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Independent Investment Consultants

June 2020: Market Review

June continued the recovery from the Feb/Mar equity market decline but on a more subdued level. More positive economic data pushed equity indexes higher but a surge in new coronavirus cases in the U.S. sunbelt increased investor uncertainty about a slow-down in the U.S. economic reopening efforts. Better-than-expected U.S. May unemployment numbers, pending home sales, and consumer spending data compelled investors to overlook the recent surge in cases. The May unemployment rate unexpectedly dropped to 13.3% from 14.7% in April as 2.5 million jobs were added as many states began gradually reopening their economies. U.S. pending home sales also positively surprised investors, increasing 44% from April to May, almost triple what the market expected. For the month, the S&P 500 Index added +2.0%, bringing its year-to-date return to -3.1%. The Dow Jones Industrial Average gained +1.8% and remains down -8.4% thus far in 2020. The tech-heavy NASDAQ Composite increased +6.1% and has returned +12.7% so far this year.

Offsetting the positive U.S. economic data was the fact that most states experienced an increase in coronavirus cases in June, causing the U.S. to hit a record of daily new cases, eclipsing the number previously set in April. States with particularly high numbers of new cases have already begun to pause reopening plans, an indication that the pandemic is not under control in the U.S. and that an economic recovery will be more gradual than the positive May data may have indicated. The final reading of first quarter real GDP remained unchanged, showing a contraction of -5.0% annualized. Consumer spending rose a record 8.2% in May, showing the impact of federal stimulus, states reopening, and unemployment benefits. As expected, the Federal Reserve did not change the Fed funds rate in their June meeting. The Fed's economic forecasts were the highlight of the June meeting as they projected a -6.5% year-over-year change in real GDP in the fourth quarter, inflation at 0.8%, and an unemployment rate of 9.3% by the end of the year. Among commodities, WTI crude oil ended June at $39 a barrel, up from $35 at the end of May as production cuts and the easing of pandemic lockdowns across the world have likely made a positive impact. Gold ended the month at $1,793, higher than its price of $1,737 at the end of May.

Within domestic equities, growth outperformed relative to value across all capitalization sizes. Within large cap stocks, the Russell 1000 Growth Index added +4.4% versus a -0.7% decline for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index increased +2.3% for the month while the Russell Midcap Value Index gained +1.1%. In small cap stocks, the Russell 2000 Growth Index climbed +3.8% during the month while the Russell 2000 Value added +2.9%.

Major international indexes also posted gains for the month as several countries have begun reopening their economies. The MSCI EAFE Index added +3.4% for the month but remains down -11.3% year-to-date while the MSCI Europe Index increased +4.1% during the month (down -12.8% so far this year). The MSCI Pacific Index appreciated +2.4% in June and declined -9.0% for the year. The MSCI Emerging Markets Index rebounded from the previous month despite increased risk and infections in developing countries worldwide. Emerging markets added +7.4% in June, bringing its year-to-date return to -9.8%. The largest contributors this month were China (+8.4%), Taiwan (+8.6%), and South Africa (+10.3%).

U.S. treasury markets remained steady in June as the Fed continued to support the market. The yield on the 10-year Treasury closed at 0.66%, barely higher than last month's close of 0.65%. The Bloomberg Barclays U.S. Aggregate Bond Index added +0.6% for the month and is up +6.1% year-to-date while the Bloomberg Barclays Treasury 20+ Year Index increased +0.1% (+21.6% year-to-date). The Bloomberg Barclays U.S. Treasury Index also posted a gain of +0.1% in June and has returned +8.7% so far this year. The Bloomberg Barclays Corporate High Yield Bond Index was the strongest performer this month amid positive economic data and expectations of continued Fed support for these bonds, gaining +1.0% and posting a decline of -3.8% year-to-date.

Stock markets have rebounded extremely quickly from the first quarter sell-off, recovering most of the losses in just one quarter. Equity market upside in the short-term is likely constrained by significant risks associated with the surge of infections and uncertainty about the timing of a vaccine and a U.S. national election. Central banks and national governments continue to support markets and more stimulus may be needed in the coming months. The long-term impact of these extraordinary fiscal measures remains to be seen, but for now, downside risk is probably limited by government support.