will continue to improve in the second half of the year, although the consensus forecast implies that the level of economic activity is likely to remain below pre-pandemic levels at year-end. We believe the path to recovery will be bumpy and financial markets may be poised for increased volatility in the coming months, particularly leading up to the US Presidential election. In our view, both fiscal and monetary relief have fueled the recovery thus far, but some of the fiscal programs (i.e. direct household payments and expanded unemployment benefits) are temporary. While we expect additional fiscal relief is likely, an expansion of existing fiscal relief programs may be met with increased resistance from policymakers as economic data improves. At the end of May, the S&P 500 index was up roughly 36% from the March 23rd low, and down just 5.8% on a year-to-date basis. As of yesterday's market close, the S&P 500 index was positive for the year.

The Federal Open Market Committee (FOMC) is meeting this week and will release their policy statement tomorrow. We expect the Fed to stay the course with their existing programs and do not anticipate any changes to monetary policy. The FOMC will release their updated summary of economic projections tomorrow which will provide insight into the outlook for monetary policy. Although the economy appears to be recovering from the depths of the pandemic crisis in late March and early April, we believe the FOMC is likely to remain cautious about the downside risks to their dual mandate (promoting maximum employment and price stability).

Treasury yields were little changed in May. The yield on 2-year Treasuries declined four basis points to 0.16% and the yield on 10-year Treasuries increased about one basis point to 0.65%. On a month-to-date basis as of yesterday's market close, the Treasury yield curve has steepened with the yield on 10-year Treasuries up 22 basis points to 0.88%. We believe the recent steepening of the yield curve has been fueled by better than expected economic data.

## TREASURY YIELDS REMAIN LOW ON A HISTORICAL BASIS



At May month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 222 basis points, the 2-year Treasury yield was down 176 basis points, and the 10-Year Treasury yield was down 147 basis points, year-over-year. Much of the spread movement was in the month of March 2020, with the Fed cutting rates by a total of 150 basis points and concerns about a global recession and a flight to safe-haven assets driving down yields across the curve.

TREASURY YIELDS	Trend (▲/▼)	5/31/2020	4/30/2020	Change
3-Month	▲	0.13	0.08	0.05
2-Year	▼	0.16	0.20	-0.04
3-Year	▼	0.19	0.25	-0.06
5-Year	▼	0.30	0.36	-0.06
7-Year	▼	0.50	0.53	-0.03
10-Year	▲	0.65	0.64	0.01
30-Year	▲	1.41	1.29	0.12

Source: Bloomberg

# BOND MARKET REVIEW

## Credit Spreads Tightened Further in May

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.07	0.40	(0.33)
2-year A corporate note	0.43	0.76	(0.33)
5-year A corporate note	0.79	1.03	(0.24)
5-year Agency note	0.20	0.23	(0.03)

Source: Bloomberg

Data as of 5/31/2020

## Economic Data is Weak but the Worst Data May be in the Rearview Mirror

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(49.40) \$Bln APR 20	(42.30) \$Bln MAR 20	(49.20) \$Bln APR 19
Gross Domestic Product	(5.00%) MAR 20	2.10% DEC 19	3.10% MAR 19
Unemployment Rate	13.30% MAY 20	14.70% APR 20	3.60% MAY 19
Prime Rate	3.25% MAY 20	3.25% APR 20	5.50% MAY 19
Commodity Research Bureau Index	132.24 MAY 20	117.20 APR 20	175.36 MAY 19
Oil (West Texas Int.)	\$35.49 MAY 20	\$18.84 APR 20	\$53.50 MAY 19
Consumer Price Index (y/o/y)	0.30% APR 20	1.50% MAR 20	2.00% APR 19
Producer Price Index (y/o/y)	(5.10%) APR 20	(0.90%) MAR 20	2.10% APR 19
Dollar/Euro	1.11 MAY 20	1.10 APR 20	1.12 MAY 19

Source: Bloomberg

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## Economic Roundup

### Consumer Prices

The Consumer Price Index (CPI) was up 0.3% year-over-year in April, down significantly from 1.5% in March. Core CPI (CPI less food and energy) was up just 1.4% year-over-year in April, down from 2.1% in March. The Personal Consumption Expenditures (PCE) index was up just 0.5% year-over-year in April, down from 1.3% year-over-year in March and 1.8% in February. Core PCE, which is the Fed's primary inflation gauge, was up 1.0% year-over-year in April versus 1.7% year-over-year in March and 1.8% in February. Consumer pricing data indicate that the initial effect of the pandemic has been deflationary.

### Retail Sales

On a year-over-year basis, retail sales fell 21.6% in April versus decline of 5.7% in March. On a month-over-month basis, retail sales fell 16.4% in April (a steeper decline than the -12.0% consensus estimate), following an 8.3% decline in March. Sales of apparel, electronics, furniture, and general merchandise were particularly weak in April. Restaurant and food & beverage store sales were also down significantly, as anticipated. Meanwhile, e-commerce sales were up 8.4% in the month.

### Labor Market

U.S. nonfarm payrolls were much better than expected in May increasing by 2,509,000 versus expectations for a 7,500,000 decline. The unemployment rate declined to 13.3% in May (versus expectations of 19.0%) from 14.7% in April, and the labor participation rate increased to 60.8% from 60.2%. Notably, about 4.7 million people classified themselves as employed but absent from work in the May survey, which understated the unemployment rate by about 3.0%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, eased to 21.2% in May from 22.8% in April. Although the employment report was better than expected, unemployment remains very high on a historical basis. Job destruction resulting from the pandemic has been unprecedented, but the data indicate that some of those jobs are already coming back.

### Housing Starts

Housing starts declined 30.2% in April to an annual pace of 891,000. Single family starts fell 25.4% to an annualized rate of 650,000, while multi-family starts declined 40.5% to an annualized rate of 241,000. Permits fell 20.8% in April to an annualized rate of 1,074,000.

### World Stock Market Index Descriptions

S&P 500—The S&P 500 is a market value weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. NASDAQ—The NASDAQ Composite Index is the market capitalization-weighted index of over 3,300 common stocks listed on the NASDAQ stock exchange. Dow Jones—The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)—The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. DAX—The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. Hang Seng—The Hang Seng Index is a freefloat-adjusted market-capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. Nikkei—Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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