

Market Pulse

from the Investment Advisory Group

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In Focus

All 50 US states are now open to some extent, though state governments are taking idiosyncratic approaches to their re-openings. Some states are taking a regionally-targeted approach or are focused on bringing critical industries back online. Other states' edicts are being applied more equally statewide, though all are using phased approaches. The sight of re-openings has US equities rallying decisively to start the week. Additionally, Merck's entrance into the race for a coronavirus vaccine is boosting optimism that a viable drug may be available before year-end.

The progress on the virus front is distracting investors from mounting geopolitical tensions, particularly between the US and China, and the onslaught of poor US economic data. China's announcement of strengthened security measures in Hong Kong received a stern warning from the US. This adds to the rising tensions between the US and China, which are already dealing with a very strained trade relationship and mistrust over China's initial reaction to the virus outbreak in Wuhan. As the 2020 US election approaches, it is likely that US-China relations will receive increased market focus, as will US unemployment, which currently sits at levels unseen since the 1930's.

US markets and policymakers are entering an important period. The Federal Reserve will monitor economic activity for signs its support measures are helping. Congress will see if another fiscal aid package is needed (likely, yes). Traders will scrutinize new infection rates as local economies restart. A spike in new infections would likely unsettle US equities, which are up roughly 34% since the March 23 lows.

A Look Back

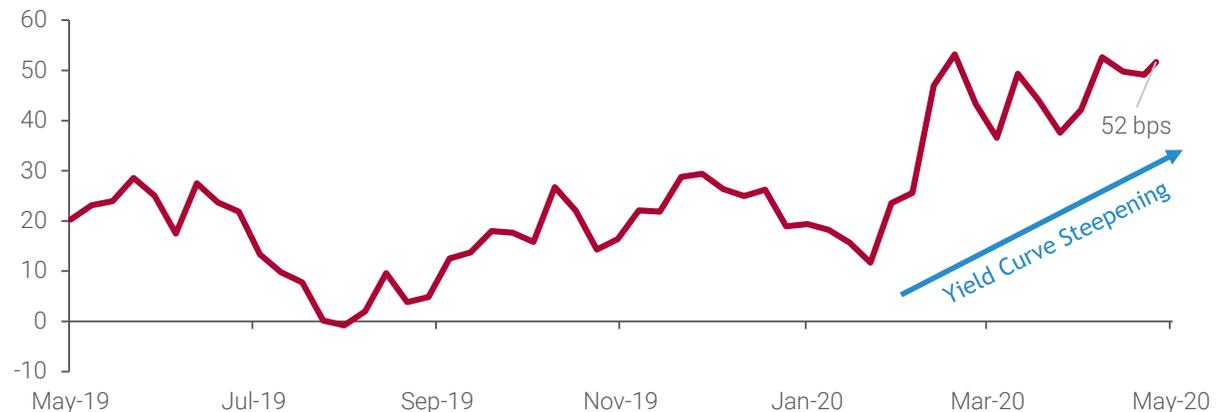
- Federal Reserve (Fed) officials made numerous appearances last week, downplaying the possibility of negative policy rates, raising the likelihood of additional policy action in the weeks ahead.
- The US Treasury yield curve steepened as long-term yields rose. The 2/10-Year curve is now positively sloped by more than 50 basis points.
- Oil prices have rallied approximately 80% this month as lockdown restrictions ease and output cuts mitigate the global supply glut.

A Look Ahead

- The partisan tug-of-war over the next federal aid package will likely intensify this week; Fed officials will participate in virtual discussions before entering their pre-meeting quiet period.
- Another busy week of investment grade corporate bond issuance is expected as companies create cash bridges to the other side of the pandemic.
- This week's US data to watch: Q1 US GDP (revised), Personal Income & Spending, New Home Sales, Durable Goods Orders, Initial Jobless Claims.

Chart of the Week: 2-Year vs. 10-Year US Treasury Spreads (Basis Points)

Last year, the inversion of the US Treasury yield curve drew a great deal of attention given its track record of predicting economic downturns. Since February, the yield curve has steepened to mid-2018 levels as Fed policy anchors short-term yields near zero. Expectations for better growth in 2021, rising inflation expectations over the medium-term and large US Treasury debt plans are pulling intermediate and long-term US yields higher.



Data Source: SunTrust IAG, Bloomberg; 1 basis point (bps) = 0.01%

Performance Summary

As of May 22, 2020

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	2.89	0.73	11.52	-12.31	-0.94
MSCI EAFE (net)	3.01	-0.71	5.70	-18.43	-9.36
MSCI Emerging Markets (net)	0.48	-2.03	6.94	-18.29	-6.84
Dow Jones Industrials	3.43	0.78	12.08	-13.40	-2.66
S&P 500	3.27	1.67	14.71	-7.77	5.54
NASDAQ Composite	3.44	4.89	21.10	3.92	20.13
FTSE NAREIT All Equity REITs Index	6.86	-3.29	5.25	-19.42	-12.41
Bloomberg Commodity Index	1.76	3.03	1.45	-22.18	-19.21
Bloomberg Barclays Aggregate	0.35	0.24	2.02	5.23	10.40
BofA Merrill Lynch US High Yield	2.73	2.68	6.59	-7.40	-2.23
Bloomberg Barclays Municipal Bond Blend 1-15 Year	0.97	2.64	1.90	1.40	4.24
ICE BofAML Global Government x the US (USD Unhedged)	0.64	-0.96	0.43	-0.56	3.12
ICE BofAML Global Government x the US (USD Hedged)	0.34	-0.10	0.72	1.97	5.82
JP Morgan GBI-EM Global Diversified Composite	3.07	3.13	7.17	-9.13	0.91
Hedge Fund Performance (%)	Week*	MTD*	QTD*	YTD*	1 Yr*
HFRX Global Hedge Fund Index	0.63	0.70	3.60	-3.50	2.14
HFRX Equity Hedge Index	0.94	0.10	4.59	-9.35	-4.45
HFRX Macro	-0.51	0.48	0.97	-0.22	4.75
HFRX Absolute Return Index	0.25	-0.20	1.83	-4.08	-0.74

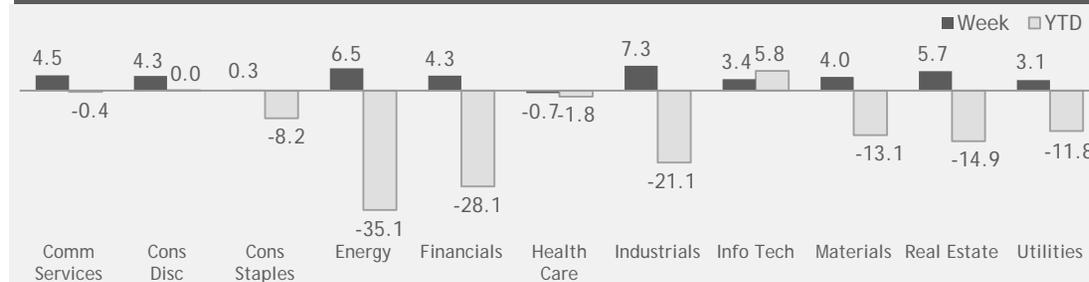
* Through 5/21/20

U.S. Style % Total Returns (Russell Indexes)

	Week			YTD		
	Value	Core	Growth	Value	Core	Growth
Large	4.09	3.55	3.15	-19.27	-7.78	3.01
Mid	6.15	5.33	4.38	-22.77	-14.43	-1.81
Small	9.11	7.87	6.97	-28.72	-18.29	-8.31

Rates (%)	5/22/20	3/31/20	12/31/19	9/30/19	6/28/19
Fed Funds Target	0.25	0.25	1.75	2.00	2.50
Libor, 3-Month	0.36	1.45	1.90	2.08	2.31
T-Bill, 3-Month	0.11	0.10	1.54	1.82	2.11
2-Year Treasury	0.16	0.19	1.57	1.61	1.73
5-Year Treasury	0.33	0.37	1.69	1.55	1.75
10-Year Treasury	0.65	0.68	1.91	1.67	1.99
30-Year Treasury	1.37	1.31	2.38	2.12	2.52
Bloomberg Barclays Aggregate (YTW)	1.38	1.59	2.31	2.26	2.49
Bloomberg Barclays Municipal Bond Blend 1-15 Year	1.28	1.75	1.53	1.65	1.75
BofA Merrill Lynch US High Yield	7.47	9.24	5.41	5.87	6.05
Currencies	5/22/20	3/31/20	12/31/19	9/30/19	6/28/19
Euro (\$/€)	1.09	1.10	1.12	1.09	1.14
Yen (¥/\$)	107.47	107.96	108.68	108.08	107.74
Pound (\$/£)	1.22	1.24	1.32	1.23	1.27
Commodities	5/22/20	3/31/20	12/31/19	9/30/19	6/28/19
Crude Oil (WTI)	33.25	20.48	61.06	54.07	58.47
Gold	1,736	1,597	1,523	1,473	1,414
Volatility	5/22/20	3/31/20	12/31/19	9/30/19	6/28/19
CBOE VIX	28.16	53.54	13.78	16.24	15.08

S&P 500 Sector % Total Returns



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The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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Bloomberg Barclays Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

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