MONTH IN REVIEW

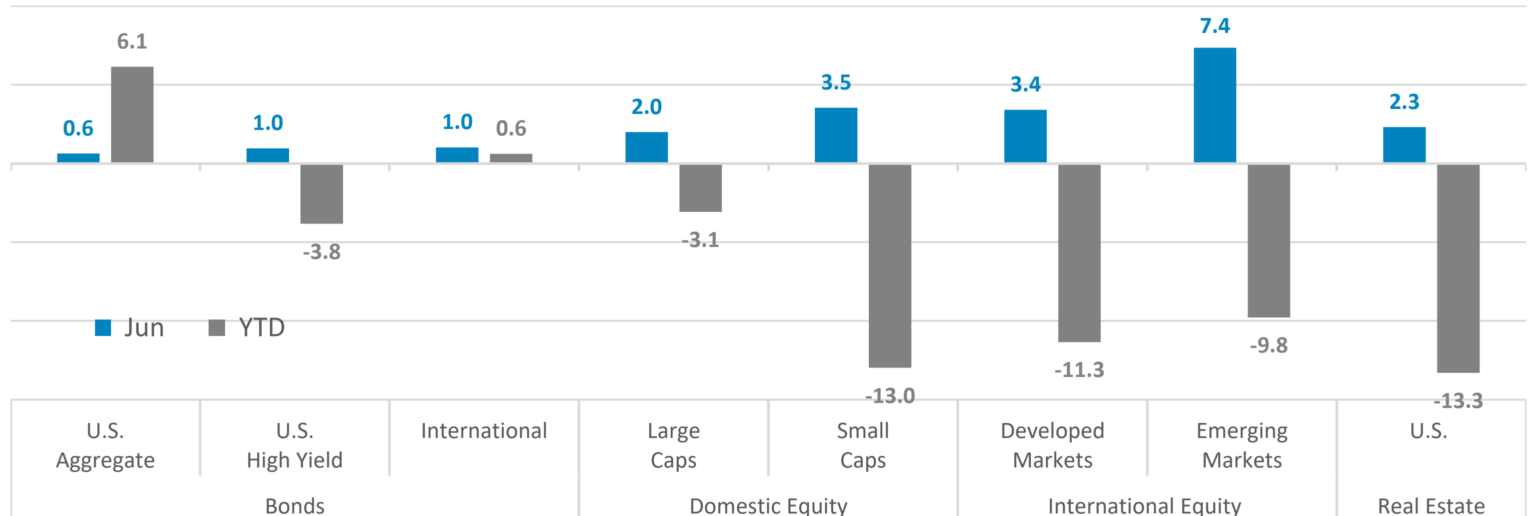
June 2020

Quick Takes

- **June caps a hot quarter.** U.S. stocks, measured by the S&P 500, gained +2% in June, their third straight positive month, resulting in the best quarterly return, +20%, since the fourth quarter of 1998. International stocks (MSCI EAFE Index) were up +3.4% in June and nearly +15% for Q2-2020.
- **Growth reasserts itself.** After Value stocks tried to make a comeback against their Growth counterparts in May, Growth outperformed Value by nearly 5% in June. Growth is particularly strong among large cap stocks, beating large value by 26% so far in 2020.
- **Better than expected.** June registered record monthly gains across many manufacturing, housing and employment data points. The rebound is happening faster than economists expected, and the gains are larger than expected, helping push the U.S. Citi Economic Surprise Index to new record highs.
- **COVID conundrum.** After a late-spring lull, new daily coronavirus cases is on the rise. Fortunately the virus appears to be killing fewer of the people it infects. The path of COVID-19 will impact the speed of the recovery, but is not likely to result in another material decline in economic activity.

Asset Class Performance

Economic data continues to improve, central banks and governments continue to pledge support, and advancements worldwide on COVID treatments and fatality rates helped global asset classes rise in June. All major global asset classes were positive for the month and quarter ended in June.



Source: Bloomberg, as of June 30, 2020. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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MONTH IN REVIEW

Have markets ever had a more surreal first half than that just completed?

Last month we spoke about the tale of two Mays, in which the month was divided by two negative weeks and two positive weeks. With the conclusion of June, the narrative is even more apt for the first two quarters of 2020. The S&P 500 was negative for each of the three months of Q1 and then positive for each of the three months of Q2. In the span of six months the S&P 500 had its worst quarter since the fourth quarter of 2008, and its best quarter since the fourth quarter of 1998. On a price basis the S&P 500 fell -20% in Q1 and then gained +20% in Q2! As shown in the table below, on a total return basis performance wasn't as precisely balanced, but the trends were quite clear; Q1 returns were sharply lower and Q2 returns were sharply higher. Even more eye-openings than the quarterly returns were the market and economic catalysts that spurred them. In just the last two quarters we have experienced a global pandemic, the worst economic crisis since WWII, a bear market, a bull market, and record amounts of monetary and fiscal relief measures. How is that for an eventful first half of the year? A veteran investment professional recently quipped, "the first half of 2020 has been the longest decade of my career." Much of the month of June was spent on the rationalization for the continued march higher in equity markets. Chief among the reasons cited was the massive inflow of central bank liquidity since the beginning of March. So far in 2020 84 central banks have cut rates. Additionally, central bank balance sheet expansion has exploded – the U.S. Federal Reserve alone surpassed $7 trillion in recent weeks. This has come with unprecedented massive government stimulus packages as well, reaching a total of about 20% of world GDP. The tremendous economic destruction inflicted by the shut down of the global economy through April and May demanded the unprecedented monetary and fiscal action. And thus far, the speed and the massive amounts of stimulus has stabilized the economy and fed a strong recovery in global economic activity as countries around the world reopened. The economic records have been too many to count. In the U.S. June registered record monthly gains across many manufacturing, housing and employment data points. As shown in the chart above, the much-better-than-expected economic reports have resulted in the largest and sharpest rebound that the Citi Economic Surprise Index has ever seen. Not only has it hit new all-time highs but the new record is twice as high as the previous record.

United States, Citi Economic Surprise Index

Source: Bloomberg.

A Tale of Two Quarters

	Year-to-Date (YTD) 2020	Q1-2020	Q2-2020
U.S. Stocks			
Dow Jones Industrial Average	-8.43	-22.73	+18.51
S&P 500	-3.09	-19.60	+20.54
Nasdaq Composite Index	+12.74	-13.91	+30.95
Russell 2000 Small Cap Index	-12.99	-30.62	+25.42
International Stocks			
MSCI EAFE	-11.03	-22.73	+15.15
MSCI Emerging Markets	-9.70	-23.57	+18.14
Bonds			
Bloomberg Barclays U.S. Aggregate	+6.14	+3.15	+2.90
iShares Investment Grade Corporate Bond ETF	+6.46	-2.97	+9.72
iShares iBoxx $ High Yield Corporate Bond	-5.10	-11.61	+7.36

Source: Bloomberg.

<u>Bottom Line</u>: June concluded what has to be one of the most extraordinary market and economic periods in history. In the past six months we witnessed the markets and economy peak in February and plunge in March and April as a global pandemic caused the worst economic crisis since WWII and spurred a fierce bear market. But since May the environment has dramatically improved, greatly aided by immense fiscal and monetary stimulus. The rebound is happening faster than economists expected, and the gains are larger than expected. Going forward, analysis will be keenly focused on whether the economic momentum can be sustained and the recovery remain intact.

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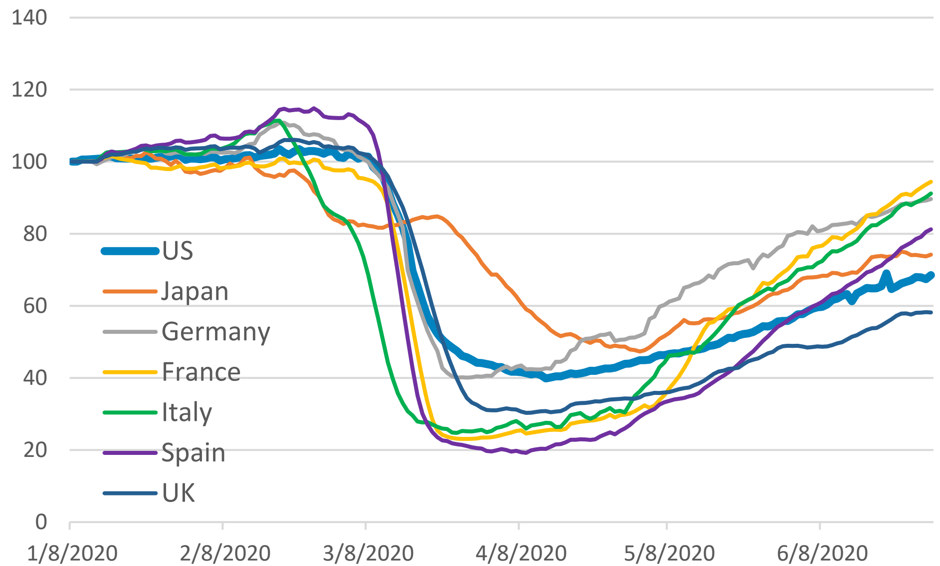
Markets weigh the economic recovery against a potential COVID relapse.

In June a real tug-of-war developed between the themes of economic reopenings versus the COVID "new cases" relapse narrative. As economies have started to reopen, economic data has shown signs of a solid rebound. To the right is a chart of Bloomberg Activity Indices which aim to extract a signal on overall activity from high-frequency data points covering mobility, labor markets, energy, and financial markets. Although none have reached pre-virus levels of activity, the recovery for most major advanced economies continues at a rapid pace. The big fear remains that a Covid-19 "second wave" may hamper the full reopening of the economy. The recent record rise in new cases in some states led to continued stock market volatility in June. But even though the virus has not been fully contained, and no vaccine has been approved, markets don't seem to believe another material decline in economic activity is likely. The new daily COVID cases trends haven't been especially encouraging as a large part of the country experiences a widening outbreak. But the changing composition of new infections, which now skew to younger individuals, plus the lack of a commensurate rise in fatalities, helped buttress investor optimism. The chart to the left shows the sharp rise in new coronavirus cases in June, but also shows that coronavirus fatalities are still down. Who gets the virus is critical because children under 15 are 19.8% of the U.S. population and .02% of COVID-19 deaths, while adults 85 and older are 1.8% of the population but 33.3% of COVID-19 deaths. Economic vitality is dependent on keeping COVID under control across the country. The pace of transmission is not encouraging but the slide in deaths remains a positive and important trend.

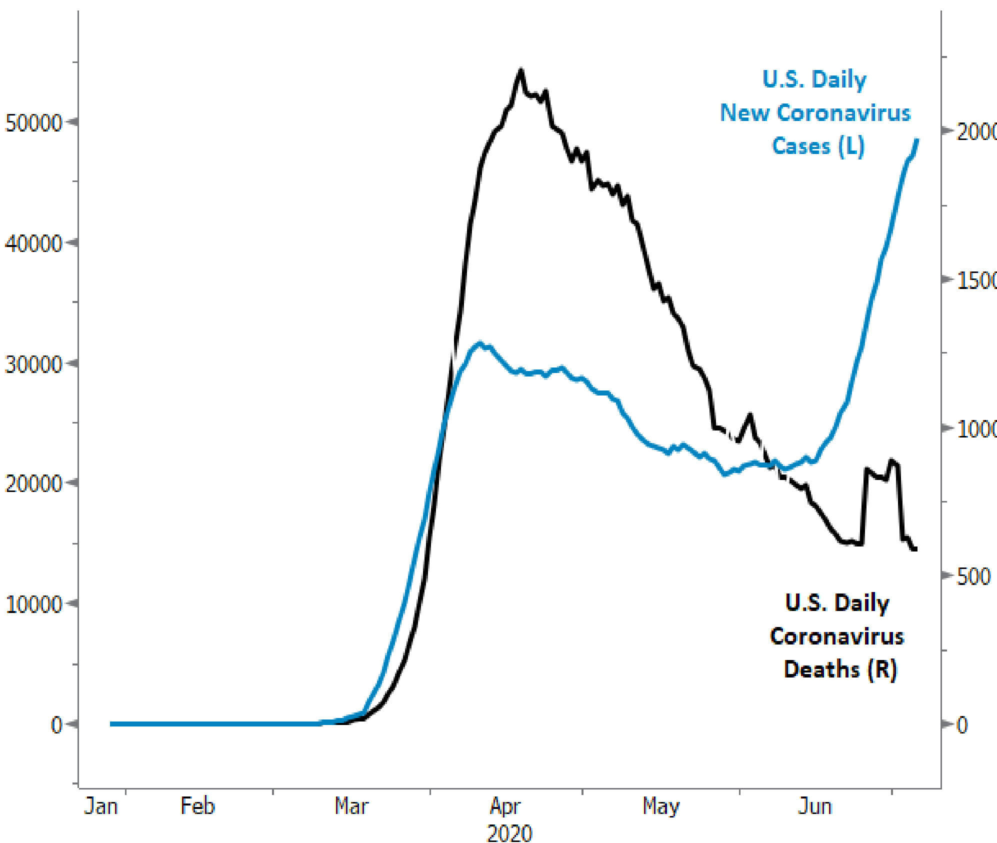
Bloomberg Activity Indices



Source: Bloomberg Economics.

New coronavirus cases are on the rise in the U.S.

However coronavirus deaths are still declining

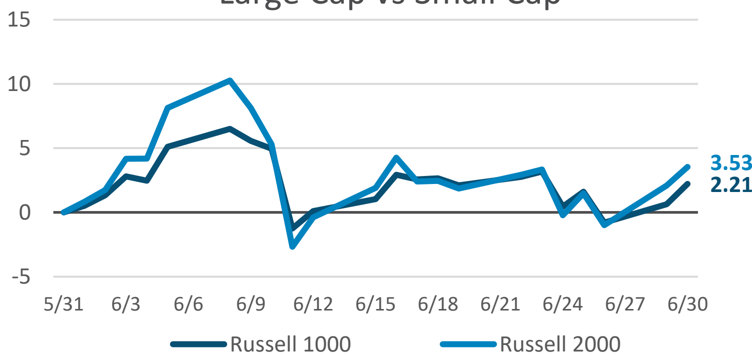


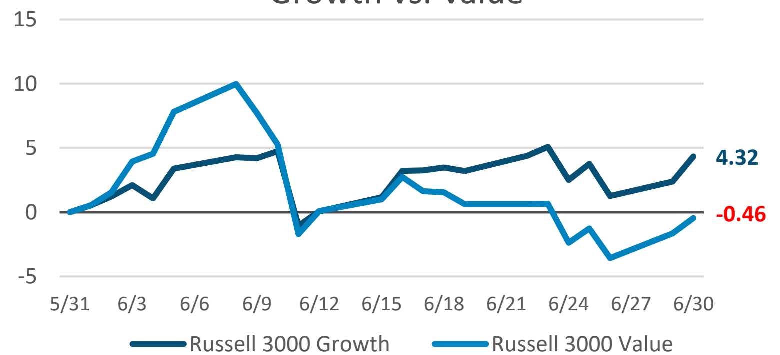
Source: Bloomberg, Johns Hopkins University.

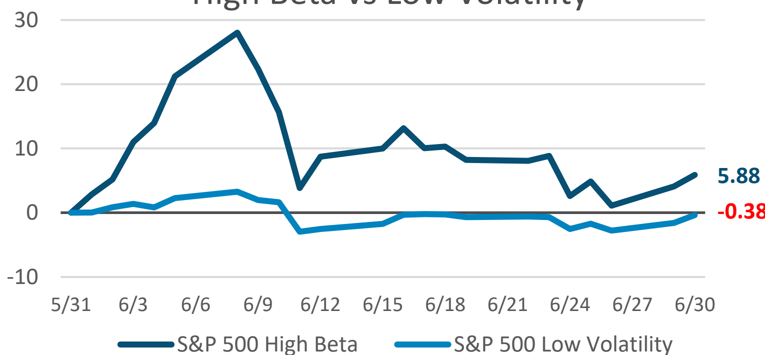
Bottom Line: After a late-spring lull, the number of new daily coronavirus cases in the U.S. is on the rise. Fortunately the virus appears to be killing fewer of the people it infects. The path of COVID-19 will impact the speed of the recovery, but is not likely to result in another material decline in economic activity.

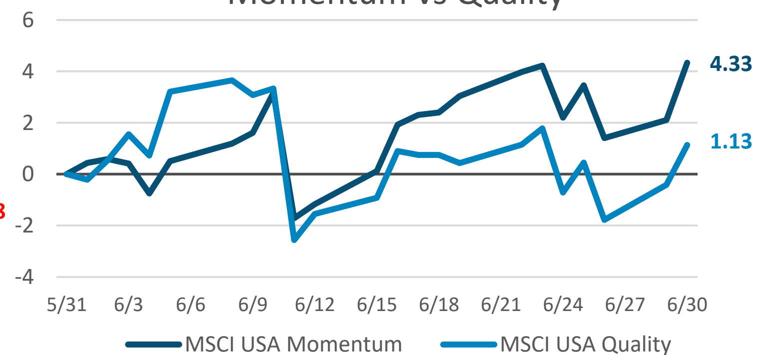
What Worked, What Didn't

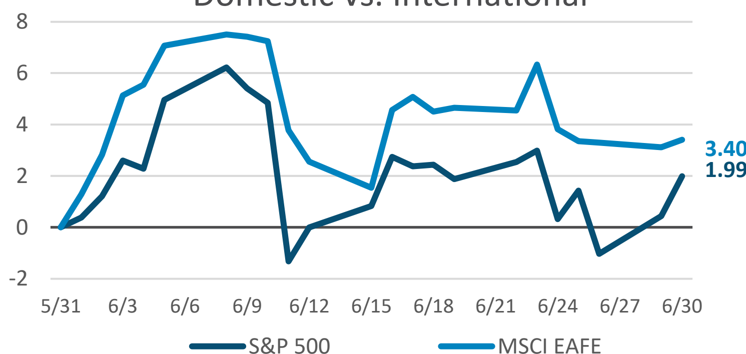
- **Emerging Markets rebound.** The best performing assets in June were found outside the U.S. as international stocks surged. Emerging markets were the #1 major asset class in June with a +7.4% total return, buoyed by China's +9.1% gain.
- **High Beta, highly volatility.** The S&P High Beta Index was up +28% in the first six trading days of June, but then lost much of those gains through the rest of the month. Still, High Beta managed a +5.9% June return and a +37.6% return for the second quarter, its best quarter since the second quarter of 2009.
- **Growth crushes Value.** Growth, and especially Large Cap Growth continues to outperform Value by a significant margin. In June the Russell 3000 Growth beat the Russell 3000 Value by +4.8% and through the first half of 2020, LC Growth is outpacing LC Value by +26%. This advantage is also significant across all market capitalizations.

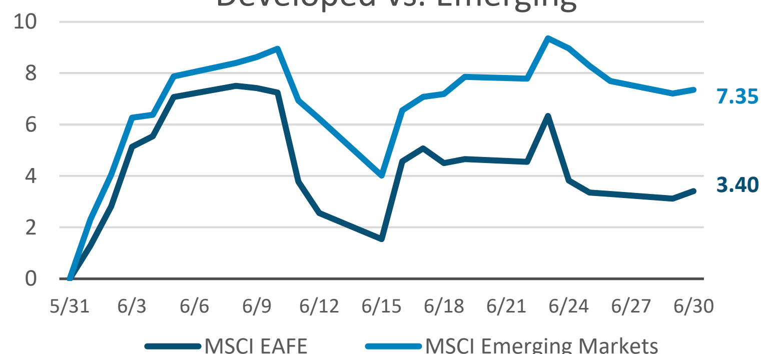










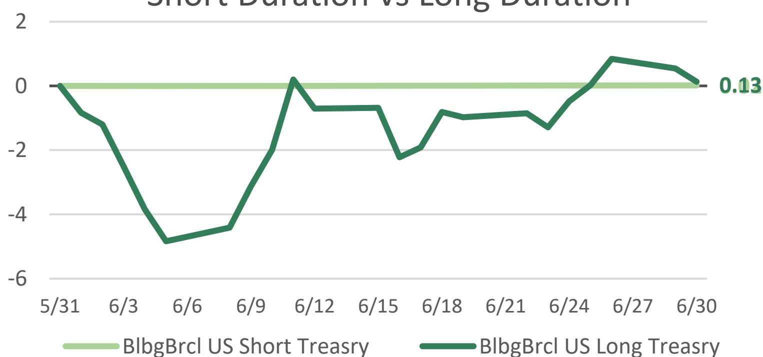


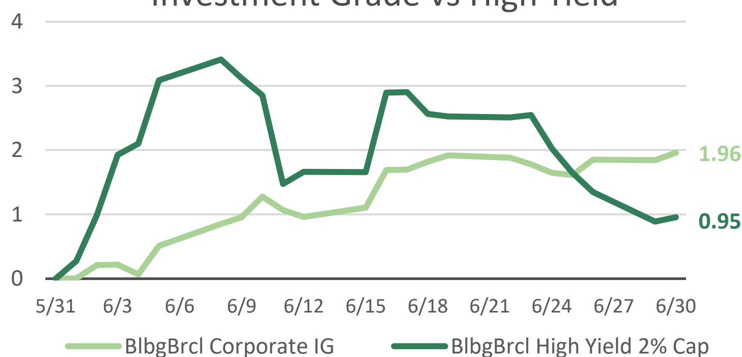
Source: Bloomberg.

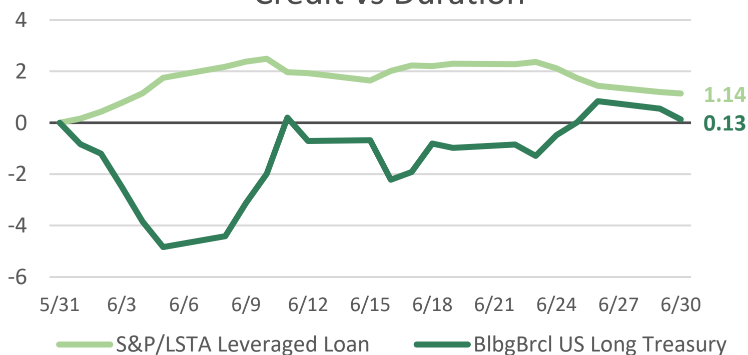
MONTH IN REVIEW

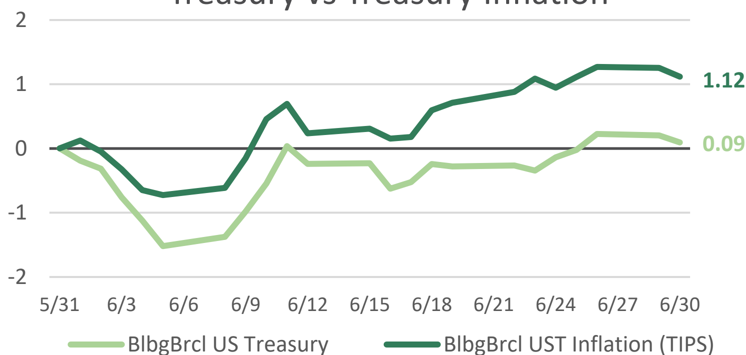
What Worked, What Didn't

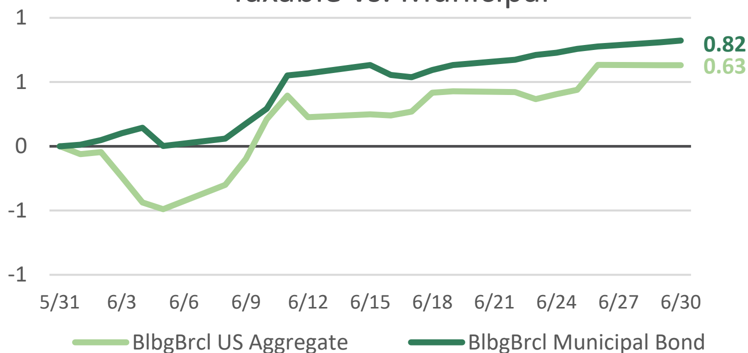
- **Corporate bonds benefit from Fed purchases.** Corporate bonds had a strong Q2 as the Federal Reserve's unprecedented steps to stabilize markets began to work. The Fed's balance sheet topped $7 Trillion, and the asset purchases have steadied the bond market, especially corporates. Corporate Bonds gained +2% in June, +9% in Q2 and +5% for 2020.
- **U.S. Long-term Treasurys lose their luster.** In the first quarter, investors couldn't get enough of long-term U.S. treasury bonds, as the group gained an eye-popping +20.9%. But they were the worst bond sector in May (losing -1.9%) and could only manage to eek out a gain of +0.1% in June to finish the second quarter essentially flat with a +0.25% return.
- **Loans and High Yield stick together.** The S&P/LSTA Leveraged Loan and Bloomberg High Yield indexes have nearly the same returns in 2020. Both bond sectors returned about +1% in June, +10% in Q2, but remain down around -4% for 2020.

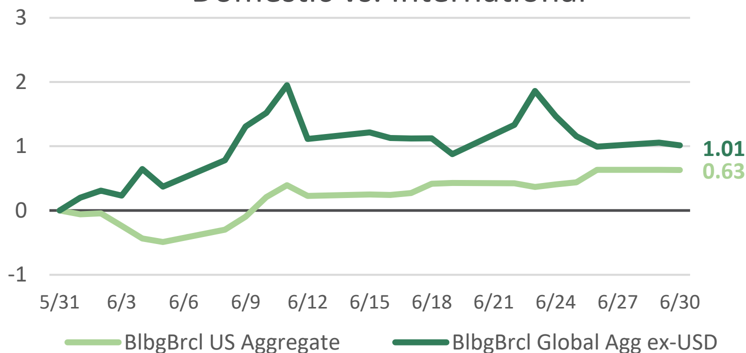












Source: Bloomberg.

June 2020

MONTH IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26	Jun-29	Jun-30	Jun
High	RE 2.31	EM 2.38	SCV 3.56	IBD 1.28	SCV 4.90	SCV 2.84	USB 0.13	EM 0.73	USB -0.17	RE 3.58	SCG 2.77	SCV 2.68	EM 0.96	MCG 0.30	USB 0.03	SCG 1.34	EM 0.97	USB -0.02	SCV 1.73	IBD 0.46	SCV 4.30	LCG 1.81	EM 6.61
	EM 2.31	SCV 1.05	RE 3.00	SCV 0.80	RE 3.64	MCV 2.64	LCG 0.10	LCG 0.56	IBD -1.28	SCV 2.94	SCV 1.66	SCG 2.16	IEQ 0.37	LCG 0.18	EM -0.03	EM 1.23	SCG 0.79	IBD -0.32	SCG 1.43	USB 0.12	SCG 2.27	MCG 1.73	LCG 4.34
	IEQ 2.23	MCV 1.05	MCV 2.96	LCV 0.57	MCV 3.22	RE 2.64	IBD -0.32	IBD 0.55	HYB -2.57	MCV 2.16	MCG 1.64	LCG 2.07	MCG 0.11	SCG 0.11	SCG -0.14	IEQ 1.20	IBD 0.71	HYB -1.02	IEQ 1.42	HYB -0.95	MCV 2.16	SCG 1.55	SCG 3.91
	MCV 1.41	LCV 1.02	IEQ 2.39	MCV 0.57	SCG 2.97	LCV 1.93	EM -0.68	USB 0.41	60/40 -3.75	EM 2.13	MCV 1.24	RE 1.97	LCG 0.06	USB 0.10	LCG -0.22	LCG 1.10	LCG 0.69	EM -1.32	RE 1.23	60/40 -1.10	RE 1.87	MCV 1.23	IEQ 3.50
	SCG 1.24	HYB 0.99	EM 2.33	USB -0.30	LCV 2.97	SCG 1.36	60/40 -0.77	HYB -0.14	EM -5.22	SCG 1.90	RE 1.14	MCV 1.95	USB -0.08	EM 0.05	MCG -0.26	MCG 0.86	IEQ 0.55	60/40 -1.62	LCG 1.15	EM -1.21	LCV 1.85	SCV 1.20	SCV 2.84
	MCG 0.96	IEQ 0.93	LCV 2.29	HYB -0.31	EM 2.63	IEQ 1.30	HYB -0.78	IEQ -0.22	IEQ -5.36	LCV 1.77	LCG 1.07	MCG 1.75	60/40 -0.19	HYB -0.04	IBD -0.30	IBD 0.72	60/40 0.29	LCG -2.41	MCG 1.14	IEQ -1.45	LCG 1.01	RE 1.14	RE 2.46
	60/40 0.94	RE 0.90	MCG 1.67	60/40 -0.32	LCG 2.22	60/40 0.94	MCG -1.22	60/40 -0.32	MCG -5.41	IEQ 1.73	HYB 0.97	LCV 1.68	IBD -0.33	LCV -0.10	HYB -0.34	60/40 0.50	HYB 0.14	IEQ -2.56	LCV 1.07	MCG -1.50	IEQ 0.81	LCV 1.11	MCG 2.40
	HYB 0.75	MCG 0.79	SCG 1.49	IEQ -0.43	MCG 2.09	MCG 0.91	IEQ -1.30	MCG -0.33	LCG -5.43	60/40 1.12	LCV 0.88	IEQ 1.24	HYB -0.47	60/40 -0.11	60/40 -0.34	SCV 0.44	SCV 0.11	MCG -2.76	MCV 1.02	RE -1.99	60/40 0.72	HYB 0.91	60/40 2.08
	SCV 0.74	60/40 0.72	60/40 1.27	SCG -0.78	IEQ 1.72	IBD 0.88	SCG -1.39	SCG -1.61	RE -6.32	MCG 1.08	60/40 0.59	60/40 0.93	LCV -1.03	SCV -0.12	IEQ -0.49	MCV 0.06	LCV 0.07	RE -2.86	60/40 0.70	MCV -2.03	MCG 0.59	60/40 0.53	IBD 2.02
	IBD 0.66	SCG 0.71	LCG 0.87	RE -0.85	60/40 1.57	LCG 0.86	RE -1.61	LCV -2.21	LCV -6.49	LCG 1.02	IEQ 0.40	EM 0.64	SCG -1.12	MCV -0.18	LCV -0.85	USB -0.03	MCV -0.01	LCV -2.94	EM 0.42	LCV -2.29	EM 0.45	IBD 0.21	MCV 1.11
	LCG 0.63	LCG 0.63	IBD 0.69	LCG -1.06	HYB 0.94	EM 0.61	LCV -1.97	RE -2.55	MCV -6.72	HYB 0.99	USB 0.33	IBD 0.48	MCV -1.26	IBD -0.47	SCV -1.05	LCV -0.07	USB -0.02	SCG -3.12	USB 0.12	LCG -2.33	USB 0.08	USB 0.08	USB 0.66
	LCV 0.53	IBD 0.24	HYB 0.47	MCG -1.38	IBD 0.24	HYB 0.12	SCV -2.53	MCV -2.69	SCG -6.98	USB 0.10	IBD -0.06	HYB 0.41	RE -1.35	IEQ -0.54	RE -1.26	HYB -0.07	MCG -0.08	MCV -3.16	HYB 0.04	SCV -2.54	HYB -0.57	IEQ -0.18	HYB -0.59
Low	USB -0.06	USB 0.09	USB -0.25	EM -1.41	USB 0.06	USB 0.11	MCV -2.62	SCV -4.06	SCV -8.38	IBD -0.62	EM -0.90	USB -0.20	SCV -2.65	RE -1.07	MCV -1.29	RE -0.19	RE -0.30	SCV -3.74	IBD -0.66	SCG -2.54	IBD -0.71	EM -0.32	LCV -0.71

Legend

60/40 Allocation (60/40)	Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
	Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	Real Estate (RE)

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds June be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.

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