Goodman Financial
30 Years
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

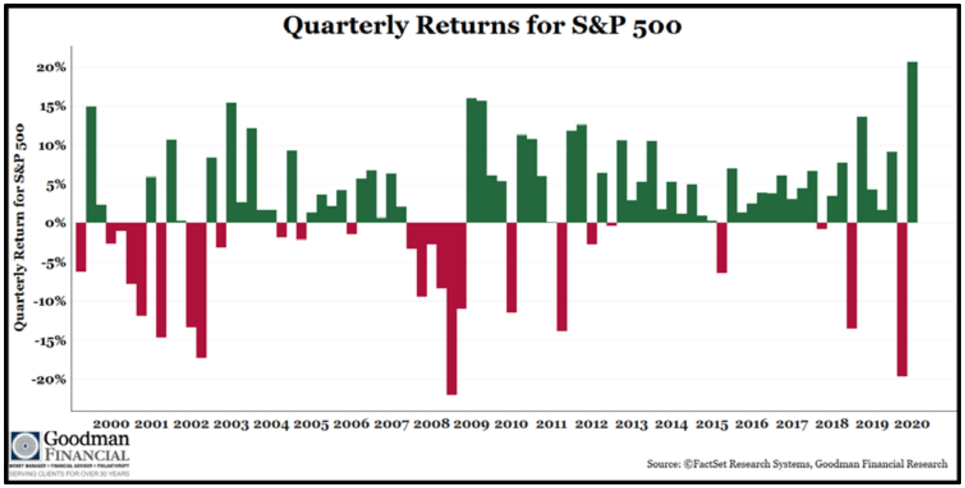
Q2 2020
MARKET & ECONOMIC REVIEW

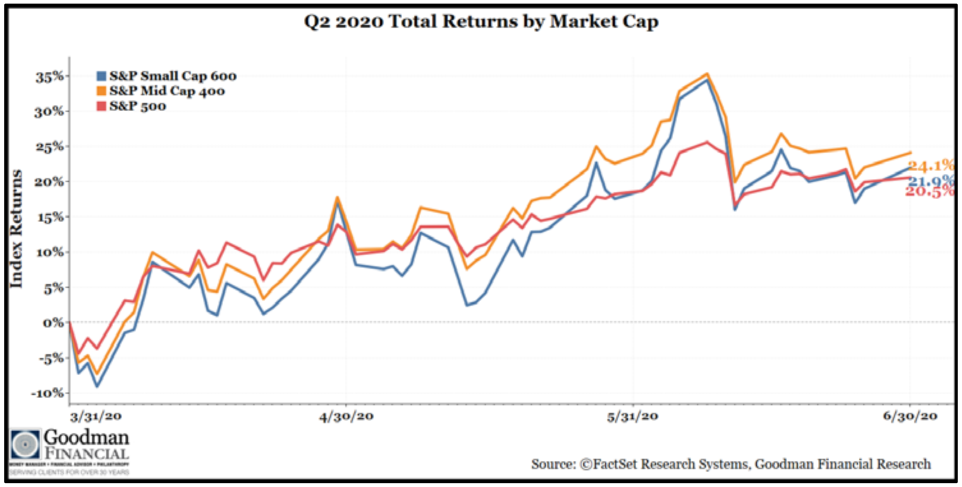
INDEX	DESCRIPTION	3/31/20	LOW CLOSE	HIGH CLOSE	6/30/20	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	2,585	2,471	3,232	3,100	+20.0%
DJIA	Dow Jones Industrial Average or "The Dow"; A price weighted average of 30 major U.S. companies.	21,917	20,944	27,572	25,813	+17.8%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	7,700	7,361	10,131	10,059	+30.6%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,153	1,052	1,537	1,441	+25.0%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	18,917	17,819	23,178	22,288	+17.8%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	849	827	1,015	995	+17.3%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	320	309	375	360	+12.6%

*** Excludes effects of dividends** **Source: FactSet**

Major Equity Market Indexes & Commentary

- Following one of the worst quarters ever for stocks in Q1, stock indices worldwide posted significant gains in Q2. As seen in the chart below (left), the S&P 500 had its best quarter in over 20 years.
- As seen in the chart below (right), small-cap and mid-cap stocks outperformed large-caps in Q2, albeit in a minor way. As we mentioned last quarter, we believe the long period of small and mid-cap underperformance may finally be over. We had cited research by Jefferies Group, showing how small and mid-cap stocks have historically outperformed large-cap stocks coming out of recessions. This has been the case so far in this recovery and we see no reason to think it should not continue for the foreseeable future.
- S&P 500 stocks are currently yielding around 1.9% significantly more than the 0.66% 10-year Treasury yield. By itself, this is an unusual condition, having occurred only a few times in the past 50 years. This is positive for stocks as they are now a competitive investment in what is once again a yield-starved world. It is also the basis for what some call the reason to own stocks – TINA, "**T**here **I**s **N**o **A**lternative"! That said, because of such low interest rates, we are also now in a low-return environment for all assets, stocks included.





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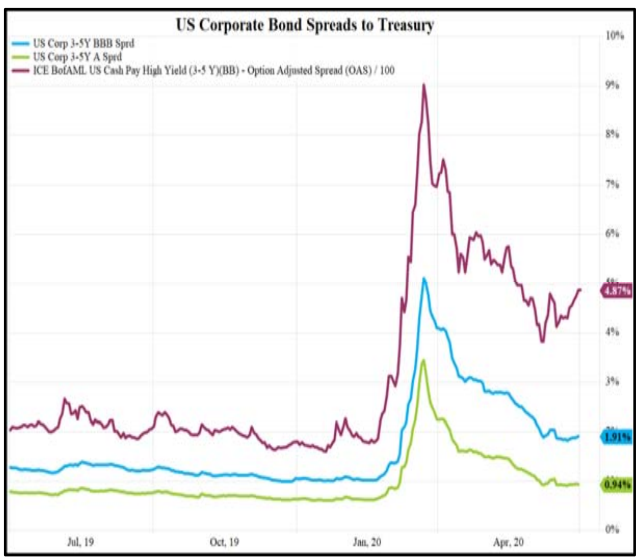
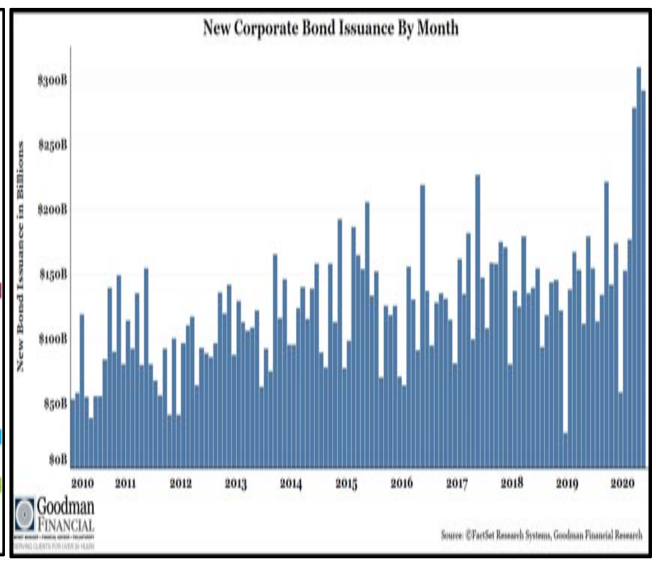
DESCRIPTION	3/31/20	6/30/20	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	3/31/20	6/30/20	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.00%-0.25%	0.00%-0.25%	→ 0	15 Yr. Mortgage Rate	2.92%	2.59%	↓ -33
90 Day Treasury Bill	0.11%	0.16%	↑ 5	30 Yr. Mortgage Rate	3.50%	3.13%	↓ -37
2 Yr. Treasury Note	0.23%	0.16%	↓ -7	Prime Rate (U.S.)	3.25%	3.25%	→ 0
10 Yr. Treasury Note	0.68%	0.66%	↓ -2	LIBOR (3 Month)	1.45%	0.30%	↓ -115
30 Yr. Treasury Bond	1.35%	1.41%	↑ +6	5-Year CD	1.49%	1.28%	↓ -21

***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury





Fixed Income Rates & Commentary

- U.S. Treasury bonds posted small gains in Q2 as treasury yields of all maturities were mostly unchanged during the quarter. Unless treasury yields go to or below zero (never say never!), further gains in U.S. treasury bond prices would seem to be unlikely from here.
- Corporate bonds on the other hand, posted solid gains in Q2. Short-term investment grade corporate bonds (like the ones that GFC typically buys) returned over 7% in the quarter while non-investment grade ("high yield" or "junk") bonds returned over 10%. Such positive returns came almost completely from a narrowing of corporate bond yield "spreads" to Treasury yields during the quarter, as seen in the chart below (left).
- Unprecedented support of the corporate bond market by the Federal Reserve (Fed) was the primary reason corporate credit spreads narrowed in Q2. This gave investors renewed confidence to buy and own corporate bonds. More importantly, it allowed corporations to issue new bonds, allowing them to refinance existing debt and, in many cases eliminate any near-term liquidity concerns that investors might have had for those issuers. As seen in the chart below (right), corporations issued record amounts of new bonds these past few months.
- Last quarter we commented that "With time, mortgage rates will likely drop, assuming Treasury rates stay at their current low levels". In fact, as seen in the table above, that is exactly what happened in Q2 as the 30-year mortgage decreased by 0.37% while the 30-yr Treasury yield ***increased*** by 0.06%. The spread of mortgage rates to the benchmark 10-year Treasury rate is still historically high and so, there is reason to believe that mortgage rates still have room to fall…assuming Treasury yields don't rise.

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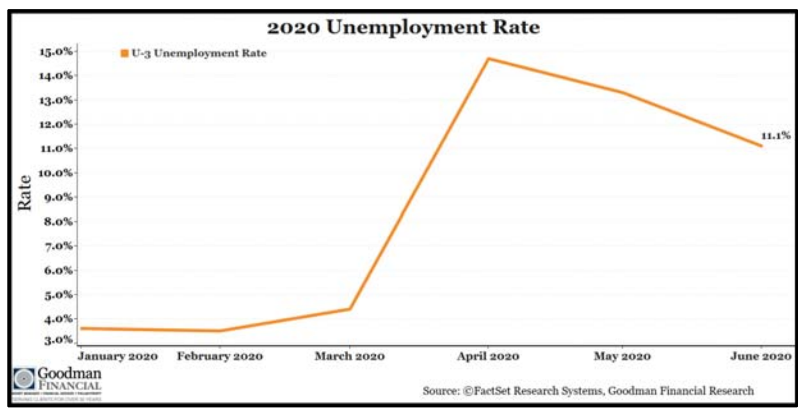
U.S. Economic Commentary

INDICATOR	DESCRIPTION	3/31/20	6/30/20	QTD CHANGE
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **While claims have fallen nicely, they are still well above the 200,000 type number we were seeing before the pandemic hit.**	3,283	1,480	↓ -55%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The increase seen was widely expected given all the lockdowns. That said, it has now peaked – and at a lower level than many had predicted a few months ago.**	3.5%	11.1%	↑ 760 bps
Average Weekly Earnings*	The average weekly salary earned by private, nonfarm employees. **The rise in wages seen this quarter is a result of more lower wage jobs leaving the economy than those with higher wages, bringing the average up, sadly.**	$981	$1,032	↑ 5.2%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Given the level of unemployment, the sentiment decrease is no surprise. We should see increases as the economy reopens and employment picks up.**	89.1	78.1	↓ -11.0%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **The PMI number was a bit of good news. This is a more forward looking indicator, so good news here.**	49.1	52.6	↑ +2.1%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes and condominiums. **Home sales declined as listings declined due to concerns by both sellers and buyers to do home tours. Sales look to be on the increase now.**	5.78	3.91	↓ -32.4%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization declined as many factories remained closed due the Covid-19 pandemic.**	75.6%	62.6%	↓ -13.0%

***These items are as of 5/31/20, the date of the most recently published statistics**

Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management

- To nobody's surprise, the National Bureau of Economic Research (NBER) has declared that the U.S. is officially in a recession (the NBER is the official arbiter of calling U.S. recessions). Per FactSet, economists now estimate that U.S. real GDP fell at an almost unbelievable and historical 32% annualized rate in Q2. Just 3 months ago, those same economists had predicted the annualized fall would be "only" 14%. The good news is that the economic impact of Covid-19 should be short-lived, though the following recovery may not be as fast as we thought a few months ago. Economists currently predict that Q3 and Q4 2020 real GDP will grow at annualized rates of 17% and 8%, respectively. This can be seen in the chart below (left), where the magnitude of the Q2 GDP decline is put in a 40-year perspective.
- While unemployment remains at historically very high levels, the reopening of the economy has put many previously laid-off workers back to work. This is demonstrated by the decline of weekly new claims for unemployment insurance (as seen in the attached table) and in the falling unemployment rate from its highs in late March, as seen in the chart below (right). Certainly, there is much work to be done to recover all these lost jobs, but at least we are going in the right direction.



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