MONTHLY MARKET REVIEW

05 2020

Strategic Investment Group®

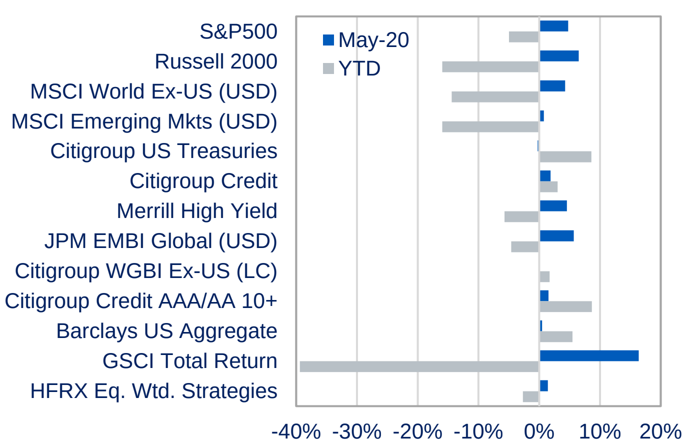
Global Market Review

Macro Summary

The U.S. stock market has taken investors on a wild roller coaster ride this year. After a peak-to-trough fall of about one third, the S&P 500 set a record for the shortest bear market in history, rebounding from its March 23 low to close at end-May down 5% so far in 2020. The recovery was highly concentrated on the usual suspects of large capitalization, growth stocks in the tech sector. Non-U.S. developed and emerging equity markets traced a similar trajectory, but underperformed the U.S. by a wide margin. Long-dated U.S. Treasuries remain the best performing asset this year, gaining over 20%. Oil prices have also taken investors on a rollicking roller coaster ride, gaining 87% in May, yet remaining down over 40% for the year.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Wild swings in sentiment and markets.

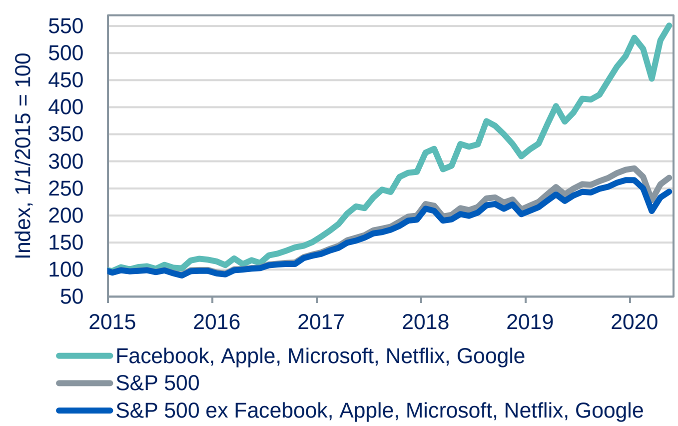
FANG Stocks Increase U.S. Market Dominance

U.S. equities extended their April rally in May as the S&P 500 rose 4.8% to notch its best two-month performance since 2009. Investors were encouraged by signs of loosening lockdowns and unprecedented levels of monetary and fiscal stimulus. The S&P 500 has risen 36% from its March 23 low to close less than 10% below its record high in February. The market ebullience stood in contrast to bleak economic news as new unemployment claims crossed 40 million, the unemployment rate surged from an all-time low to 14.7%, and U.S. consumer spending fell by a record 13.6%.

Mega-cap technology companies played an outsized role in the rally, with Facebook, Apple, Microsoft, Netflix and Google rising 5.2% during the month (Exhibit 1). Following years of outsized gains, the market's five biggest stocks—Apple, Amazon, Microsoft, Google and Facebook—now represent 21% of the S&P 500's market value, equivalent to the combined weights of the financials, industrials, and energy sectors. Large cap growth stocks have continued to outperform other market segments so far this year, rising 5.2% compared with the 15.7% decline of large cap value stocks. Following the trend of past years, the tech sector has outperformed all others in 2020, gaining 7%, compared with steep declines of stocks in the energy (-36.1%), financial (-24.4%) and industrial (-15.3%) sectors. The forward price/earnings multiple for the S&P 500 rose above 23, its highest since the early 2000s, as almost 95% of in the index ended May trading above their 50-day moving averages.

Exhibit 1. Mega-cap Technology Stocks Dominate

Source: Bloomberg.



1001 Nineteenth Street North
16th Floor
Arlington, VA 22209 USA

+1 703.243.4433 TEL
+1 703.243.2266 FAX

strategicgroup.com

Easing Lockdowns and Policies Support Developed Market Gains

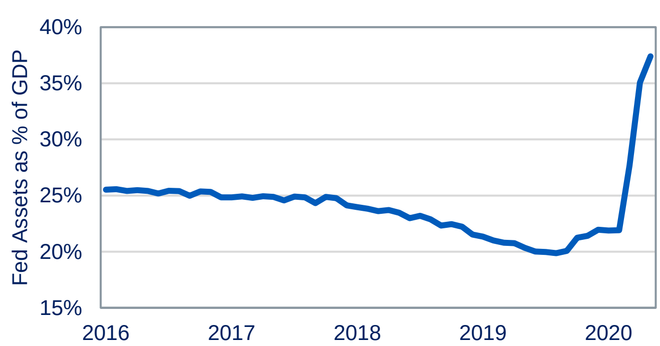
The MSCI World ex-US index of developed equity markets added to its strong performance in April to rise 4.3% in May. Nevertheless, it remains down 14.4% so far in 2020. Japanese stocks enjoyed particularly strong gains in May, rising 5.9% as the government lifted the state of emergency and launched a massive stimulus package. The 4.6% May rally in European equity markets was also strong as enthusiasm over easing lockdowns and large stimulus measures triumphed over fears of sharp economic contractions. The Bank of England set the economic tone, projecting that the U.K. economy could decline 14% in 2020, the steepest decline since 1706 (the time of the South Sea bubble).

Returns across emerging markets were mixed in May as the MSCI emerging markets index eked out a gain of 0.8%. Chinese equities fared worst, with domestic A-Shares falling 2.0% and the Hong Kong market losing 4.8% on concerns of rising trade and geopolitical tensions with the U.S. in response to a controversial new security law governing Hong Kong that threatens its special status. Emerging equity markets in Europe and Latin America performed better, gaining 3.6% and 6.2%, respectively in May. For the year, however, emerging equities remain down nearly 16%.

Corporate Bonds Rally despite Record Issuance

U.S. Treasury yields were little changed in May as the market continues to price in low growth and inflation. The real yield on 10-year TIPS remains negative (-0.5%) and implied inflation expectations suggest that inflation will average just over 1% for the next 10 years. Deflationary trends were evident outside of the U.S. as well. The U.K. issued its first bond priced with a negative yield, joining several other European countries and Japan with bonds priced at negative yields. Advanced sovereign bond markets are little changed so far in 2020 as yields have not moved much from very low, and negative levels.

Exhibit 2. Federal Reserve Goes on a Shopping Spree
Source: FRED as of May 27, 2020.



U.S. corporate bond yield spreads narrowed in May despite this year's record issuance of $1.2 trillion and a large number of rating downgrades and fallen angels (issuers losing investment grade status). This year's issuance has sent the outstanding stock of U.S. corporate bonds soaring to a record 30% of GDP. The Fed's record pace of balance sheet expansion and its unprecedented initiative to purchase both investment grade and high yield corporate bonds was the main impetus for the U.S. corporate bond market's rebound in May (Exhibit 2). The high yield sector led the advance, gaining 4.9%. For the year to date, however, high yield bonds remain down 5.6% compared with a gain of 5.5% for investment grade credit. Credit markets in other advanced economies remain down for the year despite a significant bounce in May. Emerging bonds have fallen so for this year by 4.6%, despite the 8.1% rebound in May.

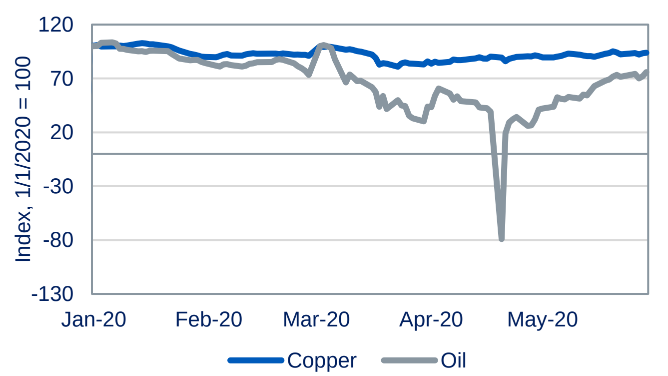
Hedge Funds Rise

The HFRX Equal Weighted Strategies index rose 1.4% in May, bringing its gains to 4.7% since end-March. All sub-strategies earned positive returns in May, led by equity market neutral and event-driven strategies. Macro hedge funds in contrast struggled, as bond yields remained low. Notwithstanding, May's gains, hedge funds as a group are down 2.7% so far in 2020.

Wild Swings in Oil Prices Drive Commodity Returns

The GSCI surged 16.4% in May, led by oil (Exhibit 3). Despite this surge, commodities are down 39.4% for the year, largely reflecting oil's 41% decline. Copper prices, which like oil are widely seen as a barometer for global economic prospects, are little changed this year.

Exhibit 3. Copper Steady as Oil Prices Plunge and Spike
Source: FRED, Bloomberg.



Performance of Major Market Indices through 05-31-2020
Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	4.8%	18.2%	-5.0%	12.8%	10.2%	9.9%
Russell 2000	6.5%	21.1%	-15.9%	-3.4%	2.0%	3.7%
MSCI World Ex-US (USD)	4.3%	11.5%	-14.4%	-3.1%	-0.3%	0.7%
MSCI Emerging Mkts (USD)	0.8%	10.0%	-16.0%	-4.4%	-0.2%	0.9%
Citigroup US Treasuries	-0.3%	0.5%	8.6%	11.3%	5.5%	3.8%
Citigroup Credit	1.9%	6.6%	3.0%	9.6%	5.6%	4.9%
Merrill High Yield	4.6%	9.2%	-5.7%	0.3%	2.6%	4.1%
JPM EMBI Global (USD)	5.7%	8.1%	-4.6%	1.8%	2.3%	4.2%
Citigroup WGBI Ex-US (LC)	-0.1%	0.8%	1.7%	3.7%	2.9%	2.8%
Citigroup Credit AA/AA 10+	1.5%	5.0%	8.7%	18.8%	10.0%	8.4%
Barclays US Aggregate	0.5%	2.3%	5.5%	9.4%	5.1%	3.9%
GSCI Total Return	16.4%	5.1%	-39.4%	-34.3%	-10.8%	-13.4%
HFRX Eq. Wtd. Strategies	1.4%	4.7%	-2.7%	1.5%	-0.1%	0.3%