Parkside Financial
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Monthly Market Update - May 2020

Global Economy

While economic data continues to reflect the extreme impacts of the COVID-19 pandemic, global markets remained tilted toward optimism in May. With a sense of hope in gradual re-openings and underlying trends, volatility continued its decline and investors re-risked portfolios despite pressured US-China relations and evidence of social turmoil. The bull case rests on the efficacy of fiscal and monetary policy support, the pace of economic recovery mimicking that of China, and the avoidance of material “second wave” infections. Acknowledging how forecasts in this environment are of limited use, 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) did not formally meet in May, but the mid-month airing of Chairman Powell’s interview with *60 Minutes* captured much attention. Without minimizing that “this is a time of great suffering and difficulty,” he reiterated confidence in the Fed’s ability to “buy time” with virtually unlimited policies that keep businesses and ultimately people out of insolvency. While barely starting to tap the vast firepower available through emergency lending facilities already announced, the balance sheet of the Fed expanded to $7.2 trillion in May.

The second estimate of 1Q-20 real GDP indicated a contraction of -5.0% annualized, with a downward adjustment to inventories offsetting slight upward revisions to consumer spending and 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 could influence US elections.

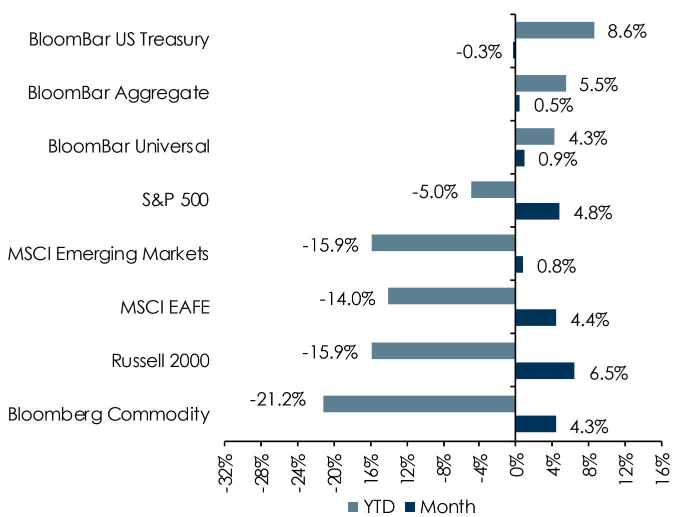
More than 42 million US workers have filed initial unemployment claims since mid-March. With that as a backdrop, it surprised markets when the government’s surveys indicated that 2.5 million jobs were added in May and that the official unemployment rate fell back to 13.3%. It’s not clear how enduring this trend will be as activity resumes, but a key factor for consumption will be understanding whether virus-related job losses are indeed temporary. Inflation expectations moved slightly higher during the month, but remain quite anchored for the decade ahead. Core CPI is now only +1.4% year-over-year, while the FOMC’s preferred measure, Core PCE, edged down to just +1.0% year-over-year through April.

	Current	Dec-19
US GDP (%)	-5.00	2.10
US Unemployment (%)	13.30	3.50
CPI (Core) (%)	1.40	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.65	1.92
S&P 500 Div Yld (%)	1.99	1.82
S&P 500 P/E (Trailing)	21.18	21.60
Gold/oz.	$1,736.90	$1,523.10
Oil (Crude)	$35.49	$61.06
Gasoline (Natl Avg)	$2.05	$2.66
USD/Euro	$1.11	$1.12
USD/GBP	$1.23	$1.33
Yen/USD	¥107.83	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indices were positive in May 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 +4.8% return. Information Technology (+6.8%) and Materials (+6.7%) led the way with Communication Services (+6.0%) and Industrials (+5.0%) also posting above-average returns. Energy (+0.7%) and Consumer Staples (+1.4%) were the relative laggards. Small cap stocks, as represented by the Russell 2000, continued to perform strongly, with a +6.5% return in May. Among the sectors, Consumer Discretionary (+17.0%) was a positive outlier. Energy was the only negative performer (-3.3%) after leading the way the month before. Across the market capitalization spectrum, Growth resumed its advantage over Value.

In the broad international developed markets, the MSCI EAFE index rose +4.4% as all sectors and countries participated in the rally. Led by Materials (+7.7%), Industrials (+7.3%), and IT (+7.2%), there was broad support for the markets, with Real Estate (-0.7%) being a notable laggard. Germany (+8.9%) continued to do well during the month, with most other countries generally in the 4% to 7% range. Hong Kong (-8.4%) and Singapore (-3.2%) were relative underperformers as relations with China drove increased concern in the Pacific ex-Japan region.

Emerging market stocks, as represented by the MSCI Emerging Markets index, underperformed their developed market counterparts at +0.8%. Brazil continued to recover (8.5%), but remains down more than 40% year-to-date. Dominant markets in Asia were soft, with China (-0.5%), Taiwan (-2.5%), and India (-2.8%) all losing ground.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, largely failed to participate in the rally with a return of just +0.3% amid structural headwinds. The energy-related Alerian MLP index improved more significantly, advancing 9.0%. The near-month NYMEX oil contract nearly doubled in May (+88.4%), but remains off by -41.9% year-to-date. Gold extended its 2020 rally, adding +2.5% for the month. The diversified Bloomberg Commodity index displayed a better tone (+4.3%) for the month as broad-based demand for most commodities began to recover.

Global Markets (continued)

US Treasury (UST) yields held relatively steady across the board in May, generally failing to confirm the optimism that boosted risk assets. While the effect of the Fed's expanded asset purchase capabilities cannot be ignored, the volume of deficit-related UST supply has extended the steepening bias for the government yield curve. The 2-year UST yield ended the month lower at 0.16%, while the 30-year UST yield finished higher at 1.41%. Given this backdrop, the overall UST complex gave up some performance on the long end, but year-to-date returns remain impressive at +8.6%. As sovereign yields outside of the US were mixed, the global stock of negative yielding debt expanded to $12.7 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads recovered materially. With a gain of 0.5% in May, the benchmark's trailing 12-month performance of +9.4% remains impressive given prevailing yield levels. Despite record-setting new issuance, IG corporates have been well supported by the Fed's announced intent to embark on both primary and secondary market purchases. Corporate spreads improved by another 28 bps for the month, with BBB-rated issues again recovering most dramatically. As wider MBS spreads offset improvements across other categories, the benchmark's yield-to-worst was stable at just 1.34%.

The BloomBar 1-15-Year Municipal index outperformed in May, with the return of 2.8% representing the highest monthly gain in over a decade. Although the Fed's new Municipal Liquidity Facility has not yet been utilized, and fiscal policy support remains uncertain, tax-exempt yields moved lower amid strong technicals and Municipal/UST ratios compressed.

The BloomBar US Corporate High Yield index returned +4.4% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 107 bps tighter on average, although the credit curve remains steep. All-in yields have fallen back to 7.0%, even as default rates pushed ahead of the long-term average. Bank loans continued to recover, and emerging market bonds of all varieties produced solid returns as investors sought enhanced income.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.00	-0.02
Germany	-0.45	-0.19
France	-0.08	0.12
United Kingdom	0.18	0.82
Spain	0.56	0.46
United States	0.65	1.92
Italy	1.47	1.41
Mexico	6.14	6.89
Brazil	7.20	6.79

Source: Bloomberg

Indices Report (Periods Ending May 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	4.76	-4.97	12.84	10.23	9.86	13.15	8.70
Russell 1000	5.28	-4.91	12.54	10.09	9.58	13.07	8.78
Russell 1000 Growth	6.71	5.23	26.25	17.21	14.50	16.07	10.98
Russell 1000 Value	3.43	-15.70	-1.64	2.60	4.36	9.85	6.36
Russell 2500	7.39	-13.55	-0.80	3.95	4.67	10.32	7.87
Russell 2000	6.51	-15.95	-3.44	1.98	3.72	9.23	7.04
Russell 2000 Growth	9.45	-6.65	7.32	7.72	6.34	11.72	8.80
Russell 2000 Value	2.87	-25.65	-14.69	-4.16	0.71	6.54	5.07
Wilshire 5000 Cap Wtd	5.20	-5.51	11.59	9.60	9.37	12.84	8.75
MSCI ACWI	4.41	-8.94	5.98	5.75	5.86	9.05	6.84
MSCI ACWI ex US	3.32	-14.65	-3.01	0.23	1.27	4.85	4.73
MSCI EAFE	4.42	-14.03	-2.40	0.11	1.27	5.76	4.43
MSCI EAFE Local Currency	4.12	-12.59	-2.31	0.60	1.66	6.77	5.02
MSCI EAFE Growth	5.50	-6.34	7.79	4.95	4.70	7.83	5.92
MSCI EAFE Value	3.13	-21.80	-12.57	-4.90	-2.33	3.55	2.82
MSCI Emerging Markets	0.79	-15.90	-4.02	0.22	1.25	2.82	6.42
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.06	2.91	4.57	2.65	1.84	1.37	2.30
BloomBar US Aggregate	0.47	5.47	9.42	5.07	3.94	3.92	4.39
BloomBar Gov't Bond	-0.24	8.50	11.24	5.45	3.85	3.50	4.04
BloomBar US Credit	1.63	2.94	9.54	5.59	4.79	5.25	5.19
BloomBar 10 Yr Municipal	3.27	1.82	4.46	4.01	3.98	4.44	4.61
BloomBar US Corp High Yield	4.41	-4.73	1.32	3.04	4.27	6.71	6.91
FTSE World Govt Bond	0.20	3.42	6.36	3.72	3.51	2.47	3.18
BloomBar Global Aggregate	0.44	2.08	5.59	3.46	3.28	2.88	3.45
BloomBar Multiverse	0.66	1.57	5.22	3.37	3.34	3.02	3.58
Real Assets							
FTSE NAREIT US Real Estate	0.19	-21.12	-14.55	-0.25	2.47	8.17	6.15
FTSE EPRA/NAREIT Dev RE	0.29	-23.01	-16.27	-1.26	0.87	6.68	4.93
Bloomberg Commodity	4.34	-21.20	-17.06	-6.90	-7.79	-6.00	-4.38
Cash and Equivalents							
US T-Bills 90 Day	0.00	0.58	1.84	1.79	1.19	0.64	1.37

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