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SEARCHING FOR THE CURE.

Investing is a lesson in behavior. John Templeton said that “In the short-run, the markets are a voting booth. In the long-run, however, they are a scale.” This refers to the short-term fickle opinions that rule the markets on a daily basis as opposed to the more accurate ‘scale’ that truly represents the value that markets have in generating wealth over the long-term.

This quarter was more than interesting. The fear-driven decisions that caused markets to plummet during the first quarter were largely erased through the incredibly quick rebound in equity prices as confidence returned. With the Dow Jones Industrials Average tapping on the heels of a modest loss for the year, focus has largely been situated on the progression of the viral issue. The resurgence in cases has contributed to some recent volatility within the markets, but there will be a point in the near-term when viral concerns will wane, and more significant focus shall be paid to the economic concerns as we emerge out of this crisis. It’s a process that will take time and require patience.

The markets had an outstanding quarter, without any doubt with the broad market, as measured by the S&P 500 adding 20.5% for the period. Growth stocks, such as Apple, Google and Microsoft, were incredibly resilient during this period, while dividend-paying equities largely governed by oil and bank stocks, produced returns that lagged the broad markets. Small and mid-sized equities rewarded investors as well, with small cap and mid-cap returns of 21.9% and 24.1% respectively during the period. Growth investments in the small and mid-cap category provided better returns, much like their large company counterparts, compared to the more conservative value investments across the equity universe. International equities also shared in the recovery, but significantly underperformed the US markets. Both the returns of developed and emerging markets equities provided 3.4% and 7.4% returns during the period. Valuations in international equities continue to be compelling; however, returns remained muted.

Bonds provided excellent returns during the period. Concerns over default risk, credit risk, and interest rate risk waned within the last quarter, as economic concerns seemed to lessen. The Barclay’s Aggregate Bond index rose 2.9% over the period, as interest rates continued to fall. With lower interest rates comes the benefit of corporate refinancing of existing debt at lower rates, in addition to the personal benefits by mortgage holders concerning the refinancing of their own mortgages. A recent record refinancing ‘boom’ of almost 1.3 million refinance actions took place during the first quarter. The Federal Reserve made it clear that interest rates will most likely remain low for an ‘extended’ period of time in order to keep credit available and at low rates of interest for borrowers. Not surprisingly, the economic weakness across the globe also caused an initial rush to own the US Dollar, propping up prices of our currency based upon both demand and safety. Some of this strength waned during the quarter as interest rates, domestically, had fallen to ‘near zero’ levels.

Vaccine trials will continue to be a big topic going into 2021 with most companies reporting timelines that are ahead of expectations. There should be multiple vaccines available in early 2021, with distribution to the developed world in the middle of 2021. New vaccines are moving into trials and progressing into phase 3 more quickly than anticipated. Three National Institutes of Health-sponsored phase 3 trials (likely around 30,000 patients each) are poised to start soon: Moderna in late July, AstraZeneca in August, and Johnson & Johnson in September, according to a *Wall Street Journal* report based on conversations with National Institutes of Health officials.

While volatility is unsettling for most investors, it’s vital to understand that the large swings in the market environment is almost always temporary. Economic conditions will improve, and we have no reason to expect that a full recovery is not possible in light of this situation. The more things change, the more they stay the same. Stay invested, stay the course. We’ll be shaking hands and hugging once again soon. **OM**

QUARTERLY INVESTMENT COMMENTARY

Summary of Quarterly Market Performance



Return information provided as of June 30, 2020. Data provided by Morningstar Direct, and Morningstar Office.

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