Second Quarter Market Commentary

The stock market in the US has concluded one of the best quarters in history, with the Dow Jones Industrial Average delivering its strongest result since 1987, and the broader S&P 500 Index producing its best three-month return since 1998.

The first two quarters of the year could not have been more different for the markets, with Q1 experiencing a coronavirus-induced rout, and Q2 recouping much, but not all, of that loss.

Uncertainty remains very high, with a number of US states beginning to reverse their reopenings and reporting spikes in the number of virus cases detected. The US is now recording roughly 40,000 new coronavirus cases every day and the nation's top infectious disease expert, Dr. Anthony Fauci, warned a Senate committee earlier this week that daily cases could hit 100,000 if people continue to ignore public-health recommendations on social distancing and wearing face masks to limit the spread of the infection.

Looking Forward

We are concerned that the strong rebound in the equity markets over the second quarter may be underestimating the economic impact of a resurge of the virus.

Bankruptcy filings in the US are rising at the fastest rate since 2013, as companies collapse under the pressure of the coronavirus pandemic. The virus first hit companies that were already in trouble. But economists are expecting several waves of corporate failures, with airlines, hospitality companies, cruise lines and real estate companies likely to continue to struggle.

The distress is obvious in the capital markets, signs of distress are clear. The number of companies that have defaulted on their debt this year has exceeded the total for all of last year, according to S&P Global Ratings. It puts this year's total on track to be the highest since 2009.

We are here to answer any questions you may have.

Benchmark Returns

For comparative purposes, the S&P 500 index (a proxy for large US stocks) returned + 5.4% for the twelve months to June 30, and rose + 20.0% in the second quarter.

The Russell 2000 (a proxy for small US stocks) is still down – 6.6% for the twelve months to June 30, but rose + 25.4% in the second quarter.

The Wilshire 5000 index (a proxy for the broad US stock market) climbed + 6.5% for the twelve months to June 30, and rose + 22.7% in the second quarter.

The MCSI EAFE index (a proxy for large international stocks) is still down – 7.4% for the twelve months to June 30, but up + 14.2% in the second quarter, as measured in USD. When measured in EUR, the picture was much the same, with the index down – 6.1% for the 12 months to June 30, but up + 11.5% for the second quarter.

Finally, the MSCI Emerging Markets index is still down – 5.7% for the twelve months to June 30, but up + 17.3% in the second quarter.

In the fixed income segment, the Bloomberg Barclays US Aggregate Bond Index returned + 8.9% for the twelve months to June 30, as falling interest rates pushed up bond prices.

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