clearstead MARKET MINUTE

2020 VOLUME : JUNE REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Thomas Seay, Senior Managing Director, Research

OVERVIEW

The driving force behind June's financial market performance were the daily updates concerning the COVID-19 pandemic. As countries, states, and cities struggle with the decision on whether to open for business and how fast to return to "normal," market participants attempt to construct portfolios for an uncertain, near-term environment. During the month, high profile markets (S&P 500) witnessed an uptick in volatility but trended sideways, while the previous month's laggards delivered strong performance results (emerging markets). Within fixed income markets, U.S. Treasury rates were essentially unchanged at historically low levels (10-year yield at 0.66%)[1] which had investors seeking more income in higher yielding sectors (high yield corporates and emerging market debt). As we proceed through the summer months, we anticipate a continuation of the volatility as the economic data remains unpredictable, companies' earnings guidance are unavailable, and the election season looms on the horizon. The hazy, lazy days of summer appear to be figments of our imagination.

DOMESTIC EQUITY

As of June 30, 2020

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	1.8%	18.5%	-8.4%	-0.5%
S&P 500	2.0%	20.5%	-3.1%	7.5%
Russell 2000	3.5%	25.4%	-13.0%	-6.7%
Russell 1000 Growth	4.4%	27.8%	9.8%	23.3%
Russell 1000 Value	-0.7%	14.3%	-16.3%	-8.9%

U.S. equities moved higher in June as hopes for a successful economic reopening outweighed concerns about spikes in new coronavirus cases. Small caps (Russell 2000) outperformed large caps (S&P 500) as small caps benefitted more from optimism surrounding a domestic economic re-opening, particularly given small caps' more US-focused business footprint. Growth stocks (Russell 1000 Growth) outperformed value stocks (Russell 1000 Value) by 5.0% as investors continued to favor the perceived safety of growth stocks. We still find it prudent to be defensive in our positioning given the volatility of sentiment regarding the coronavirus and the lack of clarity around the virus's impact on corporate earnings and economic growth, particularly if recent flare-ups continue to grow.

INTERNATIONAL EQUITY

As of June 30, 2020

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	4.5%	16.1%	-11.0%	-4.8%
MSCI EAFE	3.4%	14.9%	-11.3%	-5.1%
MSCI Emerging Markets	7.4%	18.1%	-9.8%	-3.4%
MSCI EAFE Small Cap	1.4%	19.9%	-13.1%	-3.5%

Non-US markets were strongly higher in June with the MSCI Emerging Markets index up 7.4% and developed market MSCI EAFE index up 3.4%. Growth stocks outperformed value stocks, while small cap (MSCI EAFE Small Cap) underperformed large cap (MSCI EAFE) in developed markets. Despite a flare-up of COVID-19 cases around Beijing, Chinese equities were up approximately 9%[2] in June as several economic indicators pointed to the gradual strengthening of the Chinese economy. The U.S. dollar was mildly weaker for the month, moving lower against most developed currencies as well as against many EM currencies. The European Central Bank announced an expansion of its QE programs in June which also helped ease concerns over policy support in Europe. Meanwhile, China enacted a new national security law that curtails Hong Kong's autonomy and adds to the list of issues raising tensions between the US and China.

FIXED INCOME

As of June 30, 2020

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.6%	2.9%	6.1%	8.7%
BarCap Global Aggregate	0.9%	3.3%	3.0%	4.2%
BarCap US High Yield	1.0%	10.2%	-3.8%	0.0%
JPM Emerging Market Bond	2.9%	11.2%	-1.9%	1.5%
BarCap Muni	0.8%	2.7%	2.1%	4.4%

As fixed income investors became comfortable with the idea that interest rates will remain low for an extended period of time, they ventured to those sectors providing more income than the safety of U.S. Treasury securities. Emerging market debt (JPM Emerging Market Bond) topped the performance list, closely followed by corporate debt (both investment grade and high yield). Investors need to tread carefully when investing in corporate debt as the ongoing travails in the energy markets and retail companies going bankrupt at the fastest pace on record necessitate the need for well-researched investing. Although the absolute yield of municipal securities might not appear attractive to traditional muni bond investors, they are attractive to crossover buyers who look at a 10-year U.S. Treasury yield of 0.66% versus a 10-year, "AAA" muni bond yield of 0.86%[3]. Under normal market circumstances muni bonds have historically yielded less than Treasuries, but these are anything but normal times.

CLOSING

The wild swings witnessed in the year's first half have left many investors tired and confused. As we have previously stated, this uncertain backdrop likely sets the stage for bouts of volatility in markets until the nature of post-COVID-19 recovery becomes clearer. This does not mean we are sitting on the sidelines waiting for sunny skies before we act, but, rather, we will respond when well-researched opportunities represent good value for our clients.

Sources:
1 - Bloomberg
2 - MSCI China
3 - Bloomberg