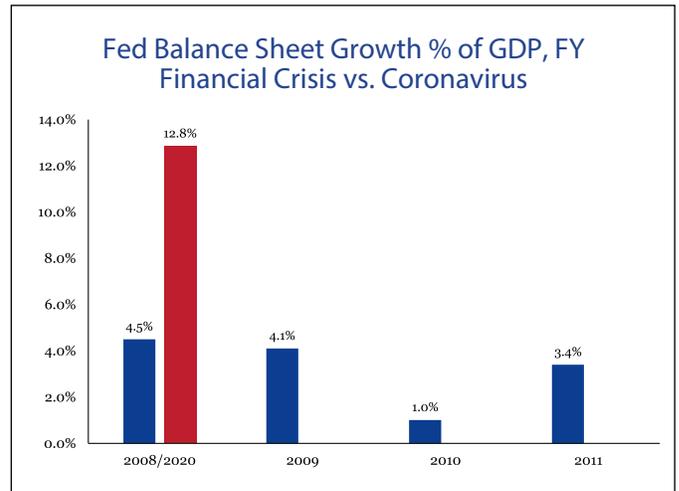




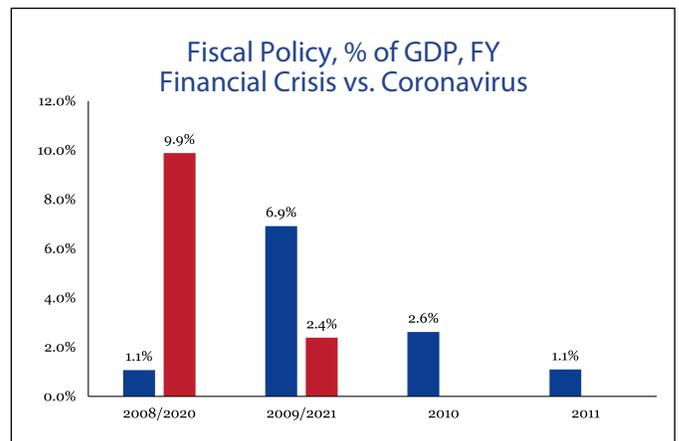
### Economic Summary

U.S. equity investors in Q1 witnessed one of the worst quarterly stock market returns in history, with the S&P 500 down 19.6%. However, Q2 had one of the best quarterly stock market returns ever, as the index rose 20.5%. In Q1, coronavirus fears and economic lockdowns crippled consumers, businesses and ultimately investors. Panicked investors liquidated their stock portfolios, driving prices down. With the markets in free fall, the Federal Reserve unleashed a massive monetary policy response (CHART 1), while Congress and the Trump Administration launched a \$3 trillion fiscal stimulus program (CHART 2). Both charts show the amount of spending as a percent of GDP for the coronavirus health crisis compared to the 2008-2009 financial crisis. In dollar terms, the 2020 monetary and fiscal programs total more than \$6 trillion in emergency measures. Q2 saw a sharp bounce-back in economic activity, as states began to lift lockdowns and businesses re-opened. As fear dissipated and confidence returned, stock prices rebounded sharply. Recent economic indicators such as employment, consumer sentiment, and industrial production point to continued recovery. Further good news is that the medical and healthcare industries are pouring vast resources into discovering viable therapeutics and hopefully a vaccine for COVID-19.



**Chart 1**

SOURCE: STRATEGAS RESEARCH PARTNERS  
"QUARTERLY REVIEW IN CHARTS" – JULY 1, 2020



**Chart 2**

SOURCE: STRATEGAS RESEARCH PARTNERS  
"QUARTERLY REVIEW IN CHARTS" – JULY 1, 2020

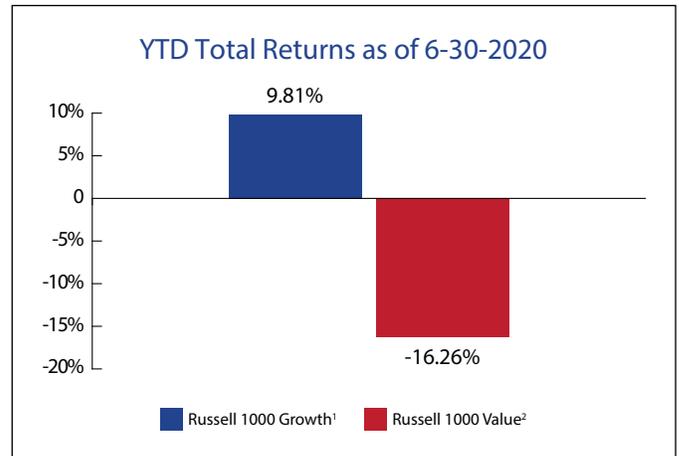
**Past performance does not guarantee future results.**

### The Stock Market

The bifurcation between growth and value stocks continues, as the Russell 1000® Growth Index has outperformed the Russell 1000® Value Index by just over 26% through the first half of the year (CHART 3). Likewise, the mega-cap growth stocks continue to drive the performance of the S&P 500®. The combined weight of the five largest S&P 500® stocks – Amazon, Apple, Facebook, Alphabet (GOOGLE), Microsoft – is at a record 22% of the index (CHART 4).

The rising popularity of passive investing has perpetuated the outperformance of the largest companies. As a result, large-caps have continued to outperform small-caps (CHART 5), as the S&P 500® has outperformed the Russell 2000® by nearly 10% so far this year.

We have written in the past about the acronym TINA (THERE IS NO ALTERNATIVE), and with yields on high-quality bonds so low, investors searching for returns have little to no alternatives than to own common stocks. For example, the dividend yield on the S&P 500® at quarter-end was 1.92% and the yield on a 10-year U.S. Treasury Note was 0.65%. So an investor can earn almost 3x the current yield by owning the S&P 500® Index compared to owning the 10-year U.S. Treasury! At a yield-to-maturity of 0.65%, there is little upside to the 10-year Treasury – even if yields


**Chart 3**

SOURCE: MORNINGSTAR DIRECT


**Chart 4**

 SOURCE: STRATEGAS RESEARCH PARTNERS  
 "QUARTERLY REVIEW IN CHARTS" – JULY 1, 2020

**Past performance does not guarantee future results.** You cannot invest directly in an index.

<sup>1</sup> 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 values.

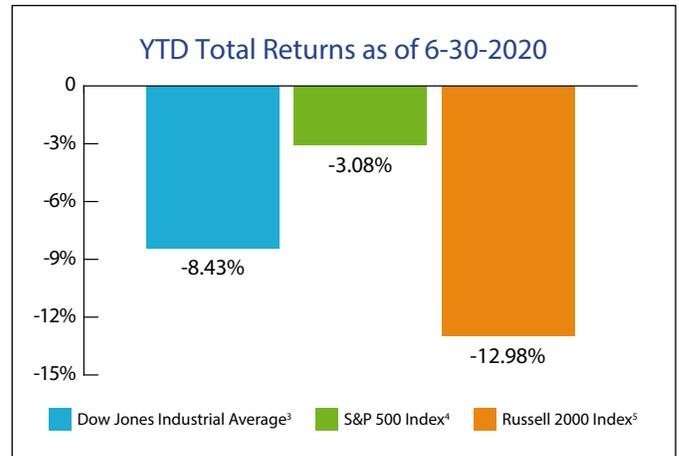
<sup>2</sup> The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

continue to fall. In this context, the attractiveness of owning the S&P 500® Index is readily apparent.

### *The Bond Market*

The 10-year U.S. Treasury Note started and ended the quarter at roughly 0.7%. It's hard to believe the Fed Funds rate was 1.50-1.75% at the beginning of the year and currently the 30-year U.S. Treasury Bond yields 1.4%. The actions of the Federal Reserve (THE "FED") continue to depress interest rates. Some Fed watchers believe the next policy announced by the Fed could be yield curve control. In doing so, the Fed would effectively limit how high longer-term yields could go in the Treasury market. As most borrowing rates in the economy are based off corresponding Treasuries, the implementation of yield curve control could be economically impactful.

Corporate credit spreads tightened during the second quarter, and investors embraced riskier assets. Currently, spreads are nearly back to where they were pre-coronavirus, and underlying U.S. Treasury rates have decreased, handing investors lower yields-to-maturity.



**Chart 5**

SOURCE: MORNINGSTAR DIRECT

**Past performance does not guarantee future results.** You cannot invest directly in an index.

<sup>3</sup> The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

<sup>4</sup> The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

<sup>5</sup> The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. You cannot invest directly in an index.

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