

Outlook for July 2020

Second Quarter Recap and Key Market Drivers

When COVID-19 first appeared on our shores, many analysts expected the impact to be akin to a natural disaster such as a hurricane or earthquake. Under this scenario, any lost production would be recovered quickly over subsequent quarters. When the situation intensified and led to a virtual lockdown of the global economy in March and April, focus shifted towards the longer-term damage on specific industries and sectors of the economy.

Better than expected economic data in May and June increased confidence that the lockdown-induced decline bottomed in April. Various purchasing managers and consumer sentiment surveys and statistics from housing, durable goods orders, employment, and consumer spending helped confirm the sharp equity rally. By the end of second quarter, global equities and other risk-based assets had retraced a good portion of their first-quarter losses. This sharp rebound was a function of aggressive fiscal, monetary, and social policies, and hope the economy would fully reopen in the third quarter.

The stimulus checks, enhanced unemployment benefits, and business loans provided at the beginning of the crisis were meant to replace lost income and keep businesses solvent during the lockdown. Even though the jury is still out on the effectiveness of these initiatives, many are calling for another large fiscal package. However, there are concerns that the enhanced benefits may be disincentivizing individuals from returning to work. As such, it will likely take a notable deterioration in the equity markets or economic statistics to spur Congress to act.

As we head into third quarter, there are a few byproducts of the COVID-19 crisis that bear watching:

Trade. China's perceived lack of transparency about the virus appears to have broken the fragile trade détente between the U.S. and China. Towards the end of the second quarter, trade frictions extended to Europe as the U.S. threatened retaliatory tariffs if Europe imposes a digital tax on U.S. technology companies.

U.S. elections. Recent events have widened Joe Biden's lead over President Trump in the polls, increasing the probability of Democrats winning control of the Senate in the fall. History has shown no discernible difference in long-term equity market performance among the parties. That said, the rising probability of a Democratic sweep can be viewed as another near-term headwind for markets, given the strong advance seen in the second quarter.

Unemployment. The potential loss of state and local government jobs due to dramatic budget cuts could further slow the economic recovery unless Congress passes a substantial fiscal aid package.

Inflation. Concerns exist around the inflationary implications of the unprecedented expansion of monetary policy. But as of now, there is no indication of inflationary pressures. The global economy remains far from producing and consuming at full capacity.

Our Perspective

Equity Markets



- One of the primary criticisms of the equity market advance was that it wasn't broad enough to be sustained. A few companies in a limited number of sectors dominated the rebound. Technology, health care, and certain consumer discretionary companies should continue to benefit from the shift to working from home, the search for treatments and vaccines, and the continued rise of online shopping.
- Energy and energy capital expenditures could have a weak recovery, given the 35% year-to-date decrease in oil prices.
- Certain subsectors of the real estate market could face challenges through the end of the year. The need for rent abatements due to business and office closures could impact malls and commercial real estate.

Bond Markets



- The fixed income markets saw minimal movement in longer-term rates over the quarter. However, the Treasury yield curve did steepen slightly as shorter-term rates declined with the aggressive Fed ease.
- The Fed's unprecedented purchases of lower-rated and sometimes below-investment-grade securities buoyed the U.S. high-yield markets.
- Emerging market debt received a boost from the early reopening of Asian economies and the recovery in energy prices from the deep declines at the beginning of the quarter.

Monetary Policies/ Currencies



- The unprecedented expansion of monetary policy had little to do with decreasing the already low fed funds rate, but more with ensuring liquidity to the markets and preventing the seizures experienced during the financial crisis of 2008-2009.
- The Fed's aggressive policy and commitment to maintaining rates at existing levels for the foreseeable future have allowed multiples on projected earnings to expand. In other words, investors should be willing to pay more for corporate earnings, given the relatively weak returns from competing asset classes such as fixed income and cash.

What This Means for Investors

The May/June economic rebound could merely be a sign of pent-up demand exploding out of the gate as the economy reopened, not a sustained recovery. The willingness of consumers to fully re-engage remains to be seen, given the continued pandemic conditions. Investors should be wary of a recurrence of virus infections and the longer-term economic damage caused by the lockdown.

For more market insights, contact a Cerity Partners advisor or visit ceritypartners.com.

Index Performance Data							
	2Q 2020	YTD 2020	3-Year Annualized		2Q 2020	YTD 2020	3-Year Annualized
Equity Index Returns				Fixed Income Returns			
Dow Jones	18.51%	-8.43%	9.08%	Barclays Aggregate Bond Index	2.90%	6.14%	5.32%
S&P 500	20.54%	-3.08%	10.73%	Barclays 1-10 Year Municipal Bond	2.69%	2.12%	3.29%
Russell 2500	26.56%	-11.05%	4.08%	Merrill Lynch High Yield Master II	9.61%	-4.78%	2.94%
MSCI ACWI	19.22%	-6.25%	6.14%	Citi World Government Bond Index	1.16%	5.17%	5.57%
MSCI EAFE	14.88%	-11.34%	0.81%	JPM Emerging Markets Bond Index Global	11.21%	-1.87%	3.31%
MSCI Emerging Markets	18.08%	-9.78%	1.90%	Barclays TIPS	4.24%	6.01%	5.05%
				Citi U.S. 3-Month T-Bill	0.14%	0.52%	1.72%
Other Index Returns							
MSCI U.S. REIT	11.70%	-18.45%	0.08%	Source: FactSet *HFRI FoF Index Performance as of 5/31/2020 **Returns are total returns except for the Dow Jones & MSCI US REIT (price returns) ***Citi World Government Bond Index is the hedged index			
Bloomberg Commodity Index	5.08%	-19.40%	-6.14%				
HFRI FoF Index	6.10%	-3.24%	1.67%				



Second Quarter Market Summary

		3Q19	4Q19	1Q20	2Q20	YTD	1-Year	Annualized		
								3-Year	5-Year	10-Year
U.S. Equity Benchmarks		Price								
Dow Jones Industrial	25,813	1.83	6.67	(22.73)	18.51	(8.43)	(0.54)	9.08	10.62	12.99
NASDAQ Index Composite	10,059	0.18	12.47	(13.95)	30.95	12.67	26.94	19.14	16.36	18.25
S&P 500	3,100	1.70	9.07	(19.60)	20.54	(3.08)	7.51	10.73	10.73	13.99
Russell 1000 (Large Cap)	1,717	1.42	9.04	(20.22)	21.82	(2.81)	7.48	10.64	10.47	13.97
Russell 1000 Growth	1,933	1.49	10.62	(14.10)	27.84	9.81	23.28	18.99	15.89	17.23
Russell 1000 Value	1,113	1.36	7.41	(26.73)	14.29	(16.26)	(8.84)	1.82	4.64	10.41
Russell Mid Cap	2,145	0.48	7.06	(27.07)	24.61	(9.13)	(2.24)	5.79	6.76	12.35
Russell Mid Cap Growth	1,276	(0.67)	8.17	(20.04)	30.26	4.16	11.91	14.76	11.60	15.09
Russell Mid Cap Value	1,766	1.22	6.36	(31.71)	19.95	(18.09)	(11.81)	(0.54)	3.32	10.29
Russell 2000 (Small Cap)	1,441	(2.40)	9.94	(30.61)	25.42	(12.98)	(6.63)	2.01	4.29	10.50
Russell 2000 Growth	1,050	(4.17)	11.39	(25.76)	30.58	(3.06)	3.48	7.86	6.86	12.92
Russell 2000 Value	1,457	(0.57)	8.49	(35.66)	18.91	(23.50)	(17.48)	(4.35)	1.26	7.82
S&P GICS Sectors		Weight								
Consumer Discretionary	10.8%	0.51	4.47	(19.29)	32.86	7.23	12.59	15.29	13.21	18.19
Consumer Staples	7.0%	6.11	3.51	(12.74)	8.12	(5.66)	3.62	5.03	7.22	11.79
Energy Sector	2.8%	(6.30)	5.49	(50.45)	30.51	(35.34)	(36.09)	(12.46)	(9.18)	0.21
Financials	10.1%	2.01	10.47	(31.92)	12.20	(23.62)	(13.92)	0.11	5.41	9.68
Health Care	14.6%	(2.25)	14.37	(12.67)	13.59	(0.81)	10.90	10.30	8.14	15.72
Industrials	8.0%	0.99	5.53	(27.05)	17.01	(14.64)	(9.02)	1.91	6.73	11.76
Information Technology	27.5%	3.34	14.40	(11.93)	30.53	14.95	35.90	26.83	23.41	20.49
Materials	2.5%	(0.12)	6.38	(26.14)	26.01	(6.92)	(1.11)	3.90	5.44	9.85
Communication Services	10.8%	2.22	9.00	(16.95)	20.04	(0.31)	11.08	8.58	7.18	10.58
Utilities	3.1%	9.33	0.75	(13.50)	2.73	(11.14)	(2.11)	6.41	10.17	11.31
Real Estate	2.8%	7.71	(0.54)	(19.21)	13.22	(8.53)	(2.01)	6.33	8.01	11.77

		3Q19	4Q19	1Q20	2Q20	YTD	Annualized			
							1-Year	3-Year	5-Year	10-Year
Global Equity Benchmarks		Price								
MSCI ACWI	2,202	(0.03)	8.95	(21.37)	19.22	(6.25)	2.11	6.14	6.46	9.16
MSCI AC World x-USA	265	(1.80)	8.92	(23.36)	16.12	(11.00)	(4.80)	1.13	2.26	4.97
MSCI EAFE	1,781	(1.07)	8.17	(22.83)	14.88	(11.34)	(5.13)	0.81	2.05	5.73
MSCI EAFE Growth	1,713	(0.45)	8.45	(17.51)	16.95	(3.53)	4.15	5.91	5.52	7.78
MSCI EAFE Value	2,226	(1.74)	7.82	(28.20)	12.43	(19.27)	(14.48)	(4.43)	(1.59)	3.53
MSCI Emerging Markets	995	(4.25)	11.84	(23.60)	18.08	(9.78)	(3.39)	1.90	2.86	3.27
MSCI BRIC	311	(4.56)	13.13	(20.93)	16.91	(7.55)	(0.18)	6.05	4.54	2.97
MSCI Japan	3,155	3.13	7.64	(16.79)	11.61	(7.12)	3.10	2.97	3.45	6.09
Interest Rates		Yield								
3m Treasury Bill	0.16	0.50	0.40	0.28	0.04	0.31	1.22	1.64	1.13	0.59
U.S. LIBOR 3m	0.30	0.55	0.48	0.38	0.15	0.53	1.58	1.96	1.47	0.89
U.S. Treasury 3m	0.18	0.41	0.40	0.28	0.06	0.34	1.15	1.91	1.60	1.14
U.S. Treasury 10yr	0.65	0.45	0.45	0.34	0.17	0.51	1.42	2.24	2.17	2.27
U.S. Treasury 30yr	1.41	0.57	0.56	0.47	0.34	0.81	1.96	2.64	2.70	3.05
Fixed Income		Price								
Citi 3-month T-bill	659	0.56	0.46	0.39	0.14	0.52	1.56	1.72	1.15	0.61
BC U.S. Gov't & Related 5-7	109	2.15	0.17	1.65	3.63	5.34	7.78	5.49	4.31	4.12
BC Municipal Bond 1-10 Year	113	0.81	0.86	(0.56)	2.69	2.12	3.83	3.29	2.97	3.09
BC TIPS	111	1.35	0.79	1.69	4.24	6.01	8.28	5.05	3.75	3.52
BC Aggregate	110	2.27	0.18	3.15	2.90	6.14	8.74	5.32	4.30	3.82
ML High Yield Master II	95	1.22	2.61	(13.12)	9.61	(4.78)	(1.10)	2.94	4.58	6.48
Citi World Gov't Bond Index	971	3.08	(1.44)	3.97	1.16	5.17	6.85	5.57	4.65	4.07
JPMorgan EMBI Global	865	1.34	2.09	(11.76)	11.21	(1.87)	1.52	3.31	5.12	5.82

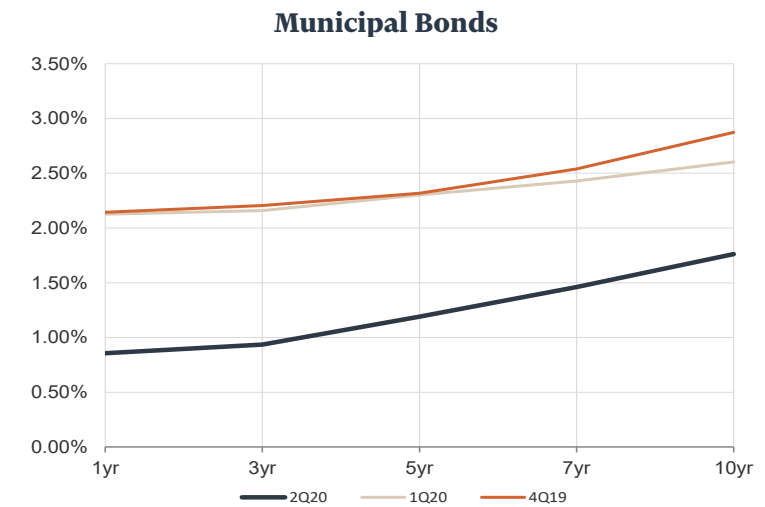
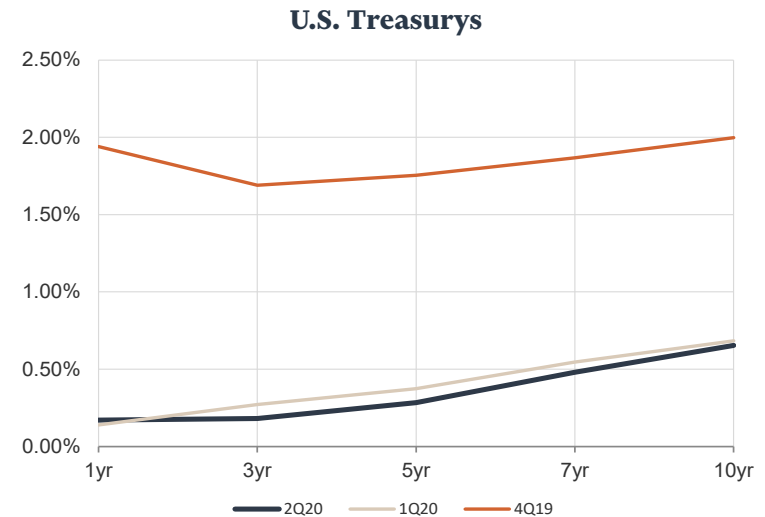
		Annualized								
		3Q19	4Q19	1Q20	2Q20	YTD	1-Year	3-Year	5-Year	10-Year
Real Estate		Price								
MSCI U.S. REIT	1,022	7.69	(0.78)	(26.99)	11.70	(18.45)	(12.87)	0.08	4.08	9.06
FTSE EPRA/NAREIT Europe	1,590	4.16	12.22	(27.43)	9.14	(20.80)	(7.43)	(0.12)	1.81	7.72
Commodities										
Bloomberg Commodity Index	65	(1.84)	4.42	(23.29)	5.08	(19.40)	(17.38)	(6.14)	(7.69)	(5.82)
Energy	19	(4.53)	5.82	(51.10)	9.84	(46.29)	(45.74)	(14.42)	(18.94)	(15.76)
Agriculturals	35	(6.15)	7.11	(9.86)	(4.85)	(14.23)	(13.78)	(10.52)	(9.59)	(4.03)
Livestock	18	0.77	0.15	(28.14)	(8.62)	(34.33)	(33.73)	(16.62)	(11.06)	(6.11)
Softs	27	(8.61)	13.94	(16.84)	0.59	(16.35)	(12.89)	(10.87)	(7.64)	(6.42)
Industrial Metals	105	2.44	(0.25)	(18.46)	12.32	(8.41)	(6.40)	(1.36)	(0.04)	(2.93)
Precious Metals	212	5.28	3.72	(1.11)	15.04	13.77	24.23	9.87	6.72	2.17
Private Equity / Hedge Funds		Price								
Red Rocks Global Listed PE Index	10	0.71	10.98	(33.77)	26.38	(16.30)	(6.45)	0.84	3.71	9.27
HFRI FOF Index	6,022	(0.95)	3.08	(8.80)	6.10	(3.24)	0.33	1.67	0.94	2.53
Currencies		Price								
ICE Dollar Index	97	3.38	(3.01)	2.76	(1.67)	1.04	1.31	0.61	0.39	1.25
Euro / U.S. Dollar	1	(4.27)	2.96	(2.25)	2.36	0.06	(1.37)	(0.51)	0.16	(0.86)
Pound / U.S. Dollar	1	(3.17)	7.50	(6.40)	(0.35)	(6.73)	(2.92)	(1.65)	(4.71)	(1.89)
U.S. Dollar / Yen	108	0.31	0.56	(0.66)	(0.06)	(0.73)	0.13	(1.35)	(2.49)	2.00

Source: Factset, Morningstar Direct, iShares website

Note: HFRI FOF Index returns as of 5/31/2020



Global Equity Valuation Summary	1Q20	2Q20	QoQ
S&P 500			
Price	2,584.59	3,100.29	515.70
Trailing P/E	16.86	21.49	4.63
Est P/E	15.79	21.94	6.15
Trailing 12m Earnings	150.80	138.90	(11.90)
Est Forward 12m Earnings	164.25	143.64	(20.61)
Implied 1yr Earnings Growth	8.92%	3.41%	-5.5%
Russell Mid Cap			
Price	43.17	53.60	10.43
Trailing P/E	14.28	18.18	3.89
Est P/E	14.64	22.22	7.58
Trailing 12m Earnings	2.51	2.11	(0.40)
Est Forward 12m Earnings	2.96	2.41	(0.55)
Implied 1yr Earnings Growth	18.06%	14.26%	-3.8%
Russell 2000			
Price	114.46	143.18	28.72
Trailing P/E	12.49	15.93	3.44
Est P/E	19.62	43.64	24.02
Trailing 12m Earnings	3.49	1.48	(2.01)
Est Forward 12m Earnings	5.89	3.79	(2.09)
Implied 1yr Earnings Growth	68.76%	155.75%	87.0%
MSCI EAFE			
Price	53.46	60.87	7.41
Trailing P/E	12.26	15.64	3.38
Est P/E	12.86	17.76	4.90
Trailing 12m Earnings	4.15	3.51	(0.64)
Est Forward 12m Earnings	4.17	3.46	(0.70)
Implied 1yr Earnings Growth	0.42%	-1.33%	-1.7%
MSCI EM			
Price	34.13	39.99	5.86
Trailing P/E	11.21	14.90	3.70
Est P/E	11.17	14.50	3.33
Trailing 12m Earnings	2.92	2.48	(0.44)
Est Forward 12m Earnings	3.07	2.79	(0.28)
Implied 1yr Earnings Growth	5.10%	12.57%	7.5%



Source: FactSet
 Notes: Municipal yields tax adjusted, assumes a 37% tax rate
 Munis use the Bloomberg Barclays Municipal GO indexes and yield to worst

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