

Global Economy

While economic data continues to reflect the extreme impacts of the COVID-19 pandemic, global markets remained tilted toward optimism in May. With a sense of hope in gradual re-openings and underlying trends, volatility continued its decline and investors re-risked portfolios despite pressured US-China relations and evidence of social turmoil. The bull case rests on the efficacy of fiscal and monetary policy support, the pace of economic recovery mimicking that of China, and the avoidance of material "second wave" infections. Acknowledging how forecasts in this environment are of limited use, contractions in both supply and demand suggest global GDP will decline between 4.5% and 5.0% for 2020. In the midst of one of the sharpest recessions in history, valuations provide limited cushion against a bumpy path forward.

The Federal Open Market Committee (FOMC) did not formally meet in May, but the mid-month airing of Chairman Powell's interview with *60 Minutes* captured much attention. Without minimizing that "this is a time of great suffering and difficulty," he reiterated confidence in the Fed's ability to "buy time" with virtually unlimited policies that keep businesses and ultimately people out of insolvency. While barely starting to tap the vast firepower available through emergency lending facilities already announced, the balance sheet of the Fed expanded to \$7.2 trillion in May.

The second estimate of 1Q-20 real GDP indicated a contraction of -5.0% annualized, with a downward adjustment to inventories offsetting slight upward revisions to consumer spending and nonresidential fixed investment. Analysts are bracing for a significantly worse drop for 2Q-20, with estimates ranging from -25% to -50% annualized. A recovery in the second half of the year is broadly expected, although the pace at which this occurs could influence US elections.

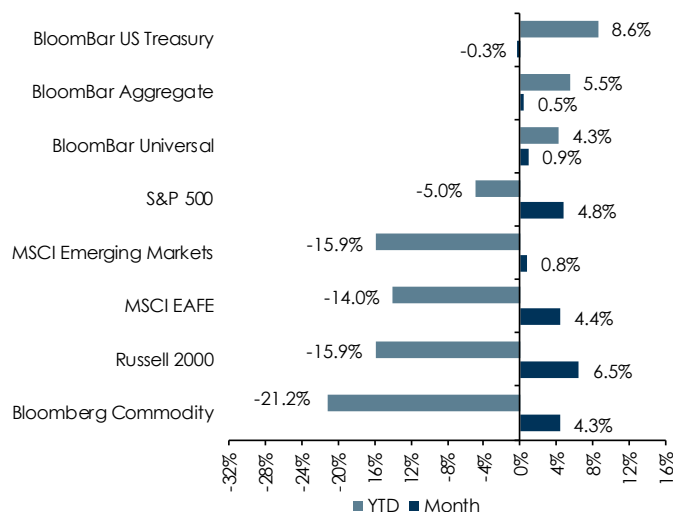
More than 42 million US workers have filed initial unemployment claims since mid-March. With that as a backdrop, it surprised markets when the government's surveys indicated that 2.5 million jobs were added in May and that the official unemployment rate fell back to 13.3%. It's not clear how enduring this trend will be as activity resumes, but a key factor for consumption will be understanding whether virus-related job losses are indeed temporary. Inflation expectations moved slightly higher during the month, but remain quite anchored for the decade ahead. Core CPI is now only +1.4% year-over-year, while the FOMC's preferred measure, Core PCE, edged down to just +1.0% year-over-year through April.

| | Current | Dec-19 |
|------------------------|-------------|-------------|
| US GDP (%) | -5.00 | 2.10 |
| US Unemployment (%) | 13.30 | 3.50 |
| CPI (Core) (%) | 1.40 | 2.30 |
| Fed Funds (%) | 0.00 – 0.25 | 1.50 – 1.75 |
| 10 Year UST Yld (%) | 0.65 | 1.92 |
| S&P 500 Div Yld (%) | 1.99 | 1.82 |
| S&P 500 P/E (Trailing) | 21.18 | 21.60 |
| Gold/oz. | \$1,736.90 | \$1,523.10 |
| Oil (Crude) | \$35.49 | \$61.06 |
| Gasoline (Natl Avg) | \$2.05 | \$2.66 |
| USD/Euro | \$1.11 | \$1.12 |
| USD/GBP | \$1.23 | \$1.33 |
| Yen/USD | ¥107.83 | ¥108.61 |

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity sectors and indices were positive in May amid optimism that the worst of the economic shock from COVID-19 had passed. The S&P 500, which represents large US-based entities, continued to recover from March's steep drop with a +4.8% return. Information Technology (+6.8%) and Materials (+6.7%) led the way with Communication Services (+6.0%) and Industrials (+5.0%) also posting above-average returns. Energy (+0.7%) and Consumer Staples (+1.4%) were the relative laggards. Small cap stocks, as represented by the Russell 2000, continued to perform strongly, with a +6.5% return in May. Among the sectors, Consumer Discretionary (+17.0%) was a positive outlier. Energy was the only negative performer (-3.3%) after leading the way the month before. Across the market capitalization spectrum, Growth resumed its advantage over Value.

In the broad international developed markets, the MSCI EAFE index rose +4.4% as all sectors and countries participated in the rally. Led by Materials (+7.7%), Industrials (+7.3%), and IT (+7.2%), there was broad support for the markets, with Real Estate (-0.7%) being a notable laggard. Germany (+8.9%) continued to do well during the month, with most other countries generally in the 4% to 7% range. Hong Kong (-8.4%) and Singapore (-3.2%) were relative underperformers as relations with China drove increased concern in the Pacific ex-Japan region.

Emerging market stocks, as represented by the MSCI Emerging Markets index, underperformed their developed market counterparts at +0.8%. Brazil continued to recover (8.5%), but remains down more than 40% year-to-date. Dominant markets in Asia were soft, with China (-0.5%), Taiwan (-2.5%), and India (-2.8%) all losing ground.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, largely failed to participate in the rally with a return of just +0.3% amid structural headwinds. The energy-related Alerian MLP index improved more significantly, advancing 9.0%. The near-month NYMEX oil contract nearly doubled in May (+88.4%), but remains off by -41.9% year-to-date. Gold extended its 2020 rally, adding +2.5% for the month. The diversified Bloomberg Commodity index displayed a better tone (+4.3%) for the month as broad-based demand for most commodities began to recover.

Global Markets (continued)

US Treasury (UST) yields held relatively steady across the board in May, generally failing to confirm the optimism that boosted risk assets. While the effect of the Fed's expanded asset purchase capabilities cannot be ignored, the volume of deficit-related UST supply has extended the steepening bias for the government yield curve. The 2-year UST yield ended the month lower at 0.16%, while the 30-year UST yield finished higher at 1.41%. Given this backdrop, the overall UST complex gave up some performance on the long end, but year-to-date returns remain impressive at +8.6%. As sovereign yields outside of the US were mixed, the global stock of negative yielding debt expanded to \$12.7 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads recovered materially. With a gain of 0.5% in May, the benchmark's trailing 12-month performance of +9.4% remains impressive given prevailing yield levels. Despite record-setting new issuance, IG corporates have been well supported by the Fed's announced intent to embark on both primary and secondary market purchases. Corporate spreads improved by another 28 bps for the month, with BBB-rated issues again recovering most dramatically. As wider MBS spreads offset improvements across other categories, the benchmark's yield-to-worst was stable at just 1.34%.

The BloomBar 1-15-Year Municipal index outperformed in May, with the return of 2.8% representing the highest monthly gain in over a decade. Although the Fed's new Municipal Liquidity Facility has not yet been utilized, and fiscal policy support remains uncertain, tax-exempt yields moved lower amid strong technicals and Municipal/UST ratios compressed.

The BloomBar US Corporate High Yield index returned +4.4% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 107 bps tighter on average, although the credit curve remains steep. All-in yields have fallen back to 7.0%, even as default rates pushed ahead of the long-term average. Bank loans continued to recover, and emerging market bonds of all varieties produced solid returns as investors sought enhanced income.

Selected Bond Yields

| 10 Year Sovereign Bond Yields (%) | | |
|-----------------------------------|---------|--------|
| | Current | Dec-19 |
| Japan | 0.00 | -0.02 |
| Germany | -0.45 | -0.19 |
| France | -0.08 | 0.12 |
| United Kingdom | 0.18 | 0.82 |
| Spain | 0.56 | 0.46 |
| United States | 0.65 | 1.92 |
| Italy | 1.47 | 1.41 |
| Mexico | 6.14 | 6.89 |
| Brazil | 7.20 | 6.79 |

Source: Bloomberg

Indices Report (Periods Ending May 31, 2020)

| Index Name | 1 Month (%) | YTD (%) | 1 Year (%) | 3 Years (%) | 5 Years (%) | 10 Years (%) | 15 Years (%) |
|-----------------------------|-------------|---------|------------|-------------|-------------|--------------|--------------|
| Equity | | | | | | | |
| S&P 500 | 4.76 | -4.97 | 12.84 | 10.23 | 9.86 | 13.15 | 8.70 |
| Russell 1000 | 5.28 | -4.91 | 12.54 | 10.09 | 9.58 | 13.07 | 8.78 |
| Russell 1000 Growth | 6.71 | 5.23 | 26.25 | 17.21 | 14.50 | 16.07 | 10.98 |
| Russell 1000 Value | 3.43 | -15.70 | -1.64 | 2.60 | 4.36 | 9.85 | 6.36 |
| Russell 2500 | 7.39 | -13.55 | -0.80 | 3.95 | 4.67 | 10.32 | 7.87 |
| Russell 2000 | 6.51 | -15.95 | -3.44 | 1.98 | 3.72 | 9.23 | 7.04 |
| Russell 2000 Growth | 9.45 | -6.65 | 7.32 | 7.72 | 6.34 | 11.72 | 8.80 |
| Russell 2000 Value | 2.87 | -25.65 | -14.69 | -4.16 | 0.71 | 6.54 | 5.07 |
| Wilshire 5000 Cap Wtd | 5.20 | -5.51 | 11.59 | 9.60 | 9.37 | 12.84 | 8.75 |
| MSCI ACWI | 4.41 | -8.94 | 5.98 | 5.75 | 5.86 | 9.05 | 6.84 |
| MSCI ACWI ex US | 3.32 | -14.65 | -3.01 | 0.23 | 1.27 | 4.85 | 4.73 |
| MSCI EAFE | 4.42 | -14.03 | -2.40 | 0.11 | 1.27 | 5.76 | 4.43 |
| MSCI EAFE Local Currency | 4.12 | -12.59 | -2.31 | 0.60 | 1.66 | 6.77 | 5.02 |
| MSCI EAFE Growth | 5.50 | -6.34 | 7.79 | 4.95 | 4.70 | 7.83 | 5.92 |
| MSCI EAFE Value | 3.13 | -21.80 | -12.57 | -4.90 | -2.33 | 3.55 | 2.82 |
| MSCI Emerging Markets | 0.79 | -15.90 | -4.02 | 0.22 | 1.25 | 2.82 | 6.42 |
| Fixed Income | | | | | | | |
| ICE SofA ML 1-3 Yr Treasury | 0.06 | 2.91 | 4.57 | 2.65 | 1.84 | 1.37 | 2.30 |
| BloomBar US Aggregate | 0.47 | 5.47 | 9.42 | 5.07 | 3.94 | 3.92 | 4.39 |
| BloomBar Gov't Bond | -0.24 | 8.50 | 11.24 | 5.45 | 3.85 | 3.50 | 4.04 |
| BloomBar US Credit | 1.63 | 2.94 | 9.54 | 5.59 | 4.79 | 5.25 | 5.19 |
| BloomBar 10 Yr Municipal | 3.27 | 1.82 | 4.46 | 4.01 | 3.98 | 4.44 | 4.61 |
| BloomBar US Corp High Yield | 4.41 | -4.73 | 1.32 | 3.04 | 4.27 | 6.71 | 6.91 |
| FTSE World Gov't Bond | 0.20 | 3.42 | 6.36 | 3.72 | 3.51 | 2.47 | 3.18 |
| BloomBar Global Aggregate | 0.44 | 2.08 | 5.59 | 3.46 | 3.28 | 2.88 | 3.45 |
| BloomBar Multiverse | 0.66 | 1.57 | 5.22 | 3.37 | 3.34 | 3.02 | 3.58 |
| Real Assets | | | | | | | |
| FTSE NAREIT US Real Estate | 0.19 | -21.12 | -14.55 | -0.25 | 2.47 | 8.17 | 6.15 |
| FTSE EPRA/NAREIT Dev RE | 0.29 | -23.01 | -16.27 | -1.26 | 0.87 | 6.68 | 4.93 |
| Bloomberg Commodity | 4.34 | -21.20 | -17.06 | -6.90 | -7.79 | -6.00 | -4.38 |
| Cash and Equivalents | | | | | | | |
| US T-Bills 90 Day | 0.00 | 0.58 | 1.84 | 1.79 | 1.19 | 0.64 | 1.37 |

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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