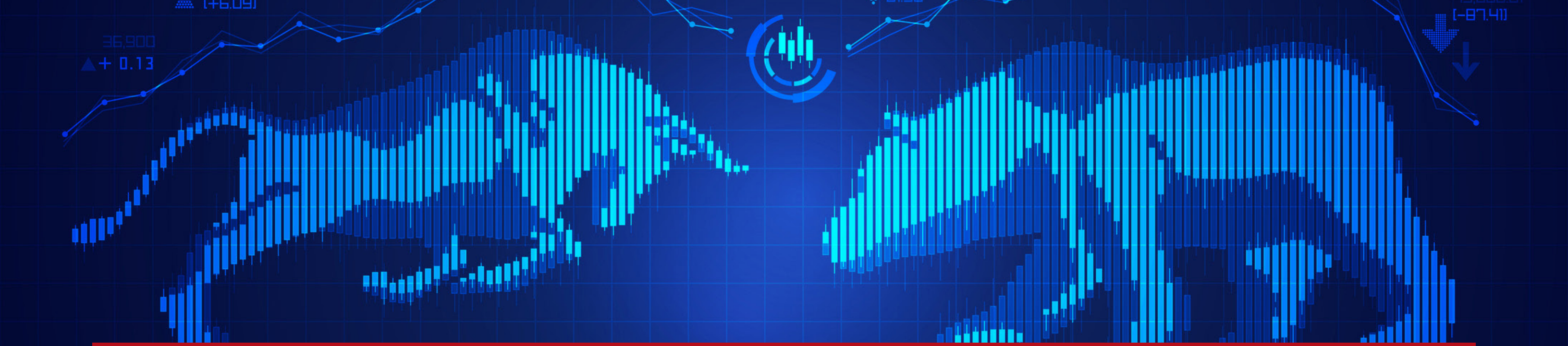
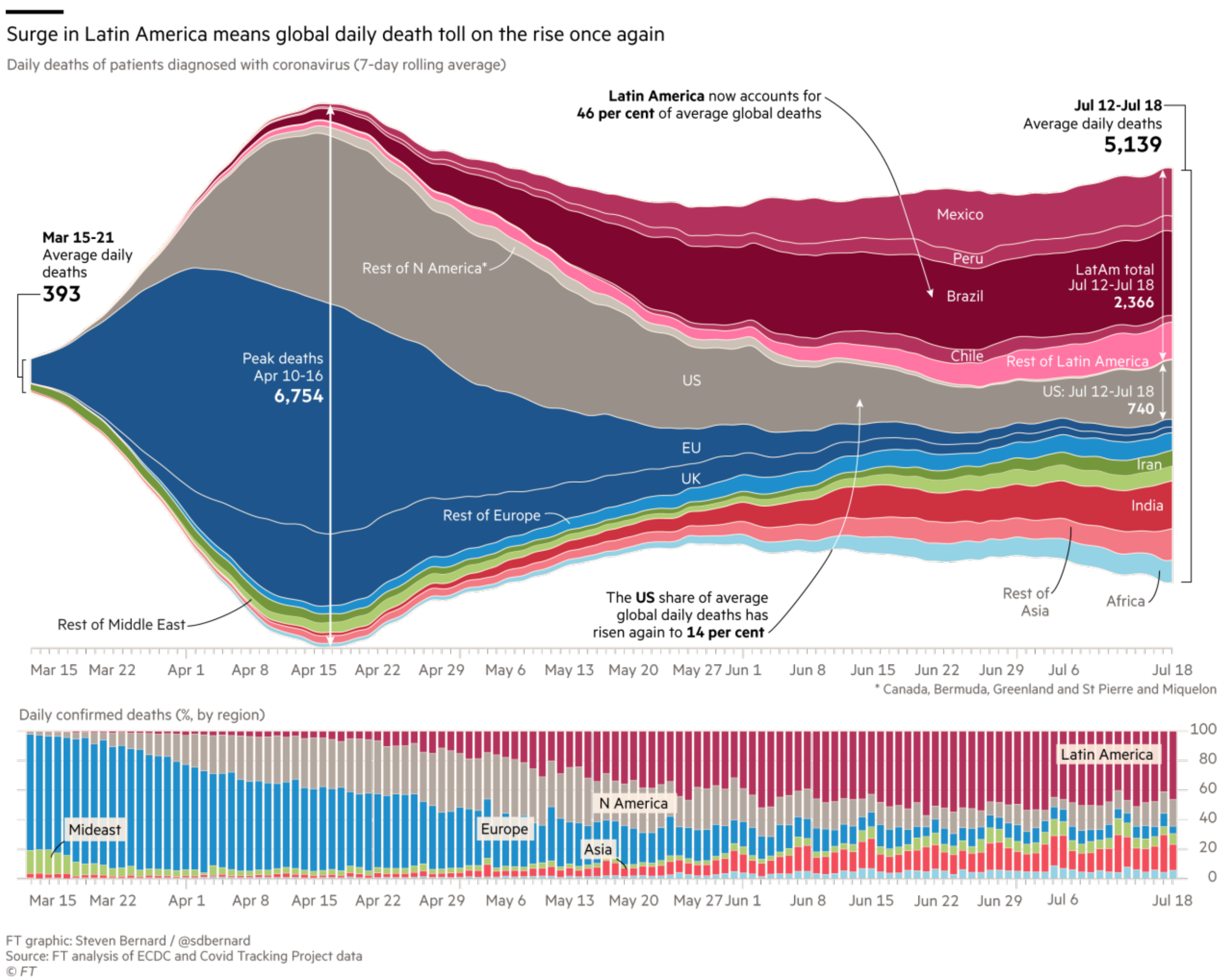


# Capital Market Review
## 2nd Quarter 2020

*By: Jim Rambo, CFA*

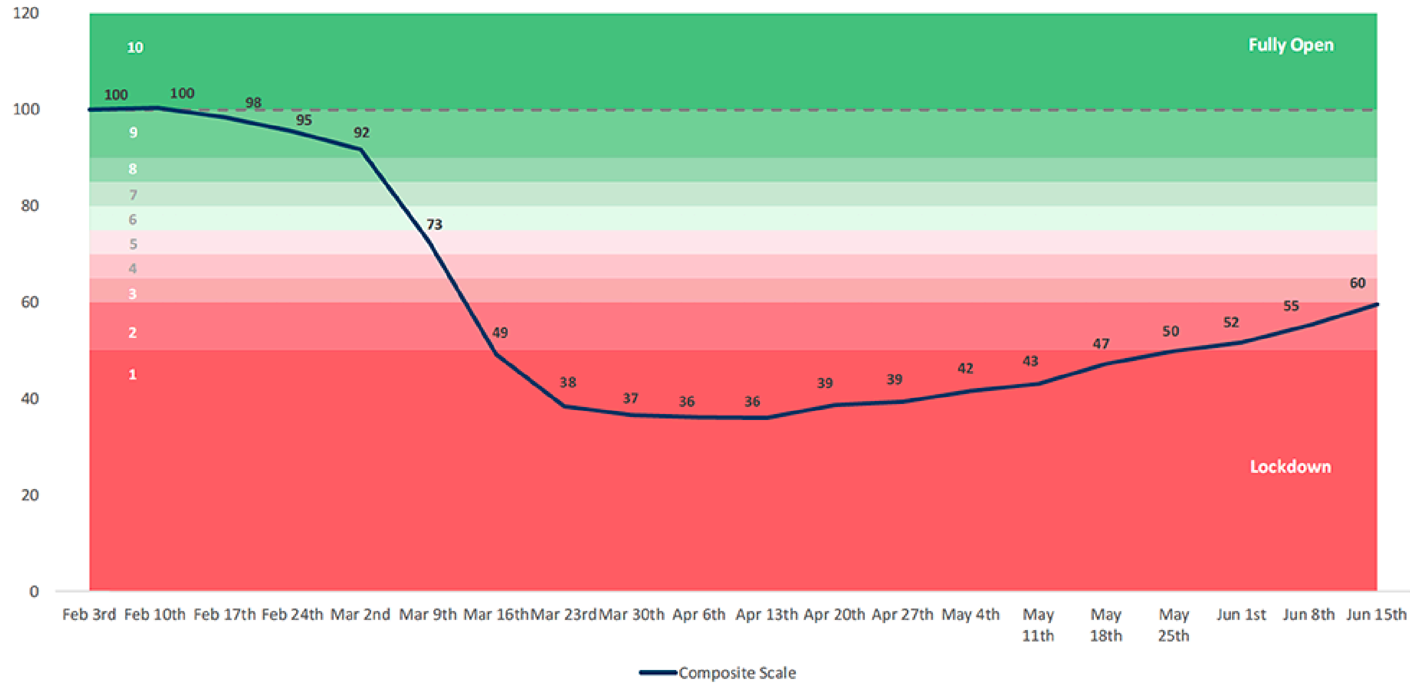
*The Coronavirus continues its steady spread around the world, imperiling healthcare systems and economies of all in its path. The COVID-19 curves have rolled like waves peaking in China in February, early April in Europe, and late April in the U.S. Latin American countries are now experiencing the surge in cases and are taking aggressive measures to flatten their curves.*

### *COVID-19 Curve*




***Source:*** *Financial Times*

**Exhibit 2: Our Composite Scale shows a continuing rebound in recent weeks, though we remain a '2'**
Date on x-axis represents first day of week measured

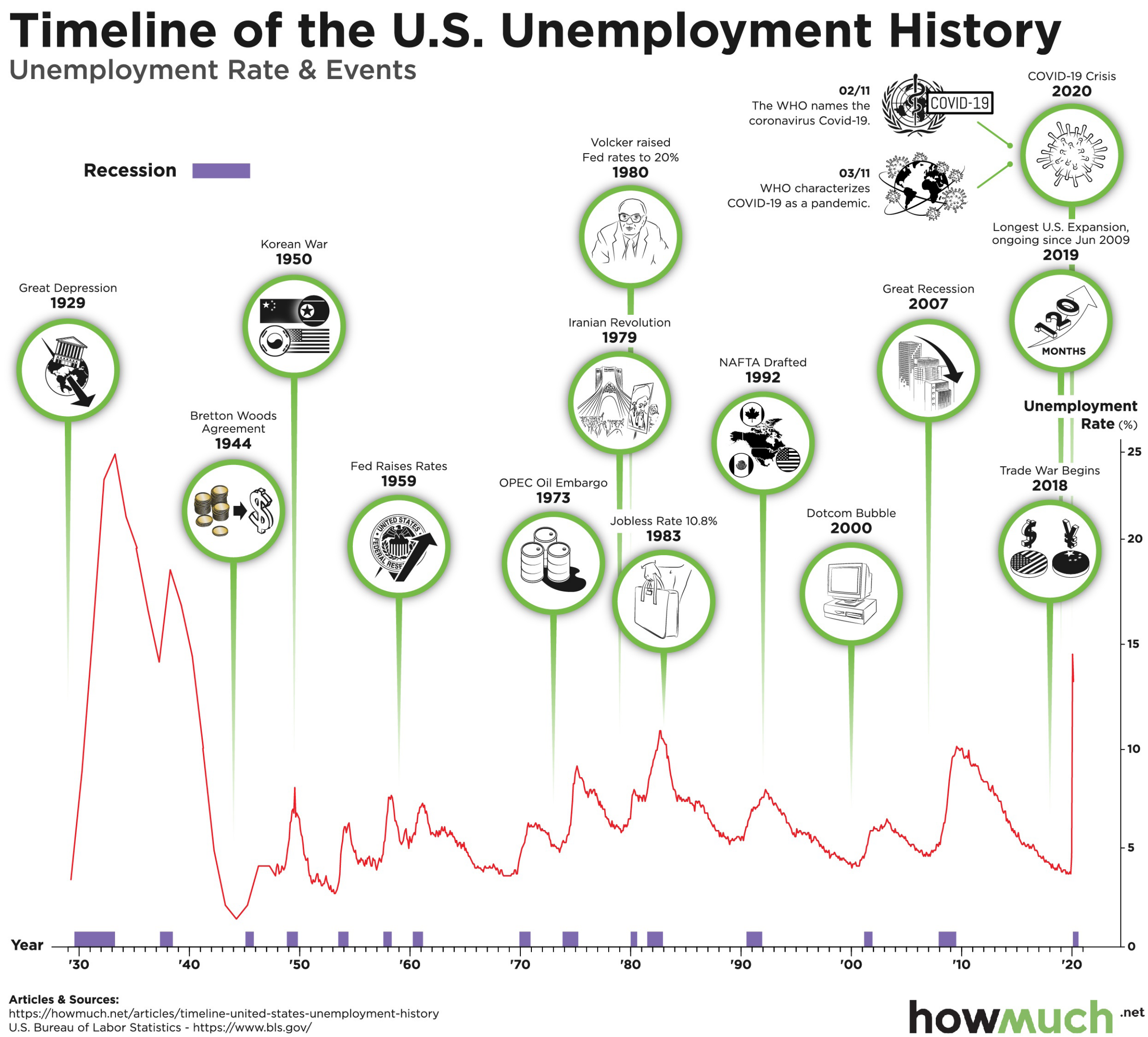



This exhibit summarizes data from sources listed in Exhibits 5, 6 and 13. Modest historical revisions as we refine included data sets and account for minor data revisions.

Source: Goldman Sachs Global Investment Research

*Source: C2FO.com*

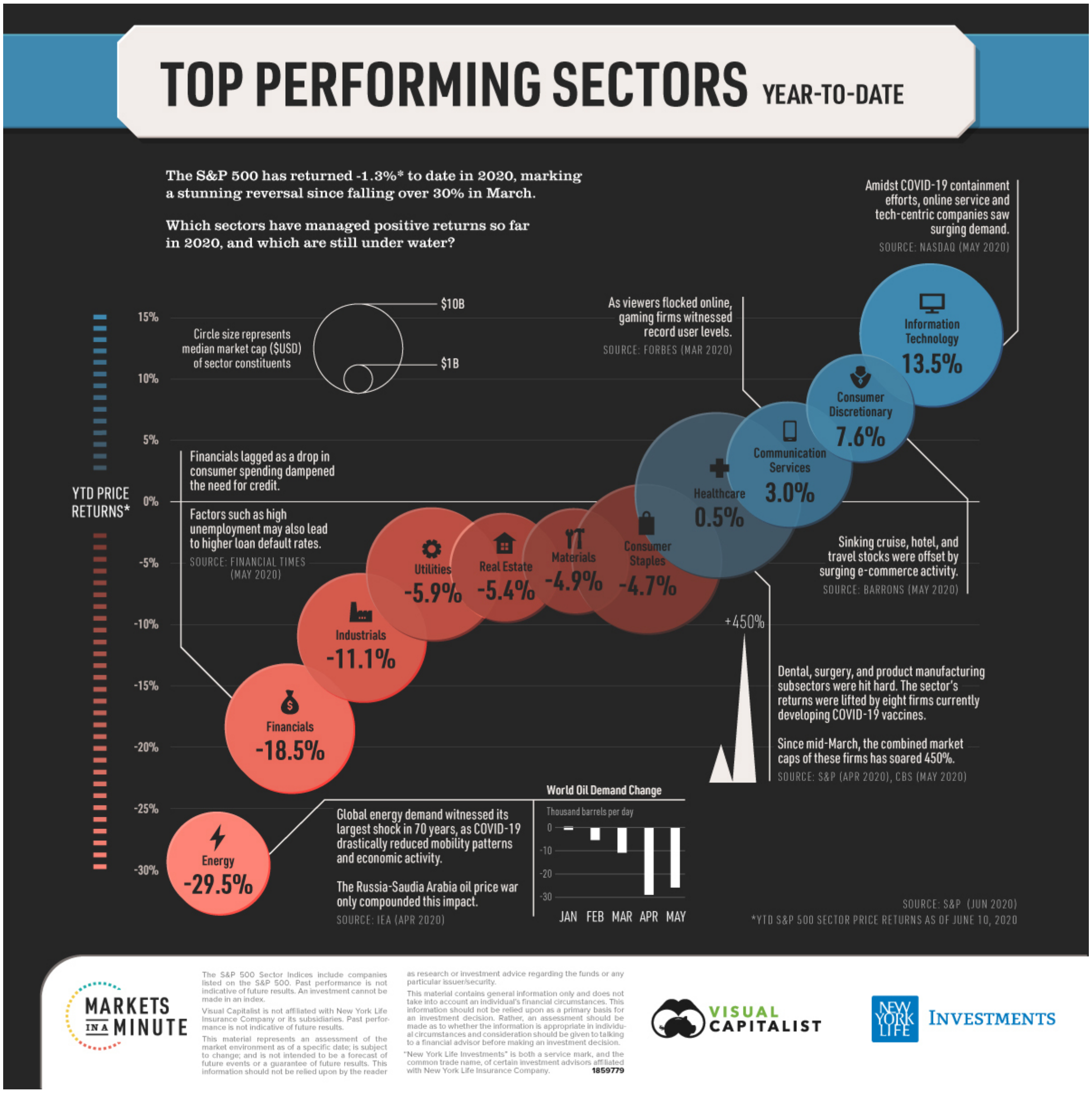
The economic damage caused by the sudden shutdown is being compared to the recession triggered by the end of the Second World War when government spending for the war effort came to an abrupt stop. But as the major economies began to reopen in the second quarter, optimism grew that a recovery had already started, and the pain might be shorter-lived than many initially feared. Investors have turned to real-time data sets such as smartphone app downloads, Airbnb occupancy rates, Google/Apple maps mobility data, and many others to scale in real-time how open our economy is.




*Source: HowMuch.Net*

Typically, recessions unfold over years, as conditions gradually worsen. The Global Financial Crisis began in 2007 and took two full years for unemployment to peak at 10% totaling 2.6 million job losses. The COVID-19 shutdown caused 22 million job losses in just four-weeks, sending the unemployment rate to almost 15%. Industries related to travel and restaurants have suffered the most with a 29% unemployment rate. Many of these jobs are hourly work that employs the poorest Americans, making the lockdown especially damaging for the most vulnerable in our economy. Of course, the hope is that many of these job losses are only temporary until we can reopen our economy. And, many of these jobs have started to come back in the reopening boosting investor confidence.

Congress quickly enacted $2.4 trillion in fiscal support through the CARES Act and Paycheck Protection Programs (PPP). This amount is double the amount of initial fiscal support in response to the Global Financial Crisis. Enhanced unemployment benefits, one-time stimulus checks, and the PPP small business loan program represent the largest portion of overall spending. The U.S. Small Business Administration's July data release indicates 4.9 million small businesses, with fewer than 500 employees, have received PPP loans supporting 51 million jobs. While these programs have been supportive, they will require more funding, which is currently taking shape in Congress. The Fed acted just as quickly by cutting the Fed Funds rate to zero and injecting over $2 trillion of liquidity into the system through Quantitative Easing. The Fed has pledged to support the economy and functionality of the markets with no limits to ongoing and future stimulus.




***Source:*** [***Advisor.VisualCapitalist.com***](Advisor.VisualCapitalist.com)

Markets responded to the reopening optimism and stimulus by rallying as quickly as they fell. The S&P 500 returned 20% for the second quarter leaving the U.S. index down only -3% YTD. International and Emerging Markets experienced similar rallies, and liquidity was restored to the bond market. While some industries have thrived, others continue to suffer due to the COVID-19 restrictions. The energy sector continues to languish due to work from home orders and travel restrictions. Financials have also underperformed as they brace for higher loan default rates. Technology companies have thrived in this environment, seeing a surge in demand for businesses that help us live and work remotely. The five largest U.S. companies (Apple, Microsoft, Amazon, Facebook, & Alphabet) now represent 20% of the market value for the entire S&P 500.