HB RETIREMENT®

FINANCIAL MARKET SNAPSHOT

Rolling On

July 6, 2020

Global equity markets continued to rise behind some improved economic data and the seemingly ever-present implied policy support.

In our view, this market trades with the apparent knowledge that should anything bad happen to asset prices or the economy, authorities would step forward with more stimulus.

Some improving economic data, plus underlying real and implied policy support for financial markets' continued to elevate most risk-based asset prices during June. Gains came despite a material rise in the number of coronavirus cases across many U.S. states. Investors seemed to shake off the Covid-19 developments in favor of a focus on better-than-expected jobs data, improvements in manufacturing activity, better consumer confidence, and a lift in retail sales.

Also, seemingly little attention was paid to continued deterioration in economic growth expectations. The International Monetary Fund reduced its 2020 U.S. GDP outlook to -4.9% from - 3.0%, and others have taken down their estimates as well. Most market participants seem to believe the reduction in outlooks may be overcome by a post-Covid-19 economic resurgence. Meanwhile talk of advances in Covid-19 vaccine research, plus ongoing discussion of potential, additional fiscal policy action, also provided a foundation of market support.

Table 1: Notable Returns / Yields / Spreads: Mar. '20 - Jun. '20

Source: Bloomberg

Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month
High Yield Corp Spreads = Yield-to-Worst differential vs. 10Yr Treasury (end of month)

	Mar '20	Apr '20	May '20	Jun '20
S&P 500 Index	-12.35%	12.80%	4.76%	1.98%
MSCI EAFE Index	-13.28%	6.61%	4.41%	3.45%
MSCI Emerging Markets Index	-15.41%	9.18%	0.79%	7.36%
BBG Barc U.S. Aggregate Bond Index	-0.59%	1.78%	0.47%	0.63%
10-Year Treasury Yield	0.67%	0.64%	0.65%	0.66%
U.S. HY Corp Spread (10Yr)	8.79%	7.43%	6.37%	6.19%

U.S. credit markets continued to improve through June as both U.S. investment grade and high yield credit spreads came in (bond prices higher). Emerging market bond spreads narrowed as well. Meanwhile, U.S. Treasury yields remained stubbornly low as the 10-yr benchmark closed the month at 0.66%, only a tick higher than May's-end 0.65% reading. Finally, commodity prices remained on some path to a modest recovery, led by energy and metals prices. Gold also maintained its positive trajectory.

Overall, the dramatic improvement in some economic indicators gives us reason to believe that this economy may be poised to bounce back strongly

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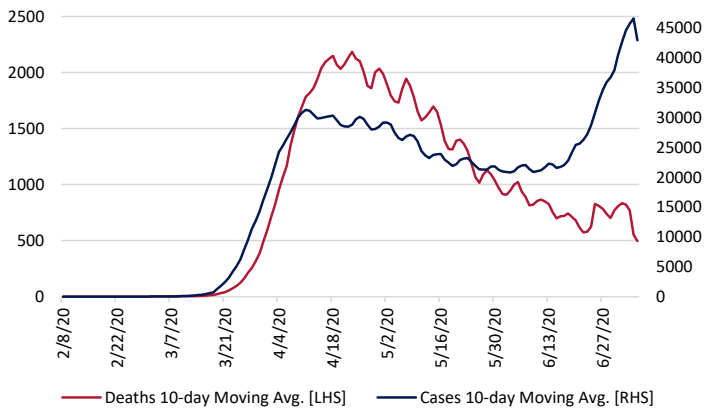
in a post-Covid-19 world. However, the question remains as to when we can put the disease in the rear view. The uptick in U.S. cases has already caused us to push back some expectations for a return to some economic normalcy. Will that be a 2021 event? We will see.

In the meantime, this market is certainly trading without much fear. It is apparent that market participants believe any drawdown in risky asset prices may be met by additional stimulus measures...thus, an apparent safety-net has been drawn. We operate with a bit more caution and are careful in extending too far out on the risk spectrum even though others apparently do not have reservations about such a thing. The evident renewed chase for yield and high-beta exposure certainly gives us some pause.

The recent directional change in U.S. Covid-19 cases and deaths of may weigh on economic growth expectations and risks stalling the recovery.

Figure 1: U.S. Covid-19 Daily Cases & Deaths - 10-day Moving Average
Source: Johns Hopkins, Bloomberg



In terms of our portfolio management work, we have indeed waded back into equity exposure but we have chosen to add to hedged and low-beta exposure as a point of practice. Given the narrowing of credit spreads during Q2, we also believe in taking some of that exposure off the table to ensure that bond allocations tilt materially toward "core". That includes ensuring Treasuries make up a considerable portion of the bond portfolio.

Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

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The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index 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.

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