Parkside Financial
BANK & TRUST

Monthly Market Update - June 2020

Global Economy

Economic data is reflecting a nascent recovery from the pandemic lows, supporting continued risk-asset strength. Nonetheless global optimism may be fading. With virus cases still rising in many regions worldwide, including a significant growth in the US, volatility re-emerged in June. The bull case rests on the efficacy of fiscal and monetary policy support, the economic recovery maintaining momentum, the avoidance of further "second wave" infections, and the ability of the US to rein in its virus resurgence. Acknowledging some fundamental degree of ignorance and the unpredictability of future events, forecasts in this environment are of limited use. That said, contractions in both supply and demand suggest global GDP will decline between 4.5% and 5.0% for 2020. In the midst of one of the sharpest recessions in history, valuations provide limited cushion against a bumpy path forward.

The Federal Open Market Committee (FOMC) met in June but did not make any changes to policy rates, instead stating its intention to not raise rates through 2022 and maintain at least the current pace of asset purchases. Signaling an easing of the strained financial conditions brought on by the coronavirus, the Fed balance sheet shrank slightly in June to just over $7 trillion, led by a fall in repo market operations and currency swaps with foreign central banks. June's meeting statement reiterated the Fed's commitment to "using its full range of tools to support the U.S. economy."

The third estimate of 1Q-20 real GDP was unchanged at a contraction of -5.0% annualized, with downward adjustments to personal consumption, private inventories, and exports offsetting an upward revised nonresidential fixed investment. Analysts are bracing for a significantly worse drop for 2Q-20, with estimates ranging from -25% to -50% annualized. A recovery in the second half of the year is broadly expected, although the pace at which this occurs is uncertain.

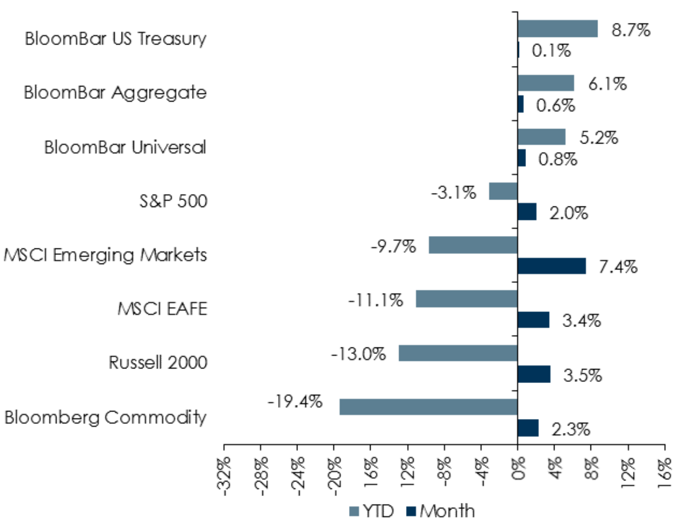
More than 48 million US workers have filed initial unemployment claims since mid-March. With that as a backdrop, June employment data surprised to the upside for the second month in a row, with 4.8 million jobs added and a decline in the official unemployment rate to 11.1%. Private sector gains led the way, including 1.5 million new jobs in the hard-hit leisure and hospitality industries. Continued gains in industries helped by easing restrictions will be key to creating an enduring upward employment trend, a situation made more precarious by the virus' resurgence. Core CPI is now only +1.2% year-over-year, while the FOMC's preferred measure, Core PCE, edged down to just +1.0% year-over-year through May.

	Current	Dec-19
US GDP (%)	-5.00	2.10
US Unemployment (%)	11.1	3.50
CPI (Core) (%)	1.2	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.66	1.92
S&P 500 Div Yld (%)	1.95	1.82
S&P 500 P/E (Trailing)	22.20	21.60
Gold/oz.	$1,800.50	$1,523.10
Oil (Crude)	$39.27	$61.06
Gasoline (Natl Avg)	$2.26	$2.66
USD/Euro	$1.12	$1.12
USD/GBP	$1.24	$1.33
Yen/USD	¥107.93	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indices were positive in June amid optimism that the worst of the economic shock from COVID-19 had passed. The S&P 500, which represents large US-based entities, continued to recover from March's steep drop with a +1.99% return. Information Technology (+7.1%) and Consumer Discretionary (+4.9%) led the way with Industrials (+1.9%), Materials (+1.9%), and Real Estate (+1.0%) also posting positive returns. Utilities (-5.0%) and Healthcare (-2.5%) were the laggards. Small cap stocks, as represented by the Russell 2000, continued to perform strongly, with a +3.5% return in June. Among the sectors, Consumer Discretionary (+5.9%) was the strongest performer. Utilities (-6.3%) and Energy (-3.8%) were the only negative performers. Across the market capitalization spectrum, Growth continued its advantage over Value.

In the broad international developed markets, the MSCI EAFE index rose +3.4% as all sectors and countries participated in the rally. Led by Financials (+6.9%), IT (+5.6%), and Materials (+5.1%), there was broad support for the markets, with Health Care (+0.3%) being the largest laggard. New Zealand (+12.4) and Hong Kong (+11.0%) were the top performers during the month, with most other countries generally in the 2% to 7% range. Japan (0.0%) and Portugal (0.5%) were relative underperformers with no EAFE countries going negative for the month.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their developed market counterparts at +7.4%. South Africa (+10.4%), Taiwan (+9.3%), and China (+9.0%) were the best performers. China turned positive year-to-date, and is the only country in the index which has a positive YTD return.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, had performance comparable with equities this month, returning +2.7%. The energy-related Alerian MLP gave back some of its strong quarterly returns at -7.9%. The near-month NYMEX oil continued its recovery in June (+10.7%) but remains off by -35.7% year-to-date. Gold extended its 2020 rally, adding +3.7% for the month. The diversified Bloomberg Commodity index had another positive month (+2.3%) as broad-based demand for most commodities continued to recover.

Global Markets (continued)

US Treasury (UST) yields held relatively steady across the board in June, generally failing to confirm the optimism that boosted risk assets. The treasury curve remained largely unchanged month-over-month, steepening only slightly. The 2-year UST yield ended the month lower at 0.15%, while the 30-year UST yield finished unchanged at 1.41%. Given this backdrop, the overall UST complex was flat to slightly positive for the month, but year-to-date returns remain impressive at +8.7%. As sovereign yields outside of the US were lower, the global stock of negative yielding debt expanded to $13.4 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads continued to recover. With a gain of 0.6% in June, the benchmark's trailing 12-month performance of +8.74% remains impressive given prevailing yield levels. IG corporate issuance remained elevated, but has been well supported by the Fed's announced intent to embark on both primary and secondary market purchases. Corporate spreads improved by another 24 bps for the month, with BBB-rated issues again recovering most dramatically. With tighter spreads across categories and stable UST yields, the benchmark's yield-to-worst fell 9 bps to just 1.25%.

The BloomBar 1-15-Year Municipal index returned +0.6% in June. Illinois became the first, and so far only, state to tap the Fed's new Municipal Liquidity Facility, borrowing $1.2 billion. Fiscal policy support remains uncertain, with investors hoping for more clarity on the issue by month-end. Tax-exempt yields moved higher amid strong market demand and supply.

The BloomBar US Corporate High Yield index returned +1.0% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 11 bps tighter on average despite heavy supply, with most of the tightening coming from the lowest quality credits. All-in yields have fallen back to 6.9%, even as default rates pushed ahead of the long-term average. Bank loans continued to recover, and emerging market bonds of all varieties produced positive returns as investors sought enhanced income.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.02	-0.02
Germany	-0.46	-0.19
France	-0.11	0.12
United Kingdom	0.17	0.82
Spain	0.46	0.46
United States	0.66	1.92
Italy	1.26	1.41
Mexico	5.82	6.89
Brazil	6.95	6.79

Source: Bloomberg

Indices Report (Periods Ending June 30, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.99	-3.08	7.51	10.73	10.73	13.99	8.83
Russell 1000	2.21	-2.81	7.48	10.64	10.47	13.97	8.91
Russell 1000 Growth	4.35	9.81	23.28	18.99	15.89	17.23	11.32
Russell 1000 Value	-0.66	-16.26	-8.84	1.82	4.64	10.41	6.24
Russell 2500	2.89	-11.05	-4.70	4.08	5.41	11.46	7.85
Russell 2000	3.53	-12.98	-6.63	2.01	4.29	10.50	7.01
Russell 2000 Growth	3.84	-3.06	3.48	7.86	6.86	12.92	8.85
Russell 2000 Value	2.90	-23.50	-17.48	-4.35	1.26	7.82	4.97
Wilshire 5000 Cap Wtd	2.34	-3.30	6.78	10.13	10.27	13.74	8.86
MSCI ACWI	3.24	-5.99	2.64	6.70	7.03	9.74	6.99
MSCI ACWI ex US	4.56	-10.76	-4.39	1.61	2.74	5.45	4.91
MSCI EAFE	3.44	-11.07	-4.73	1.30	2.54	6.22	4.57
MSCI EAFE Local Currency	2.68	-10.25	-3.83	1.74	3.12	7.36	4.97
MSCI EAFE Growth	3.26	-3.29	4.49	6.31	5.92	8.17	6.09
MSCI EAFE Value	3.63	-18.96	-14.02	-3.87	-1.02	4.12	2.93
MSCI Emerging Markets	7.40	-9.67	-3.05	2.27	3.24	3.63	6.69
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.04	2.94	4.08	2.69	1.84	1.33	2.29
BloomBar US Aggregate	0.63	6.14	8.74	5.32	4.30	3.82	4.39
BloomBar Gov't Bond	0.10	8.61	10.34	5.54	4.05	3.34	4.01
BloomBar US Credit	1.83	4.82	9.07	6.14	5.54	5.24	5.26
BloomBar 10 Yr Municipal	0.64	2.47	4.74	4.37	4.16	4.47	4.62
BloomBar US Corp High Yield	0.98	-3.80	0.03	3.33	4.79	6.68	6.84
FTSE World Govt Bond	0.64	4.08	4.60	3.98	3.70	2.37	3.28
BloomBar Global Aggregate	0.89	2.98	4.22	3.79	3.56	2.81	3.55
BloomBar Multiverse	0.95	2.53	3.84	3.72	3.63	2.96	3.67
Real Assets							
NCREIF Property	0.00	0.71	3.71	5.80	6.98	9.81	7.76
NFI ODCE Net	0.00	0.75	3.13	5.34	6.72	9.98	6.14
FTSE NAREIT US Real Estate	3.06	-18.71	-13.04	0.03	4.06	9.05	6.02
Bloomberg Commodity	2.28	-19.40	-17.38	-6.14	-7.69	-5.82	-4.34
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.60	1.64	1.77	1.19	0.64	1.35

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG’s capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy’s performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.