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Market Summary

Equities

MSCI AC World	524.9
Price / Earnings	21.9x
Dividend Yield	2.3%
S&P 500	3,100
Price / Earnings	24.9x
Dividend Yield	1.9%

US Interest Rates

2 Year Treasury	0.1%
10 Year Treasury	0.7%
30 Year Treasury	1.4%
Bloomberg US Agg.	1.3%

US Corporate Spreads

Investment Grade	1.7%
High Yield	7.2%

Equity Volatility

CBOE SPX Volatility	30.4

US Economic Figures

GDP Growth 1Q20	-5.0%
Unemployment	11.1%
Inflation (core)	1.2%
Fed Funds Rate (mid)	0.1%
3 Month LIBOR	0.3%

Commodities

Oil (Brent)	$41.15
Natural Gas	$1.75
Copper ($/lb.)	$2.71
Gold ($/oz.)	$1,781

Foreign Exchange

Euro	$/€	1.12
Japanese Yen	¥/$	108
Chinese Yuan	元/$	7.07

Market summary data as of:
June 30, 2020

Recovery Room

The COVID-19 pandemic, the government response, and their effects on the economy and capital markets remained the central issues for capital markets in the second quarter of 2020. The quarter began with financial markets in extreme turmoil with government authorities mandating a widespread shut-down of the economy while rolling out substantial fiscal and monetary support.

Markets were stressed for good reason. The Great Lockdown dealt a blow to economic conditions and earnings. In April, perhaps the worst point of the seized-up economy, US unemployment reached 14.7%, and retail sales collapsed 19.5%. By June, the consensus economic projection for 2Q 2020 was an annualized contraction of 34.7% with full year US corporate earnings expected to fall 11.6% from 2019 levels. Reflecting the worldwide scope of the pandemic, the International Monetary Fund revised down its 2020 forecast for the global economy to recede by 4.9%, the first annual worldwide contraction in several generations.

We described in last quarter's letter the government response as placing the economy in a policy-induced coma with attendant life support. This quarter, Dr. Government's patient was allowed to wake up. As societies began reopening in May, nascent signs of economic recovery and the effects of government stimulus were evident in both economic data and financial asset prices. Manufacturing and services activity began to pick up as lockdown measures eased. Stock prices rebounded and credit spreads contracted as expectations for recovery took hold and as promises by central banks to backstop markets encouraged risk taking. While the path toward further improvement in economic momentum and financial market conditions will be governed by health conditions, hence subject to both progress and setbacks, the worst of the COVID-19 impact appears to have passed in early 2020.

Exhibit 1: Global Economic Activity is Recovering

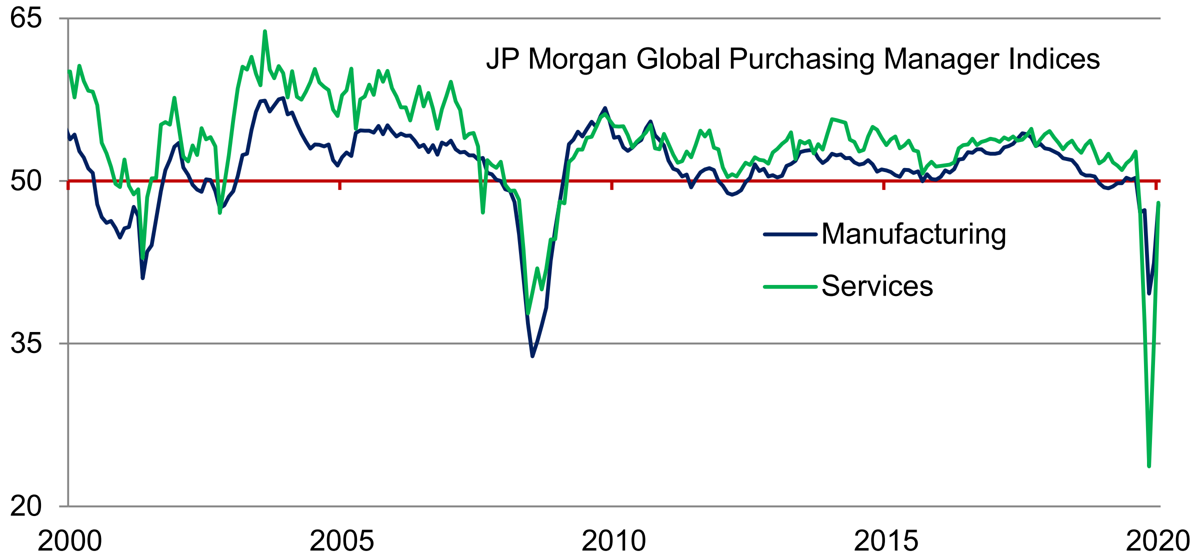
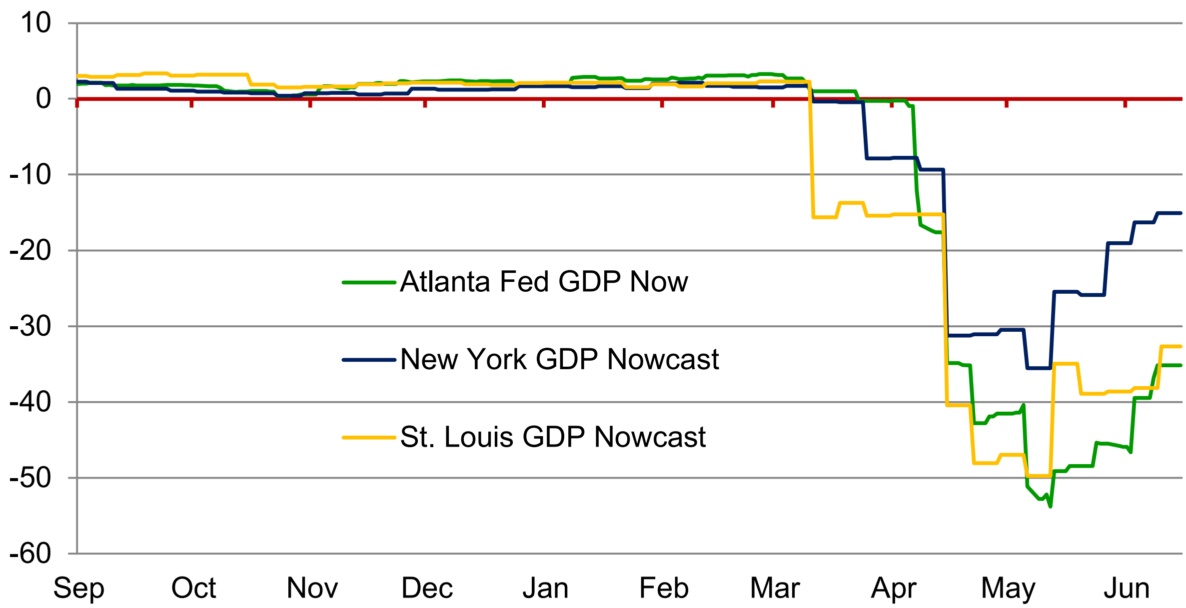


Exhibit 2: US Economic Activity is Recovering



Consensus forecasts point to domestic growth resuming in the current quarter with recovery extending into 2021. As such, the recession of 2020 is unusual in many aspects. Its catalyst was the pandemic rather than the combination of excesses and imbalances that spur a typical cyclical downturn and take longer to resolve, it is by far the deepest contraction seen historically, and it has the potential of being short in length.

Exhibit 3: Sharp and Potentially Short Recession

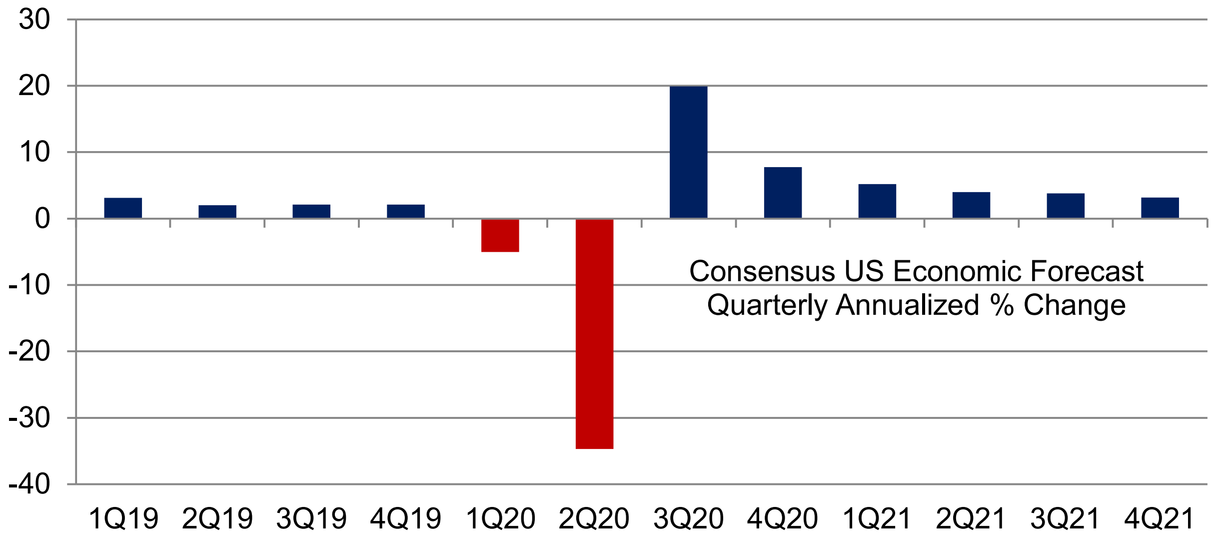
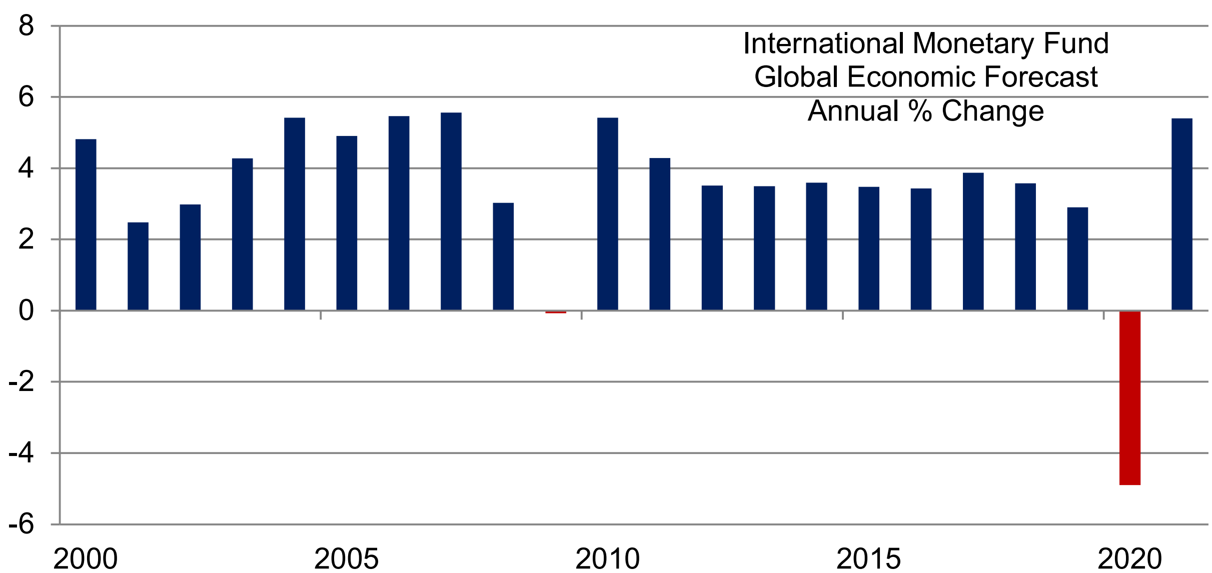
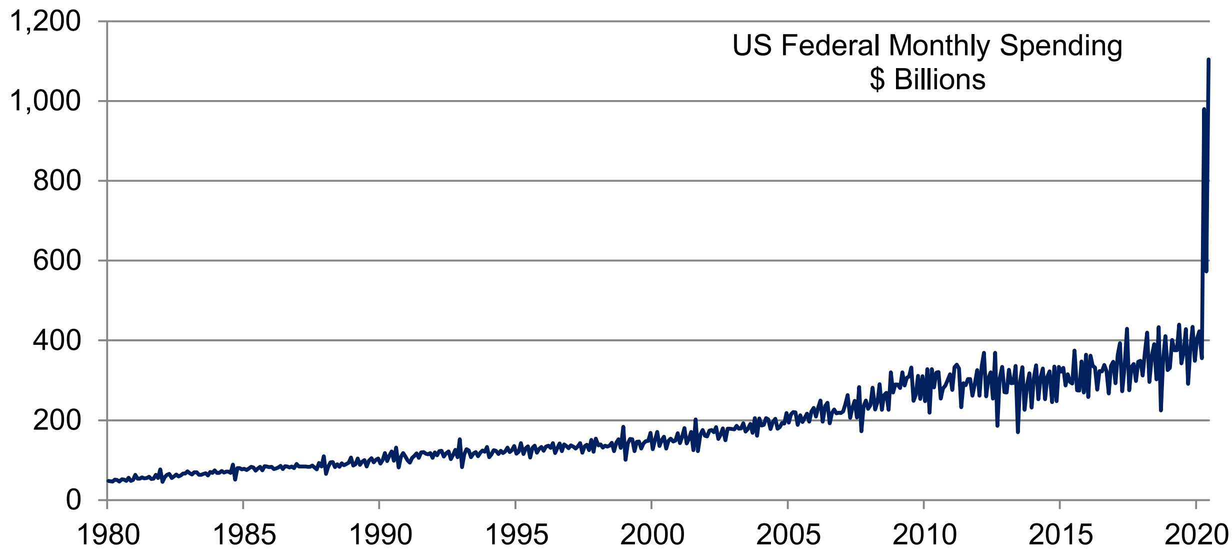


Exhibit 4: Growth to Resume After Unprecedented Global Recession



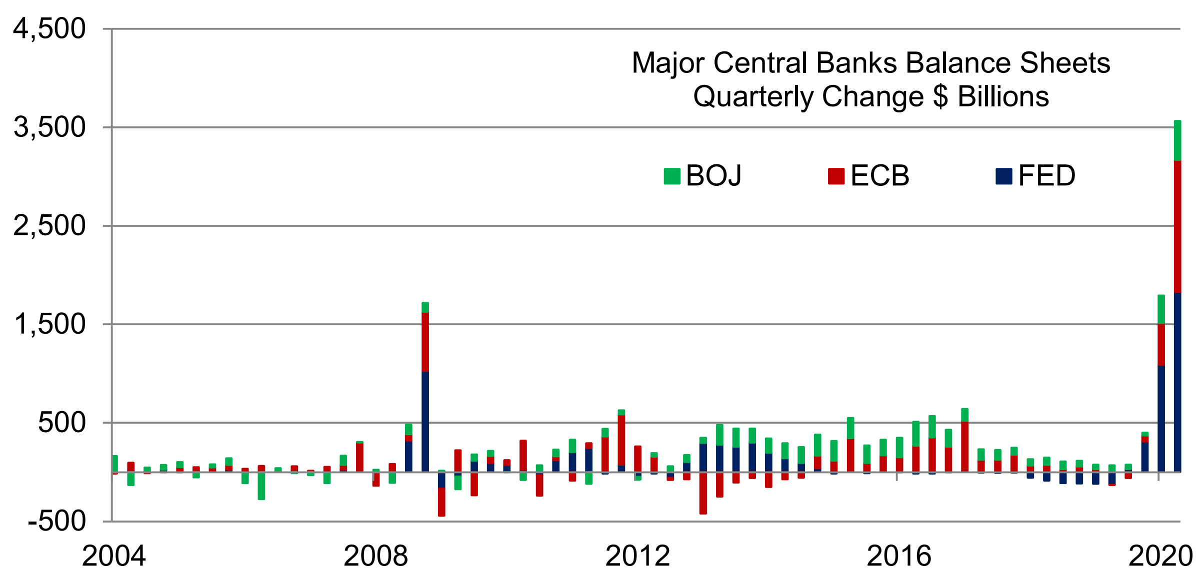
Government action to counteract economic and market disruption is having a profound effect on the economy and financial markets. Spending by the federal government soared to trillions of dollars per month in the last quarter on an array of programs from outright funding to state and local governments, enhanced unemployment benefits, and loans that will ultimately be forgiven. In essence, deficit spending has kept the economy's cash flowing by replacing wages, business revenue, and local tax receipts.

Exhibit 5: Fiscal Stimulus – Emergency Economic Life Support



Already easy monetary policy has been loosened yet further. The Federal Reserve, having reduced the short-term rate to near zero, is projecting to hold rates at that level for the next few years. Its massive bond purchase operations and promise that it's "strongly committed" to do "whatever we can for as long as it takes" have driven long-term interest rates to a record low and have encouraged speculative risk taking in the stock market.

Exhibit 6: Monetary Stimulus – Market Opiate



Just as the comprehensive lockdown mandates of March and April may have exceeded that which balanced a virus-specific health objective with broader social, economic, and health considerations, the unbridled fiscal and monetary programs might be overdoing it. Ideas deemed radical just six months ago, like unlimited government deficit spending financed by the central bank (Modern Monetary Theory) and guaranteed household income, are currently in practice.

Their distorting effects on financial markets are dramatic. Interest rates have been driven down to a level where a majority of the bond market offers a yield below the rate of inflation. Record low absolute and real yields also affect stocks. They make potential future earnings worth more with the absence of a discount rate, have produced an acute performance advatage of “growth” over “value” stocks, and are fueling a bubble in certain mega-cap growth stocks similar to that seen in the speculative dot-com mania twenty years ago. As such, the equity market indices have risen with narrow breadth based on a few highly-valued stocks with the broader market still down substantially for the year.

Exhibit 7: Major Segments of the Bond Market Have Negative Real Yield

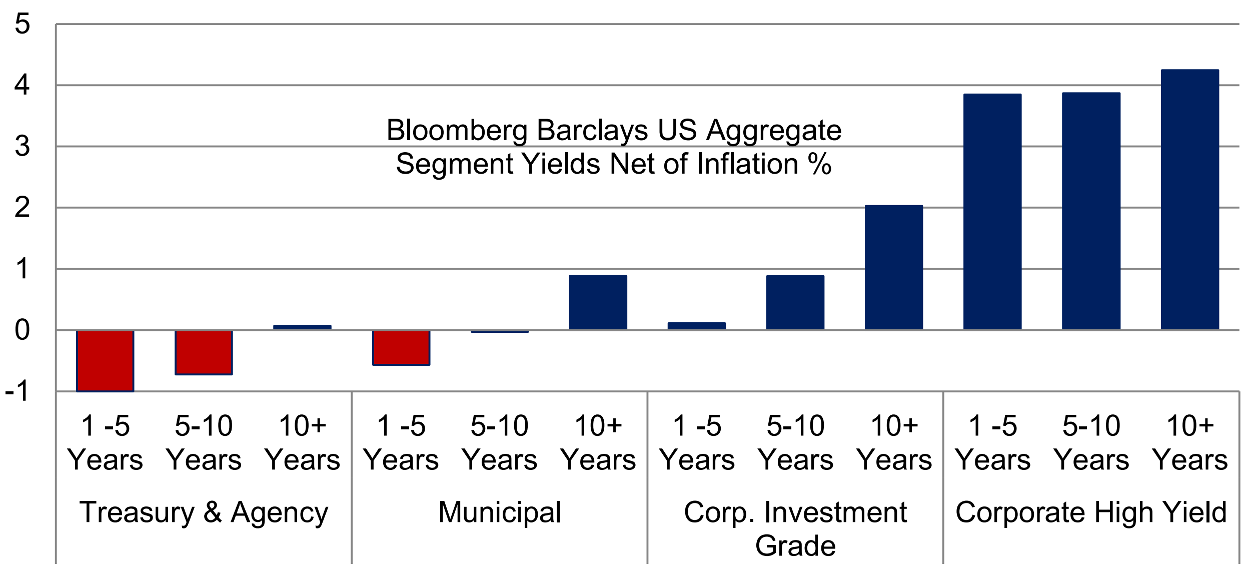


Exhibit 8: A Narrow Market with Indices Driven by a Few Mega-Cap Stocks

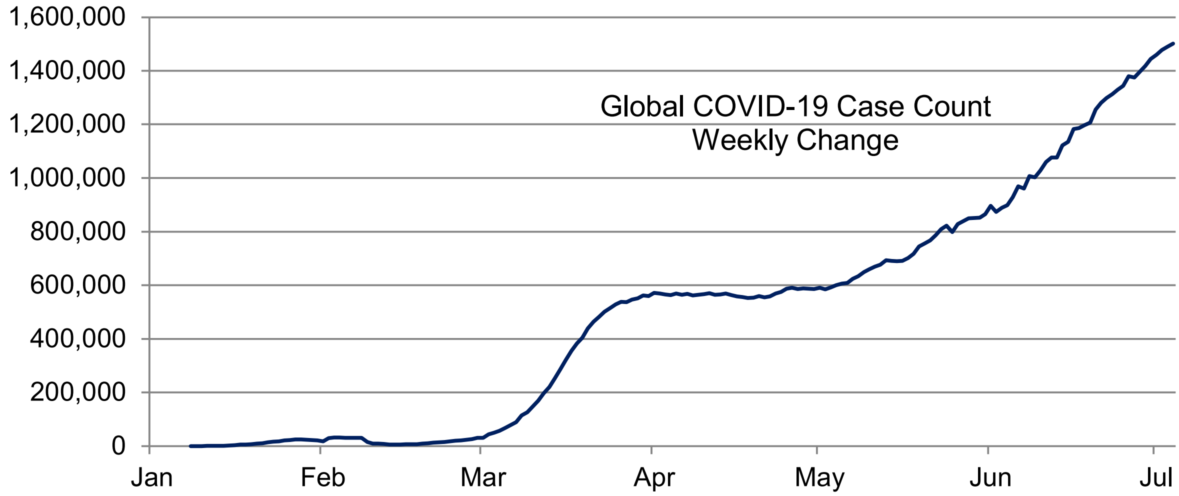
	2020 % Change	
Index	Capital Weighted	Equal Weighted
MSCI All Country World	-7.1	-11.3
S&P US Large Cap 500	-4.0	-11.8
S&P US All Cap 1500	-5.0	-14.8

Exhibit 9: Highly-Valued Mega Capitalization Stocks

Stock	$ Billions Market Cap	Price / Earnings Ratio	Value / Cash Flow Ratio
Amazon	1517	70	29
Tesla	257	168	55
Nvidia	248	45	41
Netflix	220	62	43
Adobe	219	43	32
Paypal	211	48	35

The recovery in markets is certainly welcome after the tumultuous first quarter, and we expect further, if halting, improvement to the fundamental outlook as advancements in medical technology – treatments and eventually a vaccine – help us overcome the pandemic health

Exhibit 10: Pandemic Resurging



challenge. We recognize, however, an abiding need to manage risk in client portfolios in an environment where COVID cases are resurging, the pace of improvement in the economy and earnings is unusually uncertain, and large areas of the markets – particularly government bonds and just about any stock that is internet related – appear valued at levels that are hard to justify in the long run. A focus on resilient companies, their earnings, and discipline regarding how much to pay for those earnings among stocks and what yields will be paid among bonds are processes that we believe will help client portfolios be productive within a context of managed risk.

We look forward to more normal times when we can return to seeing clients in person. Meanwhile, we hope that you and your families will stay healthy and safe. We are available to discuss with you – via phone or video call -- the capital you've entrusted with us and the evolving economic and market environment. We're grateful for the opportunity to work with you.

With best regards and wishes to your health and safety,

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Milena D. Spasova CFA CIPM	Neil J. Sullivan CFA	Frederick M. Blum
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