LPL RESEARCH
MARKET INSIGHT QUARTERLY

SECOND QUARTER 2020 IN REVIEW

July 2020

BEST QUARTER IN MORE THAN 20 YEARS FOR STOCKS AS ECONOMY REOPENS

Please note: All return figures are as of June 30, 2020, unless otherwise stated.

Past performance is not indicative of future results.

The economic forecasts set forth in the presentation may not develop as predicted.

- **S&P 500 Index has its best quarter ever.** The S&P 500 Index followed up first quarter 2020, one of its worst quarters ever, with its best quarter since 1998, returning 20.5%. The broader Russell 3000 Index fared even better during the quarter with its 21.5% return. Coming off severely oversold levels, stocks were lifted by evidence of a strong rebound in economic activity as states reopened, bolstered by massive fiscal and monetary stimulus. Optimism regarding potential COVID-19 therapeutics and vaccines further fueled one of the strongest rallies ever from the bear market low on March 23. The strong rally left the total return for the S&P 500 (including dividends) down just 3% on the year as of June 30.

  Within the broad market, small cap stocks outpaced large caps, benefiting from their relatively greater sensitivity to strong market rallies and tendency to outperform early in economic cycles. Growth stocks were beneficiaries of the lockdowns, which benefited such growth areas of the market as technology, digital media, and e-commerce, while financial services stocks underperformed and weighed on value stocks.

  The most economically sensitive sectors generally outperformed, led by consumer discretionary and technology, while energy and materials also outpaced the broad stock market indexes.

1 Q2 2020 AT A GLANCE

	Q2 2020
Gross Domestic Product*	-33.7%
S&P 500 Index	20.5%
Bloomberg Barclays U.S. Aggregate Bond Index	2.9%
Bloomberg Commodity Index	5.1%

Source: LPL Research, Bloomberg, FactSet 06/30/20

*Bloomberg consensus as of June 30, 2020.

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 04/01/20–06/30/20 (Q2).

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Regionally, emerging market and developed international stocks produced solid gains in the quarter, but they were unable to keep up with the US rally, as the MSCI Emerging Markets and EAFE Indexes both lagged the S&P 500 and Russell 3000 Indexes.

- **Credit paced solid fixed income returns.** Despite the strong stock market rally, US Treasuries still saw solid demand, with the 10-year Treasury yield actually dipping 0.04% (4 basis points) over the quarter to 0.66% on June 30. Steady Treasury yields and narrowing credit spreads as corporate bonds recovered from distressed levels, supported by the Federal Reserve's (Fed) massive stimulus efforts, helped the broad Bloomberg Barclays US Aggregate Bond Total Return Index advance 2.9% over the quarter, bringing the first-half return to an impressive 6.1%.

  Within fixed income, the most economically sensitive sectors, such as emerging market debt and high-yield corporate bonds, paced quarterly gains. High-yield bond credit spreads narrowed significantly, powering the Bloomberg Barclays US Corporate Total Return Index to a 10.2% gain, although credit spreads still remained well above typical expansion norms as the quarter ended. Treasuries and mortgage-backed securities lagged with fractional quarterly gains.

  During the quarter, Fed policymakers maintained the target range for the federal funds rate at 0–0.25%. In the policy statement released at the conclusion of its June 9–10 policy meeting, the Fed emphasized that it did not expect to raise rates until it was clear the economy had effectively navigated the COVID-19 crisis and was on a stable path to recovery. Projections released at the meeting's conclusion showed a median expectation that the Fed would not raise rates until after 2022.

- **Oil and copper highlight lackluster quarter for commodities overall.** The Bloomberg Commodity Index gained just 5.1% during the second quarter, recovering only a small piece of its 23.3% first quarter plunge. Crude oil and copper registered very strong gains of more than 20%, benefiting from the economic reopening, relatively strong performance by China's economy, and a weaker US dollar. Gold, which attracted some safe-haven demand and benefited from massive monetary stimulus, rose 12.1%. Losses for the broad agriculture complex, particularly wheat and livestock, and natural gas weighed on the overall return for the Bloomberg Commodity Index.

US Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. They 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.

Please see our annual *Midyear Outlook 2020* publication for additional descriptions and disclosures.

A LOOK FORWARD

The trajectory of the economic recovery remains uncertain, but based on the depth of the contraction and a multi-staged recovery, our 2020 base case forecast calls for a 3–5% contraction in US gross domestic product. We expect economies in Europe to contract more than the United States or Japan in 2020. So far, China has led the way out of the global crisis in terms of containing the virus and reopening its economy.

As the second half of the year began, stocks may have been pricing in a steady economic recovery beyond 2020 that may be supported if we receive breakthrough treatments to end the COVID-19 pandemic. However, the optimism reflected in stocks also may limit their upside potential over the rest of the year. Our 2020 year-end S&P 500 Index target range is 3,250–3,300, based on a price-to-earnings ratio (PE) of just below 20 and a normalized earnings per share (EPS) number of $165.

We expect interest rates to remain at historically low levels, but the direction may be higher over the rest of 2020. Our year-end base-case forecast for the 10-year US Treasury yield is 1–1.5%, which would be the lowest level to end a year on record, if realized, and may result in little return from bonds.

For more on LPL Research's outlook for the second half of 2020, please refer to our *Midyear Outlook 2020: The Trail to Recovery*.

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2 CONSUMER DISCRETIONARY AND TECH LED IN Q2

S&P 500 Sector Performance, Ranked by Second Quarter Returns

Sector	Q2 2020
Consumer Discretionary	32.9%
Technology	30.5%
Energy	30.5%
Materials	26.0%
S&P 500	20.5%
Communication Services	20.0%
Industrials	17.0%
Healthcare	13.6%
Real Estate	13.1%
Financials	12.2%
Consumer Staples	8.1%
Utilities	2.7%

3 LED BY GROWTH, STOCKS CAME BACK STRONG

Domestic and International Asset Class Performance, Ranked by Second Quarter Returns

Asset Class	Q2 2020
Small Growth	30.6%
Mid Growth	30.3%
Large Growth	27.8%
Russell 3000	22.0%
S&P 500	20.5%
Mid Value	19.9%
Small Value	18.9%
Emerging Markets	18.2%
Large Foreign	15.1%
Large Value	14.3%

4 ECONOMICALLY SENSITIVE FIXED INCOME LED IN Q2

Bond Market Performance, Ranked by Second Quarter Returns

Sector	Q2 2020
EM Debt	11.2%
High-Yield Corporates	10.2%
Investment-Grade Corporates	8.2%
Preferred Stocks	7.2%
Bank Loans	6.6%
High-Yield Munis	4.6%
TIPS	4.2%
Foreign Bonds (Unhedged)	3.0%
Bloomberg Barclays US Agg	2.9%
Munis	2.7%
Foreign Bonds (Hedged)	1.4%
MBS	0.7%
US Treasuries	0.5%

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg Barclays U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg Barclays U.S. MBS Index; Investment-Grade Corporate – Bloomberg Barclays U.S. Corporate Bond Index; Municipal – Bloomberg Barclays Municipal Bond Index; Municipal High-Yield – Bloomberg Barclays Municipal High Yield Index; TIPS – Bloomberg Barclays Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg Barclays U.S. High Yield Loan Index; High-Yield – Bloomberg Barclays U.S. Corporate High Yield Index; Emerging Market Debt – JP Morgan Emerging Markets Global Index; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged)

Sources: LPL Research, FactSet 06/30/20

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

The S&P 500 sectors are represented by the 10 S&P 500 Global Industry Classification Standard (GICS) indexes.

The domestic and international asset class sectors are based on the Russell Midcap Growth, Russell 1000 Growth, S&P 500, Russell 3000, MSCI EAFE, Russell 1000 Value, Russell Midcap Value, Russell 2000 Growth, Russell 2000 Value, MSCI Emerging Markets Indexes.

IMPORTANT DISCLOSURES

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. The economic forecasts set forth in this material may not develop as predicted. All performance referenced is historical and is no guarantee of future results.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

Yield is the income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost its current market value or its face value.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

For a list of descriptions of the indexes referenced in this publication, please visit our website at lplresearch.com/definitions.

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