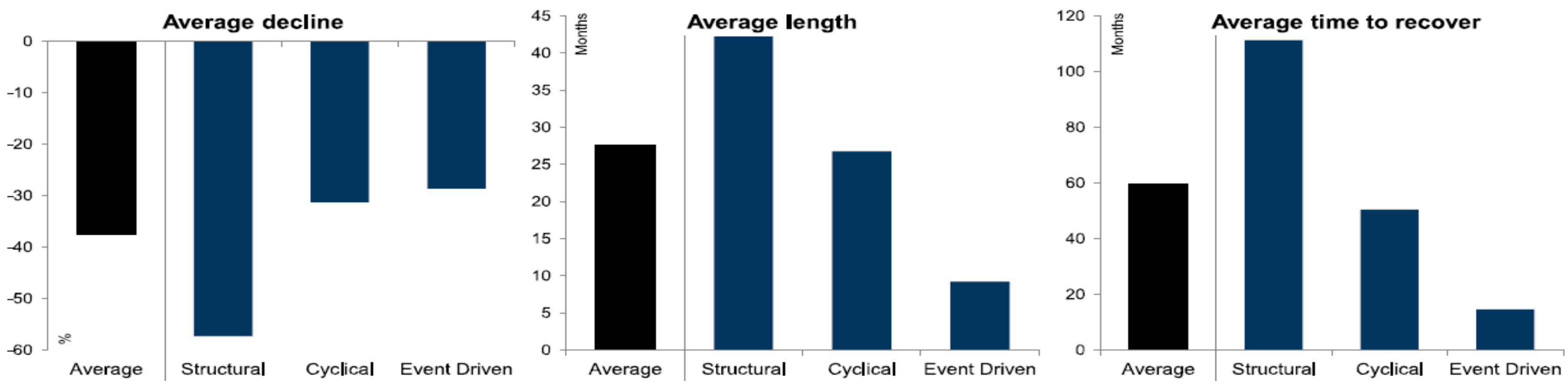
SECOND QUARTER 2020 MARKET COMMENTARY

What a difference a quarter makes. Last quarter, global stock markets set modern-day records for the fastest-paced bear market. Within a week into the second quarter, many global markets had reversed course, and set records for the fastest bull market. And while the net result is a single digit stock market loss for the S&P 500 Index through June 30, investors have been reminded, once again, of the axiom, "Don't time the market".

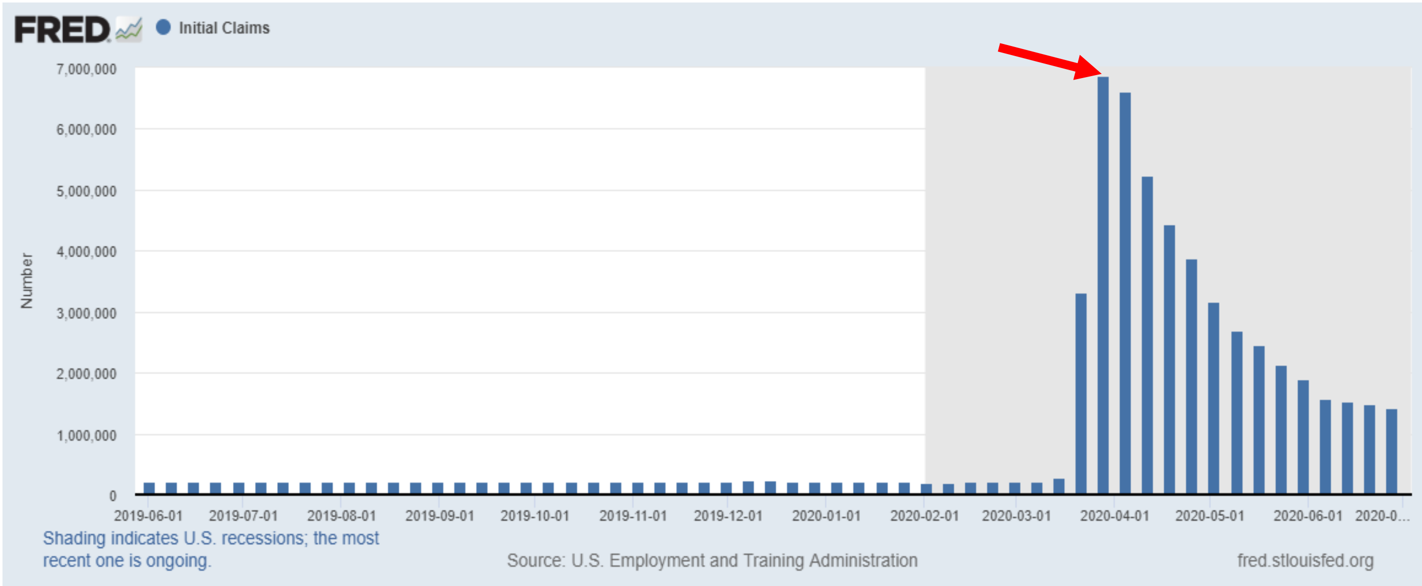
A well-respected investment manager recently brought the following charts to our attention. The three side-by-side charts below clearly show how bear markets are not equal and that "light" oftentimes returns right after the darkest hour, whether the "darkest hour" is defined as a stock market bottom or a peak in initial jobless claims. COVID-19 precipitated an event-driven bear market. Historically, event-driven bear markets tend to experience lower average declines, shortest durations, and the quickest recoveries. The second chart (Initial Jobless Claims) on the next page shows that the stock market reached a low when Initial Jobless Claims peaked. This phenomenon is not unprecedented because the same pattern occurred in 2008-2009.

US Bear markets & Recoveries since the 1800s



Source: Goldman Sachs Global Investment Research

Initial Jobless Claims, June 2019 - June 2020



The take-away is that the stock market is forward-looking. We believe that most investors are significantly discounting 2020 corporate earnings and have set their sights on next year and beyond. Second quarter earnings released over the next few weeks may test this belief because we believe that earnings will likely be worse than expected. However, we think investors will be more concerned with management's discussion of the future and not the recent past.

Most major U.S. stock indices outperformed most international regions during the second quarter. Domestic stock market returns for the quarter were about 20% while many international markets generated mid-teen and high-teen returns. Globally, the performance discrepancy between "growth" (led by the Consumer Discretionary and Info Technology sectors) and "value" stocks was maintained or further expanded. The S&P 500 Value Index lagged last quarter, rising 13% due to its heavier exposure to the weaker Consumer Staples, Health Care and Financials sectors.

Credit-sensitive bonds regained investor favor but showed single digit losses year-to-date. "Plain vanilla" bond benchmarks generated fractional gains during the quarter. In a reversal to the previous quarter, industrial commodities like silver and copper outperformed agricultural commodities. The price of oil nearly doubled last quarter to nearly $40/barrel. Still, the commodity is well off its level from 2019 year end levels.

We recognize the significant disconnect between "Wall Street" and "Main Street" and believe it is likely that investors are underestimating the time it will take for the economy to recover. We remain extra vigilant in an environment that appears to offer very few good alternatives to stocks and fosters ample justification to increase risk despite the uncertainties regarding COVID-19 and the global economic recovery, and richer stock valuations.