Brinker Capital

2Q2020

Market review and outlook

Risk assets experienced a strong rebound during the second quarter as economies began slowly reopening and central banks and governments continued with unprecedented stimulus measures. Despite the market rally, economic data released during the quarter was largely negative. However, markets have looked past the weak data caused by the COVID-19 forced lockdown, and ahead to the reopening of economies and potential therapeutics to treat the virus. The Federal Reserve remains committed to supporting the economy and financial markets, and it is likely Washington will pass another fiscal stimulus bill in late July providing support to businesses, individuals, and state and local governments. Until COVID-19 is contained, the reopening of the US economy will be a slow process characterized by fits and starts as rising infection rates could create pockets of additional lockdowns.

The S&P 500 Index experienced a V-shaped recovery, rebounding 39% off the March 23 low. It gained 20.5% for the second quarter and year-to-date is down just -3.1%. All sectors posted positive returns for the second quarter with the consumer discretionary sector having the strongest returns (+32.9%), followed by information technology (+30.5%). Energy (+30.5%) benefitted from increased oil demand from easing lockdown measures and more disciplined actions from oil companies; however, year-to-date the sector is still down -35.3%. Consumer staples (+8.1%) and utilities (+2.7%) were relative laggards as markets favored cyclicals during the quarter. From a style perspective, growth outpaced value. Through the first half of the year, large cap growth leads large cap value by an extremely wide margin of 26 percentage points, and large cap equities trailed mid cap and small cap for the quarter but are well ahead year-to-date.

The MSCI EAFE Index gained 15.1% for the second quarter and is down -11.1% year-to-date. Similar to the US, developed markets benefitted from the willingness of global central banks to provide large amounts of monetary stimulus to keep borrowing costs low and promote liquidity. Data incrementally improved within both the European Union and the UK as reopenings progressed, and the number of COVID-19 infections declined, but there remains significant ground to make up. The MSCI Emerging Markets Index gained 18.2% for the quarter and is down -9.7% year-to-date. China, a key driver of emerging markets returns, is further along in its recovery and has recently shown signs of economic reacceleration. However, issues remain within many other emerging markets, such as India and Latin America, that have been unable to get the virus under control.

Investment grade fixed income, as measured by the Bloomberg Barclays US Aggregate Index, gained 2.9% for the quarter and 6.1% year-to-date. The 10-year Treasury yield was rangebound and ended the quarter at 0.65%, roughly the same level it began. Credit spreads contracted meaningfully from the March highs, generating strong returns for both high-yield and investment grade corporate bonds. Credit spreads remain elevated relative to historical levels, but the willingness of the Federal Reserve to prove expanded support for the sector will help maintain a floor on corporate bond prices. Municipals finished the quarter in-line with treasuries.

The COVID-19 pandemic remains the key driver over the near term for the economy, financial markets, and confidence. A powerful monetary and fiscal policy response has helped bridge the gap, and we are past the bottom in the economic data as areas of the economy begin the slow process of reopening. We expect the equity market to remain rangebound in the near term as we wait for continued improvement in the COVID-19 data and assess the gradual reopening of the economy. We also expect additional market volatility once attention begins to turn to the November election. We will continue to be vigilant in assessing opportunities and positioning appropriately to take advantage of compelling prospects through our active multi-asset class approach.

Brinker Capital Market Barometer

The COVID-19 pandemic remains the key driver for the economy, financial markets, and confidence over the near term. Fiscal and monetary policy continue to be supportive, and the economic data has improved off the bottom as we continue the slow process of reopening. We expect the equity market to remain range-bound in the near term as we await measured improvement in the COVID-19 data, and we expect a slow, uneven economic recovery.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains strong
Trend			●		Expect continued trading range until more clarity on economy reopening
Investor sentiment			●		Sentiment still bearish but not extreme; equity outflows continue
Seasonality	←	●			Seasonality a headwind but not the key driver

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Very strong fiscal response; more debate expected on next round
Monetary policy				●	Fed all in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations continue to fall
Interest rate environment				●	Treasury yields remain at low levels but stable; yield curve has normalized
Macroeconomic	→		●		Macroeconomic data has bottomed; slow improvement following reopenings
Business sentiment		●			CEO confidence still weak but expectations for the economy have improved
Consumer sentiment	→		●		Consumer confidence increased in June, but remains below pre-pandemic levels
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment				●	Credit environment continues to improve and Fed remains supportive

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle	→		●		US exited recession that began in February; recovery will be uneven
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Information as of July 8, 2020

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