Market Perspectives

Quarterly | Q2 2020

Overview

Since February, we've been living in historic times, as the coronavirus (COVID-19) spread around the world as a pandemic, and the global response has been to shut down businesses and ask people to stay home to slow the spread of the virus. The second quarter was a pivotal one as we turned from the shutdown to the reopening of businesses and the economy.

In April, the White House released federal guidelines for reopening the economy, and by the end of the quarter all states had eased to varying degrees their social distancing measures. The title of one our weekly Sight|Lines publications described the macroeconomic environment of the quarter: The Best… and the Worst. Prior to the pandemic, the unemployment rate stood at 3.5%, the best in 50 years. And in April, unemployment jumped to 14.7%, the worst since the Great Depression. Similarly, many other economic indicators posted record drops before starting to recover at the end of the quarter.

The coronavirus has had a massive impact on the economy, leading to one of the deepest recessions since the Great Depression. Unlike normal times when business activity and corresponding economic results change incrementally, in the current environment, the change has been severe and dramatic. For example, airline travel was at one point down approximately 95% versus the previous year and hotel revenues are expected to decline 50% this year. These are deep declines, and in our view, such dramatic shifts make it much harder to forecast the immediate change in economic activity. Given the ongoing pandemic, while it's important to understand the economy's footing in the first half of the year, without question the focus for investors remains, where do we go from here?

The S&P 500 posted its best quarterly return since the fourth quarter of 1998, to a good degree because of the unprecedented stimulus measures and optimism that the U.S. economy will start to recover as states reopen for business. However, there is still a great deal of uncertainty going forward, and it is nearly impossible to reliably predict the inflection point. How long will it take for our economy to recover to its previous level of activity/output? How do we make up for the permanent damage being done by the shutdown? When will a vaccine become available? Will there be a resurgence of coronavirus cases? How will consumer preferences shift? Who will be the next U.S. president? On all points, no one knows for sure. So, in this environment, more so than in previous years, the "tail risks" are higher as we see a greater chance of a dramatic move in either direction. A setback in vaccine development or a continued virus resurgence could lead to a market correction (bear case, 20% probability) - or the vaccine trials could be highly successful and the virus spread will remain under control more than currently anticipated adding to investor optimism (bull case, 20% probability).

Our base case, to which we assign 60% probability, reflects what we think might happen. It acknowledges the severe impact of the coronavirus shutdown on the economy and markets and the likely regional flare-ups of cases through the end of the year, but we remain modestly optimistic about recovery in the second half of the year and into 2021.

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Wealth management insights from Stifel's CIO Office

STIFEL

Coronavirus Update

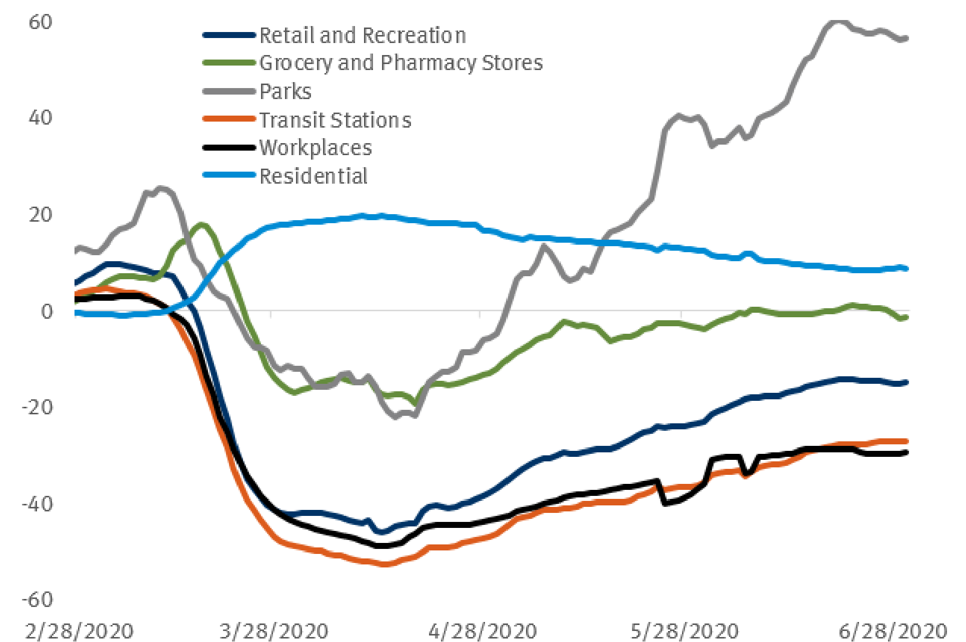
At the time of this writing, there are close to 14 million confirmed cases of COVID-19 worldwide and close to 4 million in the U.S. The U.S. has the most cases, followed by Brazil and India. The U.S. is on a path to reopening the economy, but in the last several weeks there has been a resurgence of infections, and confirmed daily new cases surpassed 50,000 for the first time since the pandemic began. This has forced some officials to pause or reverse the opening in states home to almost half of the U.S. population. A return to a complete lockdown would likely be a last resort option and possibly triggered by diminishing hospital capacity. We continue to monitor high-frequency mobility data to gauge the impact to consumer confidence and economic activity. In the meantime, the race for a vaccine and/or treatment continues. There are currently 197 vaccine and 271 treatment candidates, the majority of which are in phase I trials. A few enter phase III testing in July.

So what does this mean for investor portfolios? Our portfolio recommendations continue to be anchored in our long-term outlook, with a focus on diversification both across and within asset classes. Our dynamic leanings are against our long-term strategic asset allocation (SAA) and result from our short-to-medium-term views. At the start of the second quarter a general theme propagated across our leanings was the consideration of the very short-term effects of the shutdown, knowing, for example, that some smaller companies, or those in weakening financial condition, may suffer and may even go out of business. We described this concept as permanent loss. These risks still remain, but we are marginally more upbeat looking forward as the improving economic data suggests that the economy may be regaining ground, aided by continued monetary and fiscal stimulus. As a result, we are unwinding our positioning biased to more "defensive" segments of the market.

Within equity, we are adding to Non-U.S. equities relative to U.S., U.S. small cap stocks relative to large cap, and U.S. large cap value relative to large cap growth, the result being that our dynamic asset allocation now aligns to our strategic asset allocation weights (i.e. neutral). Outside the U.S. we remain neutral between developed and emerging markets equities and recommend a diversified approach to both.

Within fixed income, we remain neutral between U.S. investment grade and U.S. high yield. However, within investment grade, we are removing our overweight to high-quality (Aaa- A rated) corporates. We are removing our overweight to short-dated Treasury inflation-protected securities (TIPS) and increasing our duration back to that of the benchmark.

Figure 1. Google Mobility Trends (7 Day Moving Average)



Source: Source: Stifel Investment Strategy as of June 30, 2020, data via ourworldindata.org
Note: Google mobility trends measure visitor numbers to specific categories of location (e.g. parks, train stations) every day and compares this change relative to a baseline day before the pandemic outbreak.

The U.S. Economy

Despite monetary and fiscal support, the U.S. has entered a recession. On June 8, the National Bureau of Economic Research (NBER) determined that the U.S. economy reached a peak in February 2020 from a low in June 2009, effectively moving into a recession. Nonetheless, the economy is starting to show signs of a recovery as we pivot from the

" ... this year we experienced the best ... and the worst unemployment rate in recent history."

shutdown to the reopening of businesses. Investors remain focused on whether there will be a resurgence of cases and the pace at which consumer confidence is rebuilt and how this translates to economic recovery in the second half of 2020.

Economists are estimating a decline in second quarter GDP, with estimates as low as -40% on an annualized basis. The Atlanta Federal Reserve's (Fed's) GDPNow model estimates real GDP contracting -39.5% in the second quarter. While most analysts continue to believe that the economy will improve during the second half of the year, the pace of the recovery still remains a point of disagreement, with some seeing a V-shaped bounce-back and others seeing a U-shaped recovery. For 2020, the Fed expects GDP to fall 6.5%, a stark contrast to the 2.3% growth in 2019.

The U.S. economy contracted at an annualized 5% in the first quarter of 2020. The fall in GDP reflected negative contributions from consumer spending, private inventory and nonresidential investment, and exports with partially offsetting positive contributions from residential investment, government spending, and imports.

Inflation

Despite the loose monetary policy, asset purchases and rates at the zero lower bound of 0% - 0.25% by the Fed, inflationary pressures remain low and are likely to remain low this year due to weakened demand, higher unemployment, and lower oil prices.

The core personal consumption expenditures (PCE) price index, which excludes food and energy and is the Fed's preferred measure of inflation, fell -0.4% in April from March, up only 1% from last year. In May, core PCE rose 0.1%. In the Fed's latest Summary of Economic Projections (SEP), core PCE inflation is projected to remain low at 1.0% in 2020, 1.5% in 2021, and 1.7% in 2022.

Employment

As highlighted above, this year we experienced the best…and the worst unemployment rate in recent history. The unemployment rate was at 3.5% in February before climbing rapidly as the coronavirus crisis emerged and businesses shut down and laid off employees. In April, unemployment jumped to 14.7%, the worst since the Great Depression. At the end of April, we estimated that there were a total of 23.1 million people unemployed, with 78.3%, or 18.1 million, considered temporary. The drop in employment was largely a reflection of declines in leisure and hospitality, but hit all the sectors.

In May, total nonfarm payroll employment rose by 2.51 million, bringing the unemployment rate down to 13.3%. However, the number of unemployed persons was still at 21 million, 15.3 million of which were considered temporary. The unemployment rate fell further to 11.1% in June as nonfarm payroll employment rose by 4.8 million. While still in the early days, the magnitude of jobs gained gives us a sense for the real potential of recovery as businesses and the economy come back on line. The Fed sees the unemployment rate falling to 9.3% by year end.

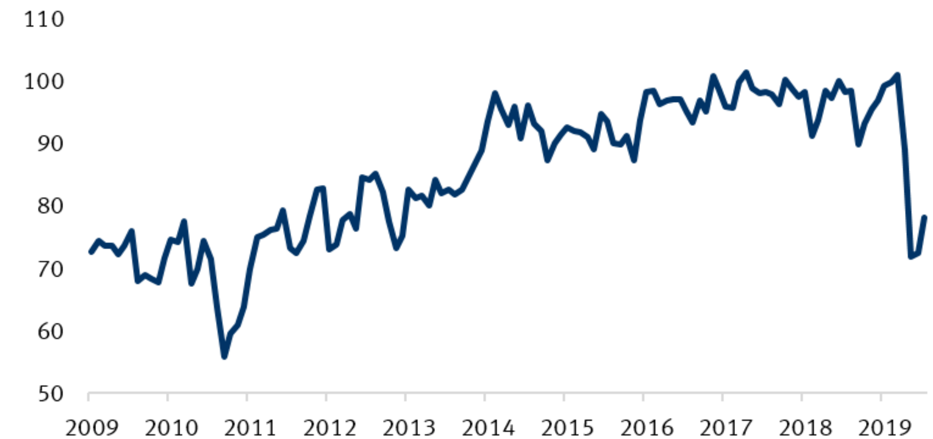
Looking ahead, there are two factors that could affect unemployment levels: the end of the expanded unemployment benefits under the CARES Act and the end of the Paycheck Protection Program (PPP).

"As some of the lockdown restrictions were eased in May and some economic activity resumed, retail sales rebounded and rose 17.7% in May versus the previous month."

Consumer

Consumer spending, which accounts for about two-thirds of U.S. economic activity, has been a key driver for the U.S. economy. With lockdowns imposed on almost the entire country in March and April and millions of Americans filing for unemployment, consumer spending was significantly impacted last quarter. Personal outlays fell by the most on record in April with a 13.6% decline month over month, and retail sales fell 16.4%. The decline in spending was broad-based with weakened spending on durable goods, vehicles, household furnishing, and recreational goods leading the decline. As some of the lockdown restrictions were eased in May and some economic activity resumed, retail sales rebounded and rose 17.7% in May versus the previous month. Going forward there is still considerable uncertainty as to whether the recent rebound can be sustained in the coming months.

Figure 2. University of Michigan Consumer Confidence



Source: Stifel Investment Strategy via Bloomberg as of June 30, 2020

The increase in unemployment, and reduced work hours and salaries were offset by the increased unemployment benefits through the CARES Act and the one-time checks to families. As a result, personal income rose 10.5% in April versus the prior month, and due to the uncertainty from the pandemic the savings rate jumped from 12.7% to 33.0%, the highest on record.

Additionally, consumer confidence seems to have stopped showing signs of weakness. The University of Michigan's consumer sentiment index for May rose to 72.3 from 71.8 in April. Consumer confidence in May from the Conference Board was unchanged, following two months of sharp declines.

Service and Manufacturing Sectors

As with other economic releases, we saw improvement at the end of the quarter in the manufacturing and service sectors. The IHS Markit U.S. Manufacturing PMI for June came in 10 points higher than the 39.8 figure in May. A reading below 50 in both indices indicates contraction. The downward trend in production eased markedly as customer demand improved.

The IHS Markit U.S. Services PMI for June was at 47.9, up from 37.5 in May. This was a result of the reopening of service providers and gradual resumption of consumer demand.

"The housing market has started to show signs of a "V-shaped" recovery. This is likely a result of low inventory, pent-up demand, and record-low mortgage rates."

Housing

The housing market has started to show signs of a "V-shaped" recovery. This is likely a result of low inventory, pent-up demand, and record-low mortgage rates. Building permits and housing starts showed a rebound in May, up 4.3% and 14.4% in May, respectively. The pending home sales index, measuring housing contract activity, rose 44.3% from April to May after declining a cumulative 38% during the previous two months. Every major region in the country recorded an increase in month-over-month pending home sales transactions..

The Federal Reserve and Interest Rates

The Fed left the federal funds rate unchanged (0% - 0.25%) at its most recent meeting in June. The Federal Open Market Committee (FOMC) said it expects to "maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." The FOMC signaled that monetary support is here to stay and that the Fed would continue its asset purchase program to support and smooth market functioning. As a reference, during the global financial crisis, the Fed's total assets increased from $870 billion in August 2007 to $4.5 trillion in early 2015. As of June 17, 2020, the Fed's assets were $7.1 trillion. The Fed maintains that the increased debt is not in focus for now, but helping to grow the economy is important.

As mentioned above, the Fed released its Summary of Economic Projections (SEP) for the first time since December 2019. The economy is expected to contract 6.5% in 2020 and then expand 5.0% in 2021. The coronavirus pandemic has also forced the Fed to lower its longer-run projection for economic growth from 1.9% to 1.8%. Inflation is estimated to remain below its 2% target for the next few years, but rise to 2% over the long term. Unemployment is estimated to fall to 9.3% by year end and 6.5% by the end of 2021.

Equity Earnings

With many industries in the U.S. and abroad forced to reduce output or close altogether due to COVID-19, expectations were that earnings would fall significantly in the first quarter. The S&P 500 reported a decline in earnings of 14.6%, the largest decline since the third quarter of 2009. The uncertain environment makes it especially challenging for analysts to forecast the COVID-19 pandemic's impact on earnings. As a result, going into earnings season there was a wide disparity between analysts' forecasts for earnings. Close to two-thirds of companies (64%) reported earnings per share (EPS) above estimates, which is below the five-year average of 73%. We saw a similar result for revenue, with 57% reporting a positive sales surprise, also below the five-year average. To a good degree, this was to be expected. So how did company share prices react to earnings announcements? Companies that reported negative earnings surprises saw a smaller average price decrease (-0.6%) when compared to the five-year average of - 2.8%. In turn, companies that beat estimates saw a larger price appreciation than that of the last five years, +1.4% versus +0.9%.

The decline is led by a drastic fall in earnings for the consumer discretionary (-60.4%), financials (-43.6%), and energy (-27.9%) sectors. This was tempered by a year-over-year increase in earnings for utilities (+6.5%), healthcare (+5.8%), and consumer staples (+4.9%). The auto sector, restaurants, and retailers were among the most impacted within consumer discretionary as many were

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forced to close due to social distancing guidelines. Financials were impacted in part by the large loan loss provisions, expenses set aside for potential loan defaults.

As we look forward to the remainder of 2020, there is still a lot of uncertainty. In a typical earnings season, it is common for companies to provide guidance on expected earnings for future quarters or for the year. Analysts use this as part of their forecasting models. In the current environment, more than one in three S&P 500 companies, in many instances citing the lack of visibility related to COVID-19, have withdrawn their EPS guidance for the rest of 2020. Most states began implementing social distancing and lockdown measures around the middle of March. So the first quarter's results reflect two weeks of economic damage and a shift in consumer sentiment a couple of weeks prior to that. For most of the second quarter the economy was at an unprecedented halt, so estimates are for an even larger decline. Analysts currently expect a -43.8% year-over-year decline for second quarter earnings, -25.2% in the third quarter, and -12.7% in the fourth quarter.

Investment Themes

The following table summarizes our thinking across various asset classes and regions. ▲ Overweight ▼ Underweight ■ Neutral

	Asset Class	Previous	Current	Comments
Equity	U.S. Equity	▲	■	U.S. equities surged after hitting a low on March 23. Our base case assumes a recovery starting in the second half of 2020 and continuing into 2021, supported by fiscal and monetary stimulus and the measured reopening of the economy. Markets, however, have priced in this scenario and the chances of a "tail risk" event going forward are higher, in our view. As a result, we have reduced our overweight to U.S. equity so that our asset allocation now aligns with our strategic asset allocation (i.e. neutral).
	U.S. Large Cap	▲	■	Smaller businesses, or those in weaker financial condition, have suffered and some have gone out of business as a result of the COVID-19 shutdowns. Risks still remain, but we are marginally more upbeat looking forward as the improving economic data suggests that the economy may be regaining ground. As a result, we are adding to U.S. small cap stocks relative to large cap and reducing our overweight to large cap stocks back to neutral.
	Large Value vs. *Large Growth*	▼ ▲	■	The large cap value segment of the market has underperformed large cap growth as some of the underlying companies have weaker financial profiles and diminished cash flows. With the economy showing signs of improvement, value stocks, or those that have been beaten-down recently should start to recover. There are also still quality stocks with attractive growth profiles that have reasonable allocations. We see opportunity in both the value and growth segments and as a result we are moving back to neutral between large value and large growth.
	U.S. Small Cap	▼	■	Smaller businesses, or those in weaker financial condition, have suffered and some have gone out of business as a result of the COVID-19 shutdowns. Risks still remain, but we are marginally more upbeat looking forward as the improving economic data suggests that the economy may be regaining ground. As a result, we are adding to U.S. small cap stocks relative to large cap and reducing our overweight to large cap stocks back to neutral.
	Small Value vs. *Small Growth*	■	■	We recommend a diversified approach investing in both small cap value and growth.
	Non-U.S. Equity	▼	■	The reported resurgence in COVID-19 has been milder in developed markets and some emerging markets relative to the U.S., however, much of these regions had weaker economic growth and more limited monetary policy tools going into the crisis. We recommend a diversified approach to investing in U.S. and Non-U.S. equity.
	Non-U.S. Developed Markets	■	■	We are neutral within Non-U.S. equity between Developed and Emerging markets as we find the risks to be balanced between both regions.
	Europe vs. *Asia*	■	■	European countries were the first hot spot for the outbreak outside China. : The European Central Bank (ECB) has taken simulative measures and the EU reached a deal on a 750 billion euro stimulus package, however, Europe had weaker economic growth prior to the crisis. There is the risk for some EU fragmentation once the crisis is over. Japan approved a $1 trillion stimulus package, but the country had negative GDP going into the crisis due to the increased consumption tax rate.
	Emerging Markets	■	■	Risks are balanced. A weaker dollar and the re-opening of China's economy should support emerging countries. However, weaker healthcare systems and low oil prices represent headwinds for some emerging economies. Note, within Non-U.S. equity, we are neutral between Non-U.S. Developed Markets and Emerging Markets.

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Investment Themes (continued)

The following table summarizes our thinking across various asset classes and regions. ▲ Overweight ▼ Underweight ■ Neutral

	Asset Class	Previous	Current	Comments
Fixed Income	U.S. Investment Grade	■	■	Within Fixed Income, we are neutral between U.S. Investment Grade and U.S. High Yield.
	Corporates *Government/Agency* *MBS*	▲ ▼ ▼	■	Our overweight to corporates was to higher-rated investment-grade bonds (Aaa - A). Spreads have narrowed, and we are removing our overweight in order to broaden our investments to the full spectrum of investment-grade fixed income.
	Inflation Protected	▲	■	Our overweight to inflation-protected securities was based, in part, on the opportunity presented by the market's implied inflation expectations via swaps. Since then, markets have repriced higher inflation expectations, and going forward, there is uncertainty to the pace of recovery, which should keep inflation in check in the near term.
	Duration	▼	■	While the Fed is expected to stay accommodative for the foreseeable future, interest rates are likely to move in either direction based on whether market participants see the bull or bear scenario unfolding. In the short term, rates will likely remain range bound.
	U.S. High Yield	■	■	Credit spreads widened given the economic impact from the coronavirus and the decline in oil prices as a result of the Russia-Saudi Arabia price war. Spreads have narrowed, but risks of default remains elevated. Note, within Fixed Income, we are neutral between U.S. Investment Grade and U.S. High Yield.
Alternatives	Private Assets	■	■	For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of private equity, private debt, and/or private real estate can be considered as part of a diversified portfolio.
	Hedge Funds	■	■	For investors interested in alternative investments and able to handle less liquidity who have conviction about manager skill, exposure to hedge funds can be a helpful part of a diversified portfolio. This is especially true in volatile, low-return environments.

"Only two sectors have positive returns year to date, information technology and consumer discretionary."

Capital Markets Recap

Equity markets remained volatile but rallied strongly, bond yields were range bound, and commodities rose with oil recovering some of its losses.

Equity

It is now clear that March 23 marked the low for equity markets, four days after California issued the first stay-at-home order was issued in the U.S. Since then, the S&P 500 is up 39.3% through June 30 and up 20.5% in the second quarter. Year to date, however, the S&P 500 is still down -3.1%. For the quarter, large cap growth stocks outperformed their value counterparts with gains of 27.8% and 14.3%, respectively. Small cap stocks, represented by Russell 2000 Index, rose 25.4%, outperforming large caps as investors grew optimistic on the economic recovery. Consumer discretionary stocks were best performing in the quarter, up 32.6%. Energy stocks which were the most impacted in the first quarter, down 51.1%, were up 28.7% in the second quarter. Only two sectors have positive returns year to date, information technology and consumer discretionary.

Non-U.S. markets also had positive returns, but generally weaker than those of U.S. equities. For the quarter, the MSCI EAFE Index, representing non-U.S. developed markets, was up 14.9%. The main focus in Europe is a new 750 billion-euro stimulus plan that is aimed at offsetting some of the impact from COVID-19. The European commission expects a 7.4% contraction in GDP for 2020.

Emerging markets, as measured by the MSCI EM Index, were up 18.1%. A rise in coronavirus cases in some countries was offset by a weaker U.S. dollar and stronger commodity prices.

Fixed Income

The 10-year Treasury was at 0.70% at the beginning of the quarter and got to 0.91% on June 5. In the days leading to the FOMC press conference, rates fell as investors returned to safety and awaited the press conference. In the press conference, Fed Chair Jerome Powell said that the Fed isn't even thinking about raising rates. Since then the 10-year traded in a narrow band of 11 basis points and ended the quarter at 0.66%. The 2-year Treasury ended the quarter 7 basis points lower, resulting in a slight steepening of the yield curve.

The Bloomberg Barclays U.S. Aggregate Index, representing investment-grade taxable bonds, returned 2.9% for the quarter. The Bloomberg Barclays U.S. Municipal Index, representing investment-grade municipal bonds, was up 2.7% for the quarter. High-yield bonds, as measured by the Bloomberg Barclays Corporate High Yield Index, were up 10.2% in the second quarter, correlated with the positive equity performance. The energy sector is a large component of the high-yield market.

Commodities

The Organization of the Petroleum Exporting Countries (OPEC) agreed to record oil-production cuts and in June finalized an extension through July. West Texas Intermediate rose to $39.27 per barrel after starting the quarter at $20.48. Oil is still below its price at the start of the year of $61.06 per barrel. The U.S. dollar weakened during the last three months against a basket of currencies, closing the quarter at 97.39 versus 99.05 on March 31. Gold prices rose to 1,780.96 per ounce, up 17.0% year to date.

Figure 3. Capital Market Returns (as of June 30, 2020)

North American Equity	MTD (%)	QTD (%)	YTD (%)	1 Year (%)	3 Year (%)*	5 Year (%)*
Russell 3000 Index	2.29	22.03	(3.48)	6.53	10.04	10.03
STANDARD & POOR'S 500	1.99	20.54	(3.08)	7.51	10.73	10.73
Standard & Poor's/TSX (CAD)	2.46	16.97	(7.47)	(2.17)	3.91	4.45
U.S. Equity by Size/Style						
Russell 1000 Index	2.21	21.82	(2.81)	7.48	10.64	10.47
Russell 1000 Growth Index	4.35	27.84	9.81	23.28	18.99	15.89
Russell 1000 Value Index	(0.66)	14.29	(16.26)	(8.84)	1.82	4.64
Russell 2000 Small Cap Index	3.53	25.42	(12.98)	(6.63)	2.01	4.29
Russell 2000 Small Cap Growth Index	3.84	30.58	(3.06)	3.48	7.86	6.86
Russell 2000 Small Cap Value Index	2.90	18.91	(23.50)	(17.48)	(4.35)	1.26
Russell Microcap Index	6.25	30.54	(11.21)	(4.77)	0.85	2.86
International Equity (USD)						
MSCI AC World ex U.S.	4.52	16.12	(11.00)	(4.80)	1.13	2.26
MSCI EAFE	3.40	14.88	(11.34)	(5.13)	0.81	2.05
MSCI Europe	4.07	15.26	(12.78)	(6.78)	(0.00)	1.46
MSCI Pacific	8.01	20.19	(12.98)	(12.74)	0.82	2.68
MSCI Japan	(0.01)	11.61	(7.12)	3.10	2.97	3.45
MSCI Emerging Markets	7.35	18.08	(9.78)	(3.39)	1.90	2.86
International Equity (Local Currency)						
MSCI AC World ex U.S.	3.47	13.17	(10.22)	(5.01)	(0.40)	0.65
MSCI EAFE	2.64	12.60	(10.53)	(4.24)	1.26	2.63
MSCI Europe	3.23	13.10	(11.56)	(5.71)	0.84	3.02
MSCI Pacific	1.74	11.70	(8.83)	(1.67)	2.16	2.01
MSCI Japan	0.13	11.54	(7.80)	3.24	1.58	0.88
MSCI Emerging Markets	6.63	16.74	(5.50)	1.37	4.48	5.09

Figure 3. Capital Market Returns (as of June 30, 2020)

U.S.Fixed Income	MTD (%)	QTD (%)	YTD (%)	1 Year (%)	3 Year (%)*	5 Year (%)*
Bloomberg Barclays U.S. Treasury Bills: 1-3 Months	0.01	0.02	0.48	1.47	1.68	1.12
Bloomberg Barclays U.S. Aggregate	0.63	2.90	6.14	8.74	5.32	4.30
Bloomberg Barclays Gov't/Credit	0.87	3.71	7.21	10.02	5.87	4.74
Bloomberg Barclays Treasury	0.09	0.48	8.71	10.45	5.57	4.07
Bloomberg Barclays U.S. TIPS	1.12	4.24	6.01	8.28	5.05	3.75
Bloomberg Barclays Municipal Bond Index	0.82	2.72	2.08	4.45	4.22	3.93
Bloomberg Barclays U.S. Credit	1.83	8.22	4.82	9.07	6.14	5.54
Bloomberg Barclays Corporate High Yield	0.98	10.18	(3.80)	0.03	3.33	4.79
International Fixed Income						
Bloomberg Barclays Global Aggregate (Unhedged)	0.89	3.32	2.98	4.22	3.79	3.56
Bloomberg Barclays Global Aggregate (Hedged)	0.50	2.42	3.90	6.07	5.14	4.44
Bloomberg Barclays EM USD Aggregate (Unhedged)	2.49	10.00	(0.43)	2.96	4.17	5.18
Real Estate/Commodities/Alternatives						
Wilshire U.S. Real Estate Securities Index	2.28	10.57	(17.89)	(12.39)	0.22	4.20
Wilshire Global ex U.S. Real Estate Securities Index	2.11	7.31	(24.90)	(20.41)	(2.51)	(0.13)
Wilshire Global Real Estate Securities	2.24	9.49	(20.30)	(15.15)	(0.67)	2.59
Bloomberg Commodity Index	2.28	5.08	(19.40)	(17.38)	(6.14)	(7.69)
S&P GSCI Commodity (S&P GSCI)	5.09	10.47	(36.31)	(33.90)	(8.71)	(12.54)
Wilshire Liquid Alternatives Index	0.92	5.56	(3.39)	(1.47)	0.52	0.50
Wilshire Liquid Alternative Equity Hedge Index	1.03	7.38	(5.72)	(2.64)	(0.07)	0.20
Wilshire Liquid Alternative Event Driven Index	0.87	5.16	(1.15)	1.17	1.95	1.26
Wilshire Liquid Alternative Global Macro Index	(0.56)	0.64	(0.15)	0.30	0.73	(0.46)
Wilshire Liquid Alternative Multi-strategy Index	0.88	5.00	(5.84)	(4.23)	(0.32)	(0.04)
Wilshire Liquid Alternative Relative Value Index	1.30	6.25	(1.86)	(0.26)	1.07	1.36
Wilshire Focused Liquid Alternative Index	0.97	5.19	(2.38)	(0.54)	1.19	0.85

Source: Stifel Investment Strategy via Bloomberg as of June 30, 2020

**Represents annualized returns*

Disclosure

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Europe, Middle East and Africa Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East, and Africa.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related, and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and nonagency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

The Bloomberg Barclays U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

The Bloomberg Barclays U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The U.S. Treasury Index is a component of the U.S. Aggregate, U.S. Universal, Global Aggregate, and Global Treasury Indices.

The Bloomberg Barclays U.S. Treasury U.S. TIPS index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

The Bloomberg Barclays U.S. Municipal Index covers the U.S. dollar-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Bloomberg Barclays U.S. Credit Index measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals, and local authorities.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based
on Barclays EM country definition, are excluded.

The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes U.S. dollar-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The Wilshire U.S. REIT Index is a float-adjusted market capitalization-weighted index that measures U.S. publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

The Wilshire ex U.S. Real Estate Investment Trust IndexSM (Wilshire ex U.S. REIT) measures global publicly traded real estate investment trusts, less all U.S. securities.
The Wilshire ex U.S. REIT is a subset of the Wilshire ex U.S. Real Estate Securities IndexSM (Wilshire ex U.S. RESI).

The Wilshire Global REIT Index is a float-adjusted, market capitalization-weighted index that measures global publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted two-thirds by trading volume and one-third by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the sixth to the tenth business day based on the roll schedule.

The S&P GSCI Crude Oil Index is a sub-index of the S&P GSCI Commodity Index. The production-weighted index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract.

The Wilshire Liquid Alternative IndexSM measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge IndexSM (WLIQAEH), Wilshire Liquid Alternative Global Macro IndexSM (WLIQAGM), Wilshire Liquid Alternative Relative Value IndexSM (WLIQARV), Wilshire Liquid Alternative Multi-Strategy IndexSM (WLIQAMS), and Wilshire Liquid Alternative Event Driven IndexSM (WLIQAED).

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $490 million, and the median market capitalization is approximately $395 million.

The Russell 2000 Growth Index measures the performance of those Russell 2000 index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Microcap Index is a capitalization-weighted index of 2,000 small cap and micro cap stocks, including the smallest 1,000 companies in the Russell 2000 plus 1,000 smaller U.S. based listed stocks. Over-the-counter stocks and pink sheet securities are excluded.

The MSCI World ex USA All Cap Index captures large, mid, small, and micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI Europe Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the developed markets in Europe.

The MSCI Pacific Index captures large and mid cap representation across five Developed Markets (DM) countries in the Pacific region. With 470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

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Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.