Market Perspective

A MONTHLY MARKET COMMENTARY FOR TODAY'S INVESTORS

AUGUST **2020**

Economic & Market Overview

Equities gain with mega cap stocks in the driver's seat

Stocks continued their march higher in July, adding a fourth consecutive monthly gain. Despite renewed COVID-19 concerns, rising tensions with China, and signs of a stalling economic recovery, the S&P 500 Index returned to positive territory for the year, helped by remarkable gains from a handful of mega cap internet stocks and generally better-than-expected corporate results. Strong advances in Chinese equities helped emerging markets equities outperform the U.S., while foreign developed market equities trailed in spite of a weakened U.S. dollar. *Refer to Chart 1 for trailing returns across equity markets.*

What worked in July?

Returns were strong among the broad S&P 500 Index sectors with modest dispersion. The consumer discretionary and utilities sectors led the market higher while the more cyclical energy and financial sectors underperformed. Growth has outperformed value every month this year, but large-cap companies regained leadership over small-cap after trailing for three months. *Refer to Chart 2 for best and worst performing equity sectors for the month.*

Bond yields "lower for longer"

Fixed income assets continued to rally in July, with short-term yields holding relatively steady and long Treasury yields falling. Yields on the 10-year Treasury notes closed the month at 0.55%, matching the lows seen in March. The U.S. Federal Reserve (The "Fed") left its policies unchanged at the July meeting, maintaining a very dovish tone and reinforcing its commitment to monetary policy support. Risk assets remained well-supported by investors and the Fed, with high-yield bonds taking the top spot among fixed income sectors and turning positive for the year. *Refer to Chart 1 for trailing returns across fixed income sectors.*

The good, the bad, and the ugly

Financial markets and the economy in 2020 resemble one of Clint Eastwood's classic westerns. Market returns so far this year are good, the economy is still bad, and COVID-19 is ugly. High quality fixed income securities had strong gains as investors sold riskier bonds, while U.S. large-cap equities rallied as well. Many indicators of the U.S. economy experienced the 'worst' fall in data in history in March, followed quickly by the 'best' increase ever. Unemployment is still very high and economic growth is below 2019 levels, but most investors expect continued improvements. Latin America and India continue to struggle with widespread outbreaks. But almost all developed countries, including the U.S., have seen sharp falls in the spread of COVID-19 since March. Unfortunately, the U.S. has seen a strong resurgence this summer, which in some states has led to renewed restrictions. Many school districts will use 'virtual learning' some or all of the school week. Other developed countries, like Australia and

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DID YOU KNOW?

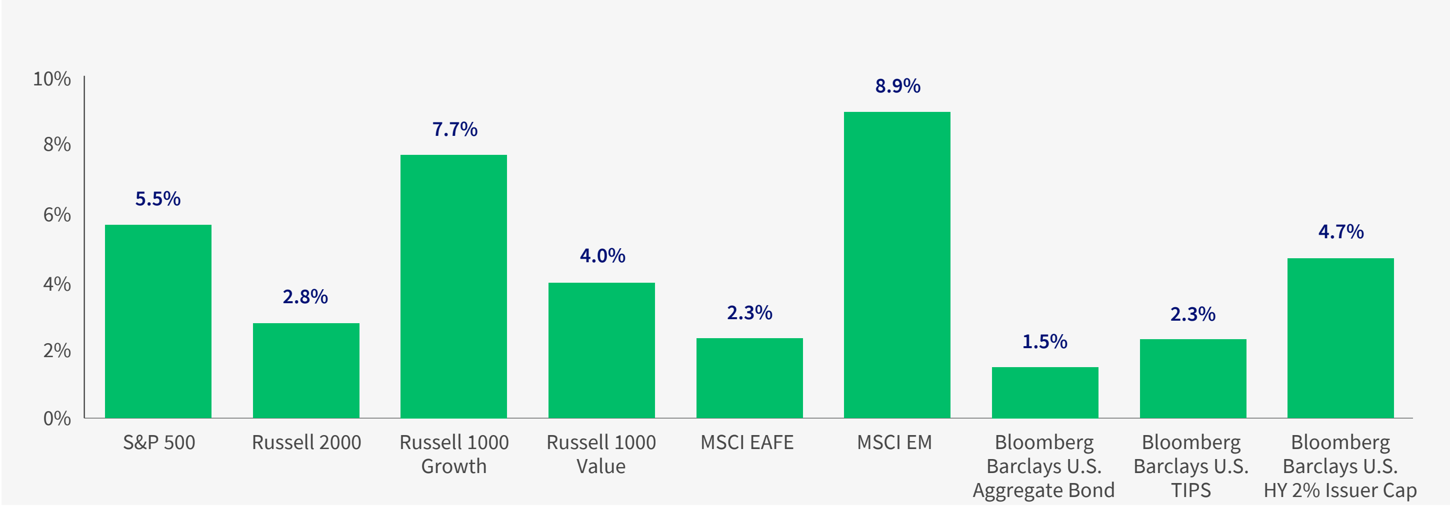
Treasury yield hits all-time low

The 10-year U.S. government yield is closely watched as an indicator of broader investor confidence about the economy. It is also a proxy for mortgage rates. On July 31, 2020, the 10-year yield touched an overnight low of 0.52%, the lowest in history. Yields tumbling to such low levels indicate uncertainty about U.S. economic growth, risks in financial markets and that inflation is likely to remain low. It has also pushed U.S. mortgage rates to new lows.

10-year Treasury yield over time

Source: Federal Reserve Bank of St. Louis

Chart 1: Index Returns – July 31, 2020



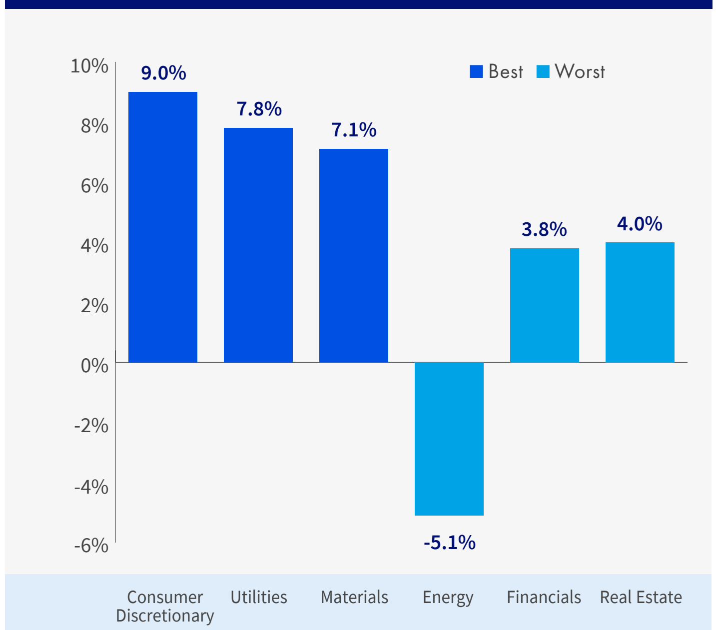
Source: SAAMCo and Morningstar, Inc. Indices are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Japan, have also seen signs of new outbreaks. COVID-19 likely will continue to disrupt the global economy to some extent for the rest of the year and perhaps longer. Financial markets are counting on one or more successful vaccines by year end to limit COVID-19's damage.

The "FANMAG" phenomenon

Broad U.S. market indices have turned positive year to date but performance has been very mixed. U.S. small-cap and value-oriented stocks still have double-digit losses year to date, while U.S. mid- and large-cap growth stocks have double-digit gains. But the primary driver of returns this year has been the FANMAG stocks—FaceBook, Amazon, Netflix, Microsoft, Apple, and Google (Alphabet). These six companies have grown from about 18% of the S&P 500 Index at the beginning of the year to over 25% at month's end and have driven the S&P 500 Index's positive returns year to date. FANMAG stocks' strong returns are not a new phenomenon. But they have benefited from the stay-at-home orders and continuing consumer fears of COVID-19. This has come at a cost to valuations. According to Yardeni Research, Inc., their higher valuations boosted the S&P 500 Index's next 12-month P/E by over 2.5 points to 22.4 at the end of July.

Chart 2: Best & Worst Performing S&P 500 Sectors
July 31, 2020



Source: SAAMCo and Morningstar, Inc.
Past performance is no guarantee of future results.

Past performance does not guarantee future results.
Diversification does not guarantee investment returns and does not eliminate the risk of loss.

The price of **equity** securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably.

Bonds may cause the value of your investment to go up or down in response to changes in interest rates or defaults (or even the potential for future defaults) by bond issuers.

Futures contract is a legal agreement to buy or sell a particular commodity or asset at a predetermined price at a specified time in the future. Futures contracts are standardized for quality and quantity to facilitate trading on a futures exchange. The buyer of a futures contract is taking on the obligation to buy the underlying asset when the futures contract expires. The seller of the futures contract is taking on the obligation to provide the underlying asset at the expiration date.

Housing performance return is the year-over-year gain in the median existing-home price for all housing types, reported by the National Association of Realtors® every month.

Value Investing - The investor's judgment that a particular security is undervalued in relation to the company's fundamental economic value may prove incorrect.

Growth Investing- These stocks normally carry higher price/earnings ratio than many other stocks. If earnings expectations are not met, market price of growth stocks will often decline more than others stocks.

International Investing involves a greater degree of risk and increased volatility. In emerging countries, these risks may be more significant.

S&P 500® Index tracks the common stock performance of 500 large-capitalization companies publicly traded in the United States.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index and is widely recognized as representative of small-cap stocks.

Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

MSCI® EAFE® Index is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets. It includes stocks from 21 developed markets, but excludes U.S. and Canada.

MSCI® Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Barclays 1-3 Month U.S. Treasury Bill is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment-grade, and have $300 million or more of outstanding face value.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index is a component of the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, which covers fixed-rate, non-investment grade corporate debt of issuers in non-emerging market countries. It is not market capitalization-weighted--each issuer is capped at 2% of the index.

Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index consists of Treasury inflation-protected securities issued by the U.S. Treasury with a remaining maturity of one year or more.

Indices are not managed and an investor cannot invest directly into an index.

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