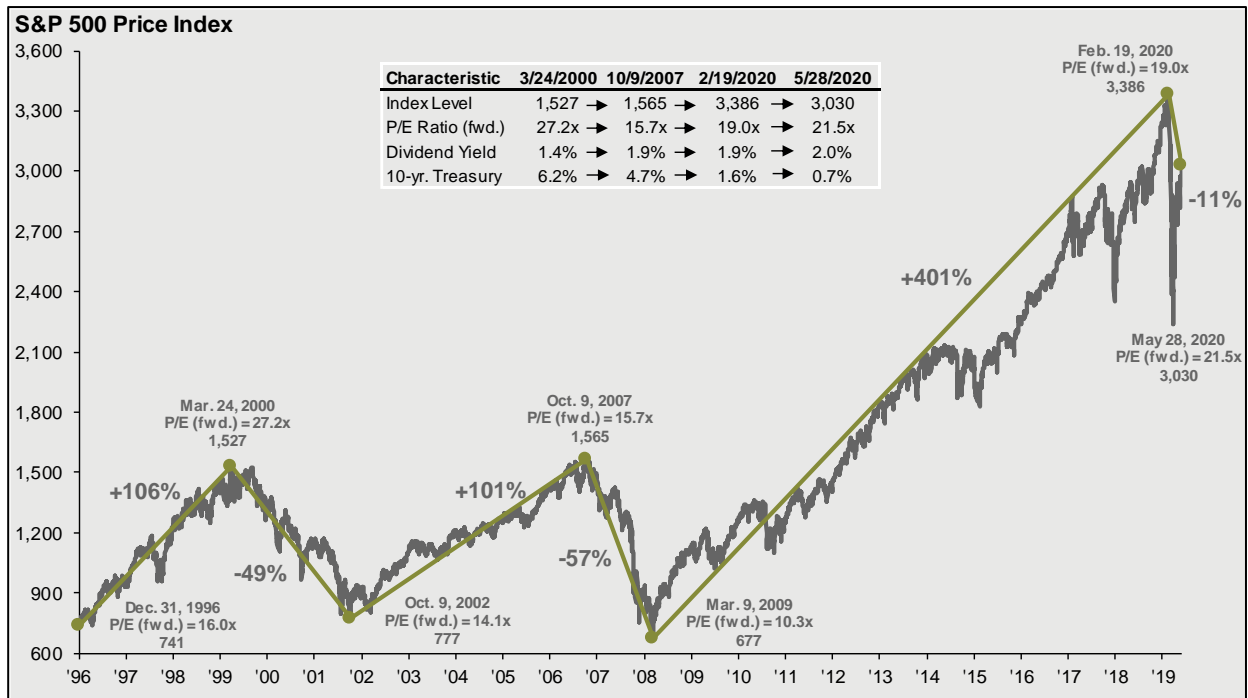


May Market Intelligence

June 3, 2020

May marked another month in the recovery of risk asset prices following the declines in February and March. Investors continued to be optimistic regarding the potential for a COVID-19 vaccine as well as the resumption in economic activity as stay-at-home orders and business closures were relaxed. Despite the unprecedented decline in the US economy that is still unfolding, US equities, as measured by the S&P 500 index, rose 4.8% during the month and are now down just 5.0% for 2020 and 10.1% below their all-time closing high of 3,386 set on February 19 (Chart 1).

Chart 1: S&P 500 Price History



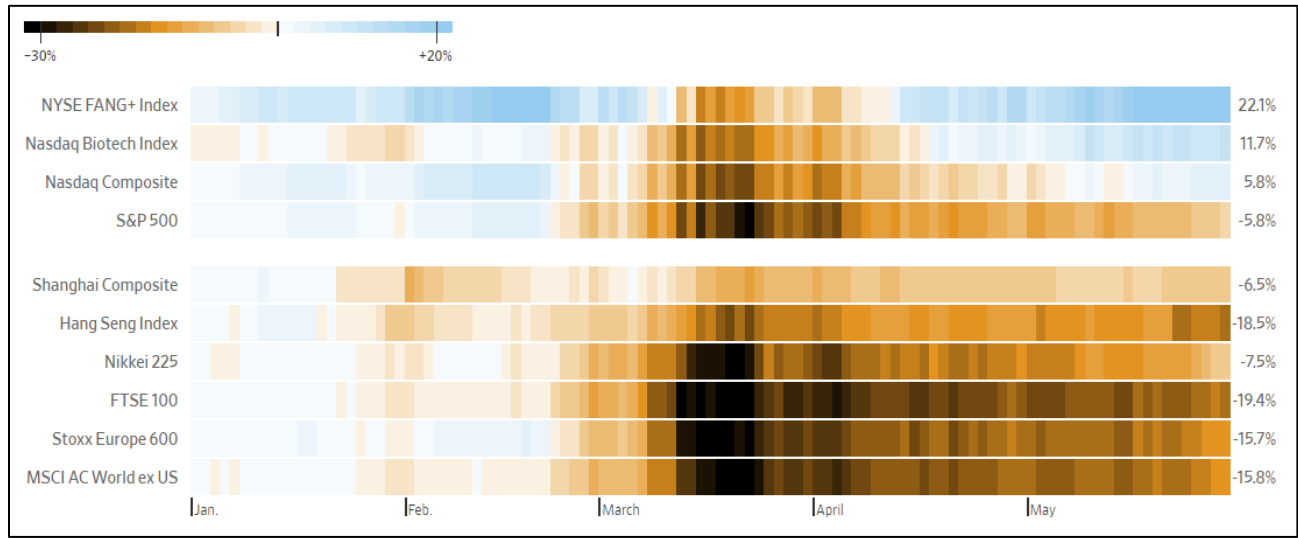
Source: JPMorgan Guide to the Markets

Like much of the rally since March 2009 to February 2020, the rise in stock prices witnessed in April and May has largely been driven by US equities, particularly technology companies. While there have been some signs of recovery in cyclical stocks like energy and consumer discretionary companies as the economy has begun to slowly reopen, the prices of large cap technology companies, on average, showed relative immunity to the economic damage caused by the virus (Chart 2). US equities have outperformed developed and emerging foreign markets, on average, during 2020, and this is perhaps largely the result of the greater share of technology names within the S&P 500 index (Chart 3)¹. Comparatively, non-US equity indices have a large share of cyclical names such as financials, consumer discretionary, industrials, and

¹ https://www.wsj.com/articles/u-s-stocks-are-outpacing-the-rest-of-the-world-11590917401?mod=markets_lead_pos2

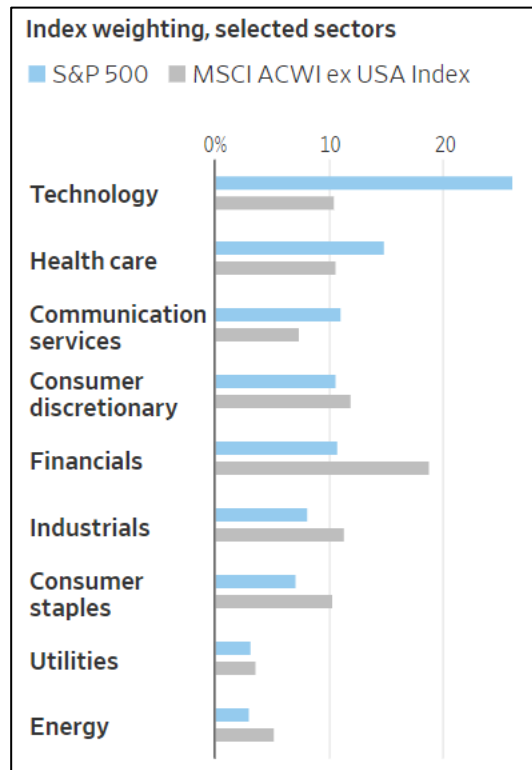
energy. If global growth increases at a faster-than-expected pace, we may witness a handoff in leadership from US equities to foreign given the lower valuation and more-cyclical composition of these markets.

Chart 2: Performance of Various Regions in 2020



Source: FactSet, Wall Street Journal

Chart 3: US and Foreign Index Composition



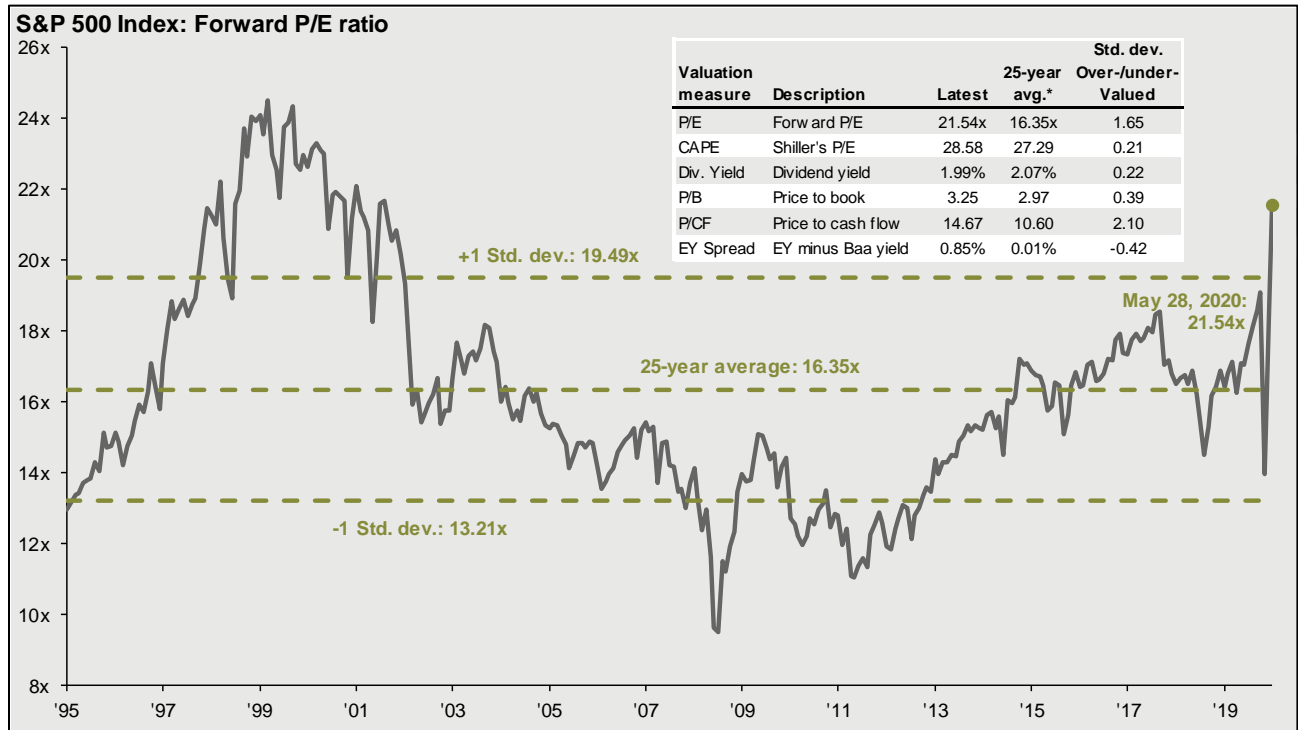
Source: S&P Dow Jones Indices, MSCI, Wall Street Journal

Corporate Earnings

During the first quarter of 2020, the S&P 500 reported a year-over-year decline in earnings of 14.6%, its largest decline since Q3 2009 (-15.7%). Analysts are still in the process of revising their Q2 2020 earnings forecasts, which, so far represent the largest downward revision in history. Analysts' consensus estimates today are for the S&P 500 to produce \$23.70 in earnings this quarter, but nearly one-third of S&P 500 companies withdrew their earnings guidance for 2020, which makes forecasting more difficult and may result in more surprises between forecasts and actual results.

When looking at analysts' consensus expectations for earnings over the next twelve months, the S&P 500 index appears expensive relative to history at 21x expected earnings (Chart 2). However, analysts and investors are increasingly optimistic that the recession caused by the COVID-19 virus will be short-lived and earnings will reach 2019 levels in 2021 and increase more than 10% in 2022 (Chart 3). So, the index currently trades in expensive territory at 23x expected 2020 earnings, but these levels may be more reasonable if significant earnings growth can be achieved in subsequent years, which would imply that the S&P 500 is currently trading at 18x expected 2021 earnings and 16x expected 2022 earnings.

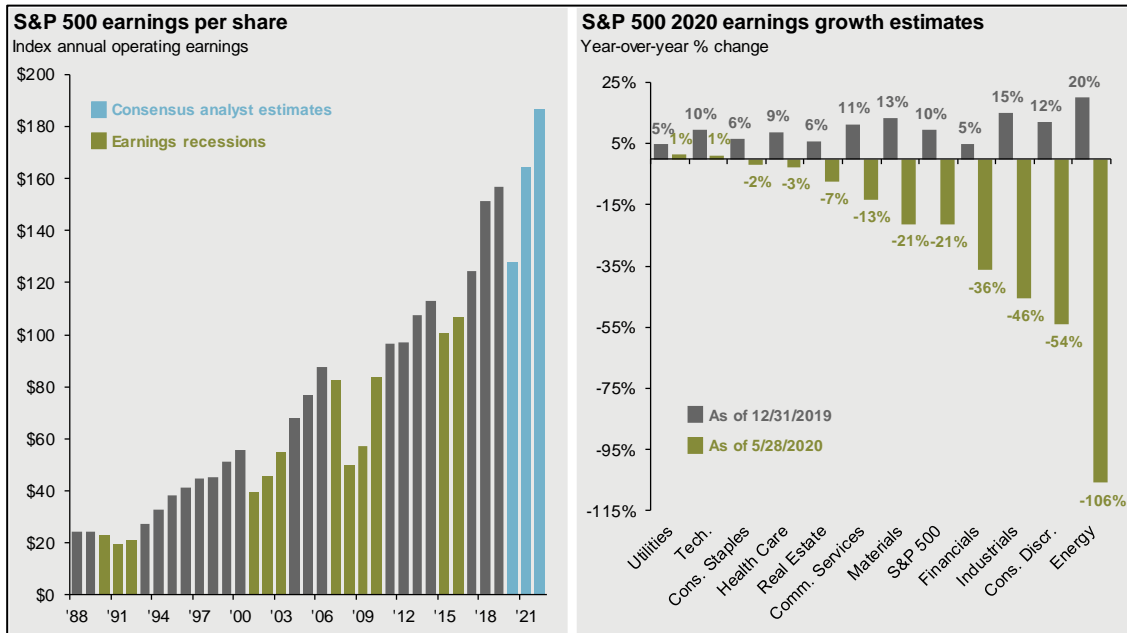
Chart 2: S&P 500 Forward Price-to-Earnings Ratio



Source: JPMorgan Guide to the Markets

Current next 12-month consensus earnings estimates are \$141 per share.

Chart 3: S&P 500 Historical and Expected Earnings

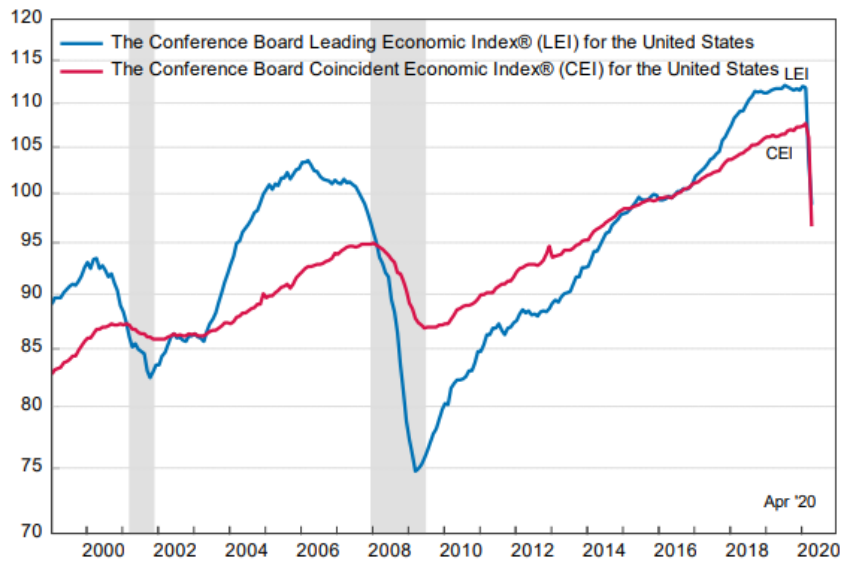


Source: JPMorgan Guide to the Markets

Economy

Chart 4 shows the historically sharp decline in the US LEI caused by the COVID-19 virus. The index has 10 components that include measures of manufacturing, employment, housing, stock market activity, financial conditions, and consumer expectations. Absent the “rapid and large response of the Federal Reserve” which significantly reduced borrowing costs and likely fueled much of the stock market rally since late March, April’s LEI reading would have been much worse.

Chart 4: Leading Economic Index



Source: Conference Board

April's employment report showed a record 14.7% unemployment rate with payrolls declining by 20.5 million in the month (the previous record since the government began officially tracking the data in 1948 was 10.8% marked during the financial crisis of 2008-2009). The April employment report survey was conducted until the middle of the month, so the additional more-than 7 million individuals who filed for unemployment benefits during the last two weeks of April were not included. May's employment report, due this Friday, will include the final weeks of April and the first half of May, which could easily put the unemployment rate above 20%. In the last 10 weeks ending May 23, more than 40 million Americans filed initial claims for unemployment benefits, significantly larger than the numbers witnessed during any past recessions (Chart 5). But, if there is a bright spot to the devastating labor market, it may be that continuing unemployment claims are declining. For the week ended May 16, the number of Americans receiving jobless payments was 21 million, down 4 million from the prior week (Chart 6).

Chart 5: Initial Unemployment Claims

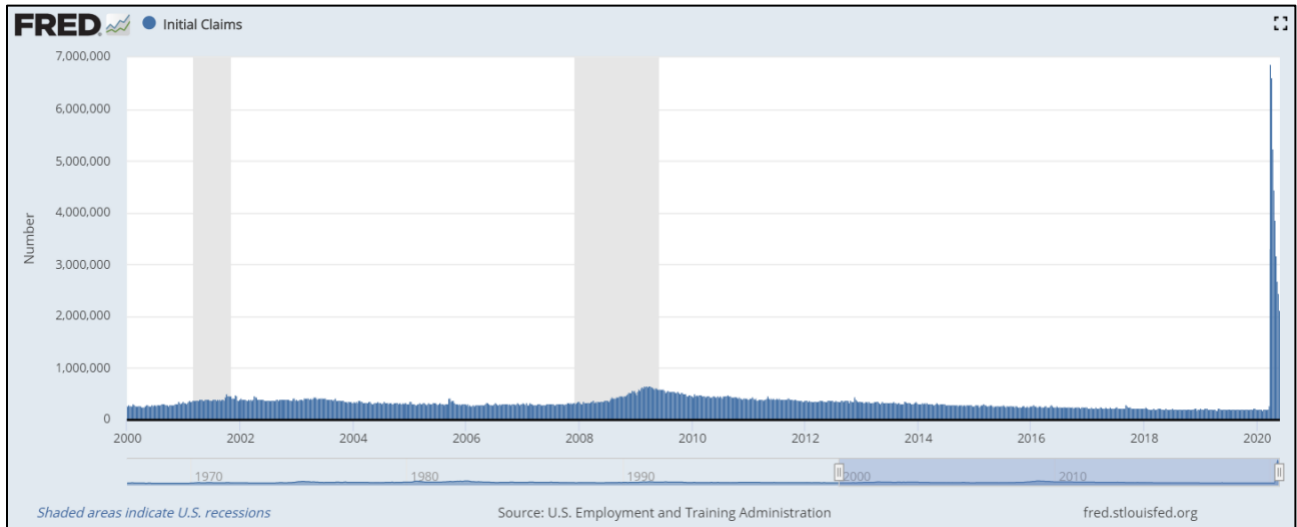
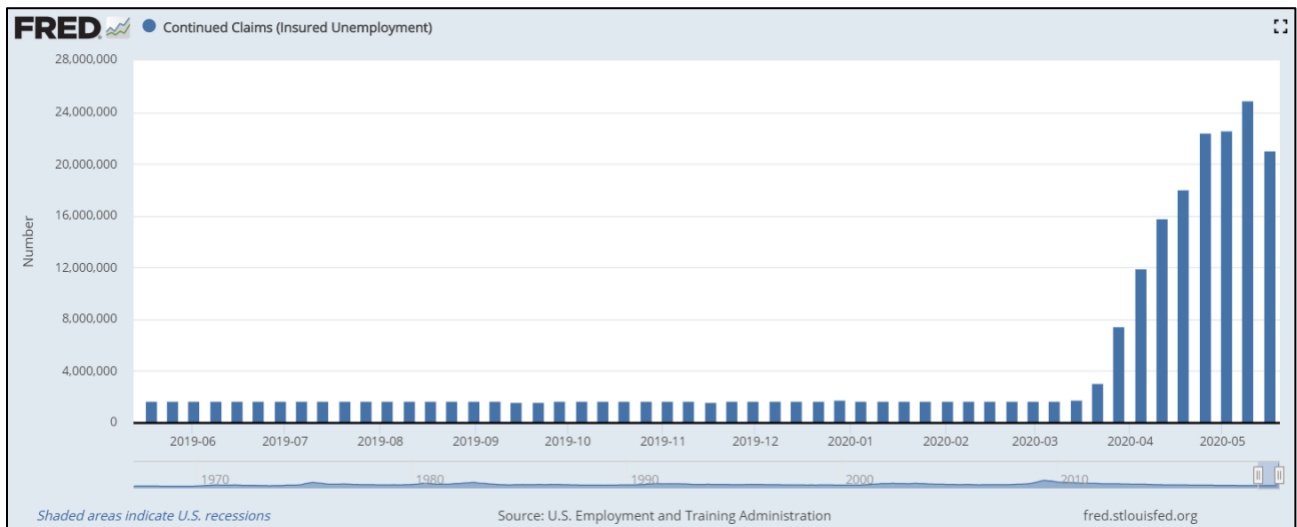


Chart 6: Continued Unemployment Claims



A potential early sign of economic recovery, mortgage applications rose significantly at the end of May, up 9% from the previous year and 54% from early April. And, while new home sales were expected by economists to fall more than 20% in April, they actually rose 1%.² Low mortgage rates are likely spurring those who can get a loan to take action on new home purchases and refinancing.

Implications for Portfolio Management

Lower interest rates, lower energy prices, and significant fiscal and monetary support should provide long-term tailwinds for growth. One could question if equity prices reflect a relatively swift economic rebound

² <https://www.cnbc.com/2020/05/27/mortgage-demand-from-homebuyers-shows-strong-and-quick-recovery.html>

and resumption of corporate earnings growth without appropriately discounting the possibility that any recovery is more gradual, muted, or hamstrung by some other event (e.g., virus resurgence, trade war, corporate default cycle). It's possible that households, many of which finally regained their confidence to spend just within the last few years following the global financial crisis of 2008, will quickly reduce their spending, delay large purchases and significant life events like marriage and having children. Given the sharp rebound in risk assets, particularly US equities, now is a good time for investors to again review their current equity exposure with their tolerance for risk. We may experience a sharp economic recovery later this year as markets are implying today, but the path to recovery may also be long and volatile.

Key Economic Releases This Week

Day	Report	Period	Forecast	Previous
Wednesday	ADP Employment Report	May	-	-20.2 million
	ISM Non-Manufacturing Index	May	-	41.8
Thursday	US Trade Deficit	April	-	-\$44.4 billion
Friday	Non-farm Payrolls	May	-	-20.5 million
	Unemployment Rate	May	-	14.7%

Source: Marketwatch

Asset Class Returns

Category	Representative Index	May 2020	YTD 2020	Full Year 2019
Global Equity	MSCI All-Country	4.4%	-9.2%	26.6%
US Large Cap Equity	S&P 500	4.8%	-5.0%	31.5%
US Small Cap Equity	Russell 2000	6.5%	-16.0%	25.5%
Foreign Developed Equity	MSCI EAFE	4.4%	-14.3%	22.0%
Emerging Market Equity	MSCI Emerging Markets	0.8%	-16.0%	18.4%

US High Yield Fixed Income	ICE BofAML High Yield	4.6%	-5.7%	14.4%
US Fixed Income	Barclays Aggregate Bond	0.5%	5.5%	8.7%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.0%	0.5%	2.2%

Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)
As of May 29, 2020

Prices & Interest Rates

Representative Index	Current	Year-End 2019
S&P 500	3,044	3,231
Dow Jones Industrial Avg.	25,487	28,538
NASDAQ	9,587	8,973
Crude Oil (US WTI)	\$35.32	\$61.21
Gold	\$1,743	\$1,520
US Dollar	\$98.29	96.39
2 Year Treasury	0.16%	1.58%
10 Year Treasury	0.65%	1.92%
30 Year Treasury	1.41%	2.39%

Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)
As of May 29, 2020

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. Please contact your Wealth Counselor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.