CAMDEN CAPITAL

Market Insights

MID-YEAR REVIEW

July 2020 Update

A LOOK BACK AT THE PRIOR MONTH

ECONOMY: RECOVERY CONTINUES AS THE ECONOMY REOPENS

Economic data released in June reflected solid improvement in economic activity from depressed levels, although high-frequency data suggested a slower trajectory as COVID-19 cases increased in late June.

- **Conference Board's Leading Economic Index (LEI)** broke its two-month skid in May, rising 2.8%. Fewer jobless claims were cited as the primary driver of the gain in the index, while improvements in housing and stock prices also provided tailwinds. However, the report also noted that the breadth and depth of the previous decline suggests the economy will remain in recession territory in the near term.
- **Payrolls and Labor.** Nonfarm payrolls rose 4.8 million in June, continuing the momentum from the previous month, which saw a massive beat relative to economists' expectations. The US Bureau of Labor Statistics' May report was also revised up to 2.7 million from 2.5 million. The unemployment rate fell two points to 11.1% versus expectations of 12.5%, while misclassifications around the "absent from work but employed" issue would only add one point (compared with three points last month).
- **Inflation.** Weak demand continued to put downward pressure on inflation, as the core Consumer Price Index (CPI) declined 0.1% month over month in May. The Producer Price Index (PPI) halted a two-month skid in May, rising 0.4%. The index for final demand goods rose 1.6%, reflecting a jump in meat prices caused by efforts to contain COVID-19 outbreaks at meat processing plants.
- **US Consumer.** The Conference Board's Consumer Confidence Index increased in June but remained below pre-pandemic levels. The Present Situation and Expectations Indices also rose, buoyed by continued reopenings. Retail sales tallied the largest month-over-month gain since data began in 1992, growing 17.7% in May, with gains across all categories. While the rebound in retail sales is encouraging, recent COVID-19 outbreaks and tougher comparisons may limit gains in subsequent months, and sales remain well below February levels.
- **US Manufacturing**. The Institute for Supply Management (ISM) Purchasing Managers' Index (PMI) jumped nearly 10 points in June to 52.6, placing it in expansionary territory (above 50) for the first time since the pandemic began. The forward-looking new orders component surged, while supply chain pressures eased. The progress is encouraging, but the road to fully recover lost output is still a long one.
- **US Business.** Business sentiment remains depressed, but it showed slight improvement over the prior month as several regional Fed surveys suggested that activity is slowly rebounding off depressed levels as the US economy reopens. Rising geopolitical tensions have added to the impact of the COVID-19 outbreak, sinking durable goods orders nearly 30% year over year to the lowest level since 2009. Capacity utilization fell to its lowest level in history at 64.9%.
- **Policy.** Congress passed a five-week extension of the Paycheck Protection Program lending facility for small businesses. Negotiations for another round of fiscal stimulus are ongoing, with another $1 trillion package potentially coming in August. The Fed moved forward with its support for credit markets via the Primary Market Corporate Credit Facility, paving the way for direct purchases of new bond issues. While the Fed has dismissed the possibility of negative policy rates, discussions of yield curve control have gained traction if the economic recovery stalls.

EQUITIES: RALLY CONTINUED

The **S&P 500 Index** continued its strong run with a 1.8% return in June despite recent increases in COVID-19 cases in several western and southern states and escalating US-China tensions. The bulls have focused on mostly steady reopening progress, better-than-expected economic data, optimism around vaccine prospects, and the likelihood of another stimulus package that could potentially end up in the $1 trillion range. Despite the deep recession, the S&P 500 has lost just 3% on a total return basis year to date.

Style/Capitalization

Small cap stocks bested their **large cap** peers for the third straight month in June, following their historical pattern of outperforming large caps coming out of recessions, as economic activity continued to pick up. **Mid cap stocks** struggled to keep up with large cap tech stocks, but underperformed only modestly for the month. Boosted by technology stocks and Internet retail, **growth style** outpaced value for the ninth straight month.

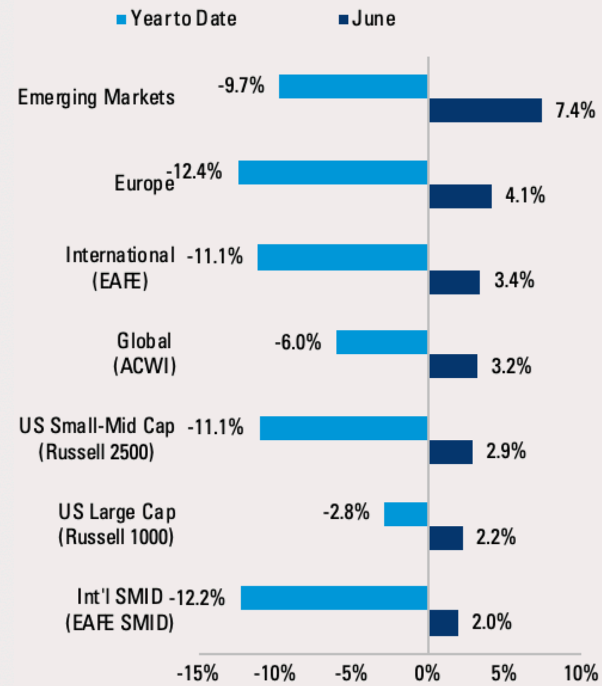
Global Equities

International developed and **emerging market** equities both solidly outperformed the United States in June. A weaker US dollar helped lift non-US returns, while emerging market equities got a boost from China's ability to contain COVID-19 and reopen its economy before most of the world.

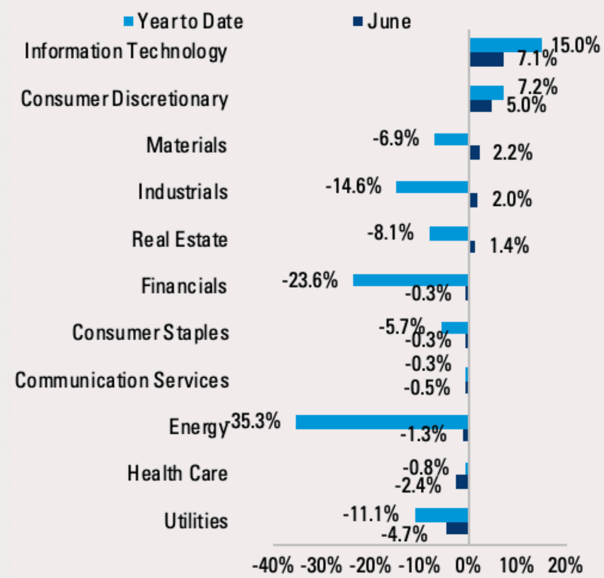
Emerging markets equities gained an impressive 7.4%, based on the MSCI Emerging Markets Index, driven by strength across Asia, particularly in **China**, **South Korea**, and **Taiwan**.

International developed equities gained 3.4% for the month**,** based on the MSCI EAFE Index. Based on the MSCI EAFE country indexes, the biggest contributors to the gains included **France** and **Germany**, while **Japan** and the **United Kingdom** lagged.

GLOBAL INDEX PERFORMANCE



S&P 500 SECTOR PERFORMANCE



Source: FactSet 06/30/20

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

FIXED INCOME: CREDIT STRENGTH

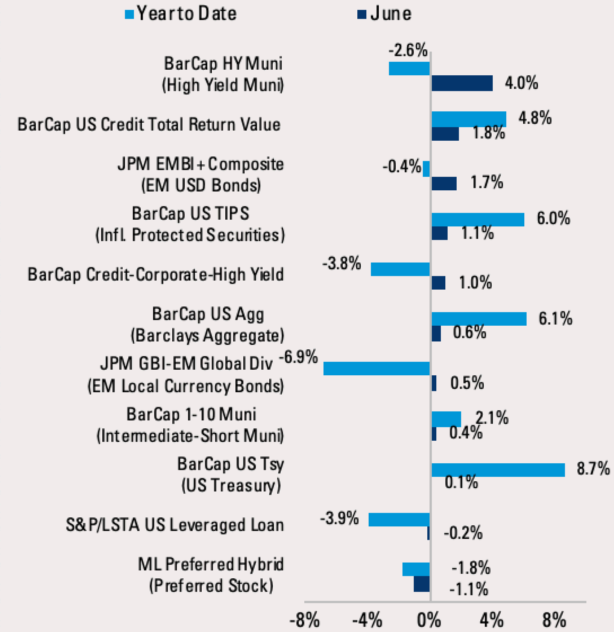
While equities continued to rally in June, Treasury yields remained quite steady. The **10-year Treasury yield** was nearly unchanged for the month of June, ending at 0.66%. The Treasury yield curve remained relatively stable during the month, maintaining its upward slope following the Fed's actions to lower short-term rates earlier in 2020 in response to the pandemic.

The Fed's policy actions remained an important catalyst for a risk-on environment for bonds. Investors were attracted to spread opportunities in the investment-grade bond market, as shown in the Fixed Income Performance Table. The **Bloomberg Barclays US Aggregate Bond Index (Agg)** rose 0.6% on corporate bond strength, bringing its year-to-date return to a solid 6.1%. **Treasuries** underperformed in June but remained the strongest fixed income sector in 2020. Lower-quality bond sectors delivered mixed results in fixed income, with **high yield** and **emerging markets debt** (in US dollars) outperforming the Bloomberg Barclays US Aggregate Bond Index, but **bank loans** underperforming. Higher-quality **municipal bonds** produced returns similar to higher-quality taxable bonds during June; however, **high-yield municipals** in particular had a very strong month.

Commodities: Risk On

Commodities gained 2.3% in June, as measured by the Bloomberg Commodities Index, supported by a weaker US dollar, though the index remained down more than 19% year to date. A risk-on tone generally permeated throughout the commodities space as economies continued to reopen. Crude oil continued its rebound, climbing more than 8% for the month, while copper jumped more than 11%. Gold rose slightly, while silver and platinum, other safe havens, gave up some recent gains. Natural gas, which continues to battle supply pressures, fell double digits. Major agricultural prices were mixed, while livestock prices fell modestly, amid increasing skepticism regarding China's ability to fulfill its commitments made in the Phase 1 trade deal.

FIXED INCOME PERFORMANCE



US Treasury Yields

Security	5/31/20	6/30/20	Change in Yield
3 Month	0.14	0.16	0.02
2 Year	0.16	0.16	0.00
5 Year	0.30	0.29	-0.01
10 Year	0.65	0.66	0.01
30 Year	1.41	1.41	0.00

AAA Municipal Yields

Security	5/31/20	6/30/20	Change in Yield
2 Year	0.37	0.39	0.02
5 Year	0.68	0.68	0.00
10 Year	1.29	1.26	-0.03
20 Year	1.79	1.75	-0.04
30 Year	1.91	1.88	-0.03

Source: FactSet 06/30/20

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subjec t to availability and change in price.

IMPORTANT DISCLOSURE INFORMATION

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