LCP INSTITUTIONAL

Q2 2020 Market Commentary

The second quarter began in the midst of an unprecedented global lockdown. As the quarter progressed economies began to reopen, though fears of COVID-19s return grow alongside the number of confirmed cases. Unemployment went from 14.7% in April to 11.1% in June, an improvement but a far cry from the 3% unemployment before the pandemic. Global equities were positive, up 19.36% with US equities up 20.54%. Developed International equity markets were up 14.88% while emerging equities were up 18.08%.

- The U.S. economy declined by -5.0% during the 1st quarter of 2020, with estimates for the 2nd quarter around -35%.
- The unemployment rate increased to 14.7% in April before receding to 11.1% in June, while inflation pressures remained modest. CPI was 1.2% as of May year over year.
- The Fed kept the Federal Funds rate at 0.0% - 0.25% and according to Powell they're "not even thinking about raising rates."
- Federal relief spending of nearly $3 trillion has pushed debt to GDP ratios to levels not seen since World War II.
- Aggressive moves by the Fed provided liquidity but have expanded the Fed balance sheet by more than $1.2 trillion, amounting to more in March 2020 than all of 2008.

- U.S. equities ended the quarter up 20.54%, as measured by the S&P 500 Index.
  - The Consumer Discretionary, Information Technology, Energy, and Materials sectors were the best performers, up 32.86%, 30.53%, and 26.01% respectively.
  - The worst performing sectors were Utilities, Consumer Staples, Financials, and Real Estate, returning 2.73%, 8.12%, 12.20% and 13.22% respectively.
  - Brent crude oil prices recovered, ending the quarter $41.58/barrel after starting at $22.74/barrel.
  - Growth stocks outperformed value during the quarter, with the Russell 1000 Growth posting a return of 27.84%, versus the Russell 1000 Value's return of 14.29%.
  - Mid cap and small cap stocks led large cap during the quarter, with the Russell Mid Cap up 24.61%, the Russell 2000 up 25.42%, and the Russell 1000 up 21.82%.

- Interest rates fell slightly during the second quarter, with the 10-year U.S. Treasury yield ending the second quarter at 0.65%, down from 0.70% at the end of the first quarter.

- The Bloomberg Barclays Aggregate Index returned 2.90% with treasuries up 0.48% and mortgage backed securities up 0.67%. High yield corporates led investment grade, with the Bloomberg Barclays U.S. Corporate High Yield Index up 10.18% versus the U.S. Corporate Index up 8.98% for the quarter.

- Economic data shows the global economy trying to get back up to speed as lockdowns ease
  - China is expected to post modest GDP growth for the second quarter, after a historic -6.8% decline in the first quarter
  - The U.S. dollar held steady early in the quarter, before declining on fears over a COVID resurgence.
  - Unemployment in the US remains at 11.1% as reopening proceeds in fits and starts.
  - Initial jobless claims declined steadily over the quarter, from 6.6 million in early April to 1.4 million the last week of June, still far above the level seen before the COVID-19 outbreak.
  - ISM manufacturing index rose to 52.6 in June from 43.1 in May, with new orders rising to 56.4, up from May's 33.2
  - Inflation remained low in the second quarter with the CPI figure at 1.2% year-over-year as of May 2020.

International equity markets were negative during the first quarter as the economic fallout from COVID-19 spread throughout the global economy.

- Developed markets as a whole trailed the U.S. with individual countries outpacing.
  - MSCI EAFE USD 14.88% with the Japan up 11.61%, United Kingdom up 7.79%, and Australia up 28.91%
  - MSCI Europe USD 15.26%, with Germany, France, and Spain up 26.54%, 16.15%, and 10.30% respectively.
- Emerging market equities led developed markets, with the MSCI EM USD up 18.08% for the quarter.
  - EM Leaders included Brazil and India, up 22.85% and 20.58% respectively.
  - EM Laggards included China, Mexico, and Columbia up 15.29%, 10.97% and 9.81% respectively.
- In non-U.S. equity markets, growth continues to outperform value over the quarter as well as the year.
  - MSCI ACWI ex USA Growth USD 19.11%, versus the MSCI ACWI ex USA Value USD 12.76% for the quarter.

Major risks focus on COVID-19 related and political uncertainty

- Estimates for Q3 GDP growth range from 15% to 33%
- Unemployment numbers may be distorted downwards by PPP and upwards by temporary increases in benefits
- Demand patterns are likely to change, the more so the longer it takes to end the pandemic
- The pandemic has thrown existing problems of economic and racial justice into sharp relief
- U.S. presidential election continues to play out against the backdrop of COVID-19.