

# Student of the Market

July 2020



# Student of the Market: July 2020

- 1 9<sup>th</sup> best calendar quarter for U.S. stocks**

The quarter ending 6/30/20 was the 9<sup>th</sup> best quarter in the history of the S&P, happening shortly after the large downturn in March of this year. Most of the top 20 best quarters in market history occurred closely after a large downturn or recession, with an average return of 14.7% in the following 1-year period.
- 2 Record assets in money market funds**

The amount of assets in money market funds is the highest it's ever been (\$4.8T). The previous two records followed the Dot Com Bubble (Jan-03, \$2.3T) and the Global Financial Crisis (Jan-09, \$3.8T). Investors in money market funds at each time may have missed strong stock market returns over the next three years (16.4% and 19.2%, respectively).
- 3 U.S. stock sector underweights tend to outperform**

Stock sectors in the S&P 500 that become underweight their historical average tend to outperform the broader index over the following three years, on average. Those that become overweight tend to do the opposite. In 2020, there are four sectors experiencing a historic low in their index weighting: Consumer Staples, Energy, Financials, and Industrials.
- 4 Growth vs Value**

Many stocks in sectors such as Energy and Financials are currently undervalued, leading to large weightings in value indices for each sector. Historically, it's rare for both of these sectors to underperform the S&P 500 at the same time.
- 5 Individual U.S. stocks vs U.S. stock funds**

U.S. stocks as a whole are up 10.7% over the last five years, but more than half of the individual stocks in the market lost money. Diversification proved more effective: only 7% of stock mutual funds and ETFs lost money over that same time period.
- 6 Going against the crowd in emerging market stocks**

Emerging Market stock funds have seen large outflows since the beginning of the year, a sharp reversal from the year prior. Historically, Emerging Market funds have returned almost twice as much in the three years following periods of outflows compared with the same timeframe following periods of inflows.
- 7 Interest rate environments and bond performance**

10-year Treasury rates are currently near historic lows. With the Federal Reserve resistant to negative interest rates, there's more room for rates to increase than to decrease in the future. Some bond asset classes, such as High Yield and Bank Loans, have performed well in rising rate environments in the past.

Source: Morningstar as of 6/30/20. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

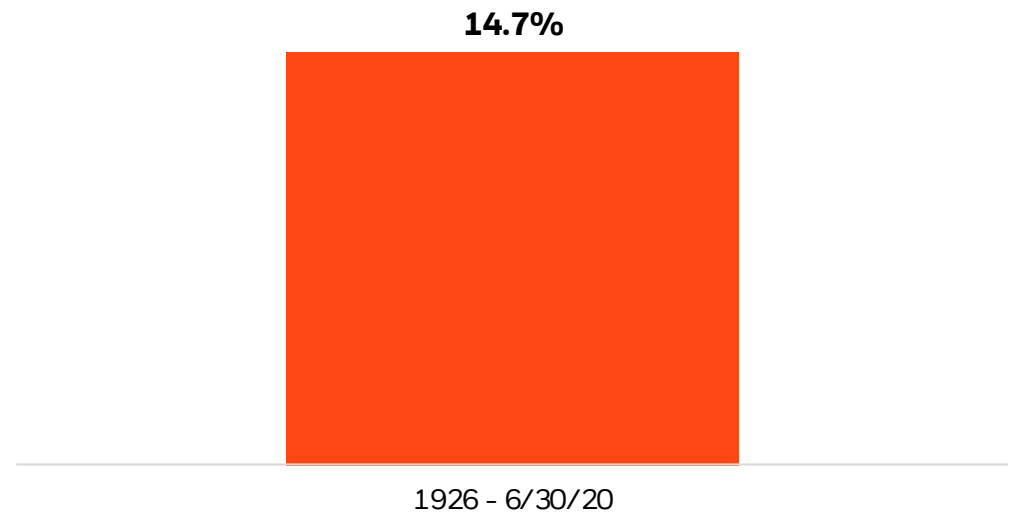
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# 9<sup>th</sup> best calendar quarter for U.S. stocks

## Best calendar quarters (1926 - 6/30/20)

Qrt end	Qrt return	Next 12 mo.
Jun-33	88.8	-6.1
Sep-32	85.0	29.3
Jun-38	38.4	-1.9
Mar-75	23.0	28.3
Jun-35	22.3	51.5
Mar-87	21.4	-8.3
Dec-98	21.3	21.0
Sep-39	21.2	-13.0
<b>Jun-20</b>	<b>20.5</b>	<b>?</b>
Mar-43	19.8	9.4
Dec-82	18.3	22.6
Mar-30	18.0	-30.2
Jun-97	17.5	30.2
Dec-35	17.3	33.9
Sep-27	17.3	30.3
Dec-85	17.2	18.7
Sep-70	16.9	20.6
Jun-09	15.9	14.4
Sep-09	15.6	10.2
Jun-03	15.4	19.1

## Avg. 1-year return following the top 20 calendar quarters

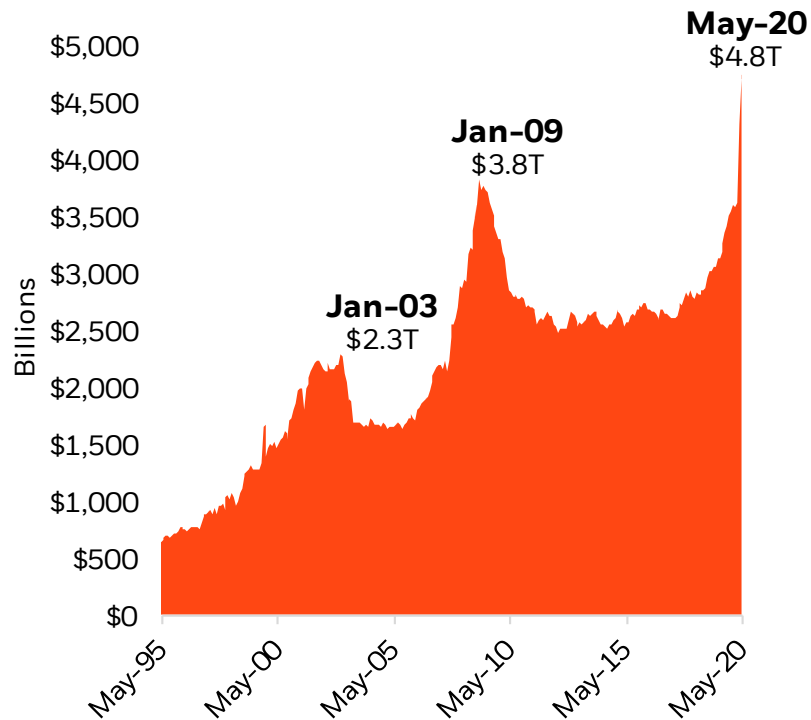


Morningstar as of 6/30/20. Stock market represented by the IA SBBI U.S. Large Cap Index, an unmanaged index that is generally considered representative of the U.S. stock market. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

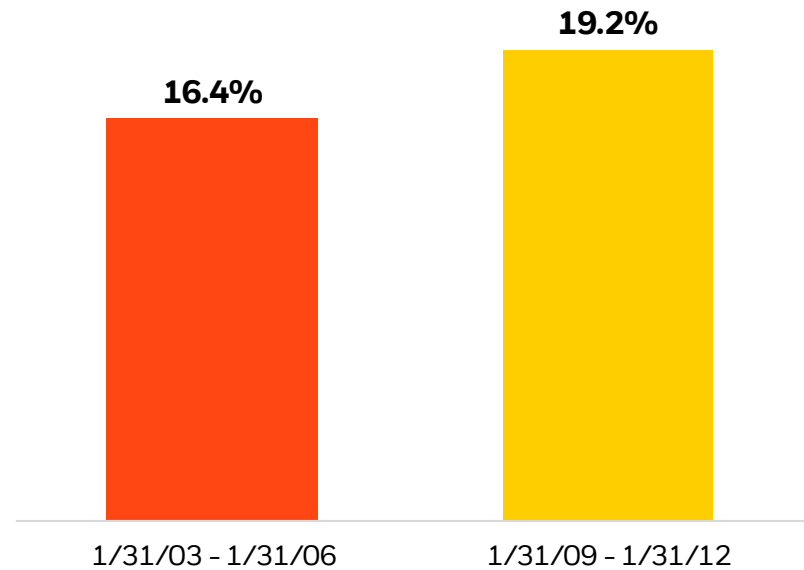
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## Record assets in money market funds

### Money market fund assets (6/1/95 – 5/31/20)



### 3-year U.S. stock performance following a peak in money market fund assets Average annual performance



Morningstar as of 5/31/20. U.S. stocks represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# 3

# U.S. stock sector underweights tend to outperform

Relative performance vs. the S&P 500 following a historical high or low in sector weightings  
(3-year average annual performance relative to the S&P 500, 1991- 6/30/2020)



## Annual sector weighting in the S&P 500

Index weight percentage, 1991- 6/30/20

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Avg	Max	Min
Comm Service	8.9	9.3	10.3	8.5	8.3	6.6	7.3	7.8	6.6	6.2	5.9	5.6	4.8	4.6	3.9	6.2	6.2	6.3	6.2	6.1	6.2	6.6	7.2	7.4	9.2	9.0	9.3	9.5	10.1	10.8	7.4	10.8	3.9
Consumer Disc	6.2	7.5	8.3	8.6	7.6	7.1	7.4	9.0	9.5	6.7	8.1	7.5	8.3	9.0	8.5	8.2	6.7	7.0	8.0	8.9	8.8	9.4	10.2	10.0	10.3	9.9	10.1	10.6	10.0	10.8	8.6	10.8	6.2
Consumer Stpls	13.5	12.9	10.7	11.2	10.9	10.8	10.6	9.9	7.6	8.5	9.3	11.1	10.0	9.8	9.7	9.2	10.0	11.7	10.6	10.4	11.3	10.5	9.6	9.5	9.8	9.2	8.1	7.4	7.2	7.0	9.9	13.5	7.0
Energy	9.0	8.6	8.6	8.5	7.9	8.2	7.6	5.4	4.9	6.3	6.1	6.5	6.3	7.5	9.3	9.8	12.8	13.9	12.7	12.9	12.3	11.0	10.4	8.4	6.5	7.6	6.1	5.3	4.3	2.8	8.2	13.9	2.8
Financials	13.3	15.6	15.5	14.9	16.4	17.6	19.6	16.9	14.3	18.8	19.5	21.3	21.5	21.2	21.3	21.7	17.1	12.3	11.5	11.4	11.9	13.5	14.3	14.2	13.7	14.8	14.8	13.4	12.9	10.1	15.9	21.7	10.1
Health Care	15.5	12.4	10.4	11.4	13.2	12.4	13.2	14.5	10.8	15.6	15.7	16.0	14.4	13.3	13.5	12.2	12.3	15.2	13.2	12.0	12.2	12.5	13.4	14.8	15.7	13.8	13.9	15.5	14.2	14.6	13.6	16.0	10.4
Industrials	11.4	11.6	12.8	12.0	12.3	12.3	11.6	10.1	10.2	11.0	11.6	11.2	11.5	12.2	11.7	11.1	11.8	11.3	11.0	11.9	10.7	10.2	10.9	10.3	9.9	10.3	10.3	9.2	9.0	8.0	11.0	12.8	8.0
Infor Tech	9.1	9.5	10.3	12.7	12.8	15.6	14.8	20.4	31.3	21.1	17.8	14.6	16.9	15.7	15.2	14.1	15.1	14.4	18.6	18.3	17.3	17.2	15.7	16.6	16.4	16.5	18.7	20.1	23.2	27.5	16.9	31.3	9.1
Materials	4.7	4.9	5.0	5.3	4.5	4.2	3.4	2.3	2.4	2.1	2.4	2.8	3.0	3.0	3.0	2.9	3.3	3.0	3.3	3.6	3.4	3.4	3.4	3.1	2.8	2.8	3.0	2.7	2.7	2.5	3.3	5.3	2.1
Real Estate	0.3	0.4	0.7	0.7	0.6	0.6	0.5	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.5	1.0	1.1	1.1	1.2	1.4	2.1	2.4	2.0	2.4	2.7	2.9	2.9	3.0	2.9	2.8	1.3	3.0	0.3
Utilities	8.0	7.4	7.3	6.2	5.6	4.5	4.0	3.3	2.1	3.4	3.1	3.1	2.9	3.1	3.4	3.6	3.6	4.0	3.5	3.1	3.7	3.2	2.8	3.2	3.0	3.2	2.9	3.3	3.3	3.1	3.9	8.0	2.1

Morningstar as of 6/30/20. Stock market represented by the IA SBBI U.S. Large Cap Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

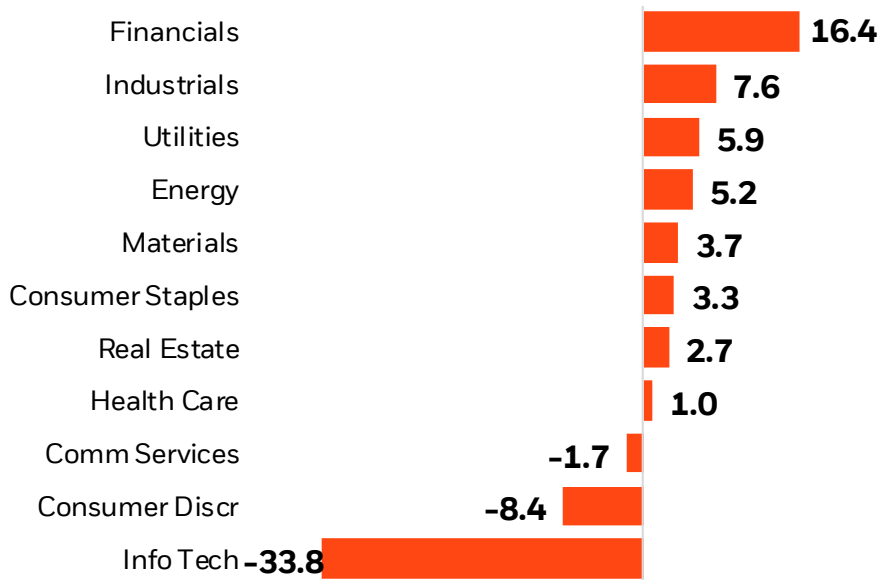
# 4

## Growth vs Value

Rare for energy and financial sectors to trail the S&P 500 at the same time

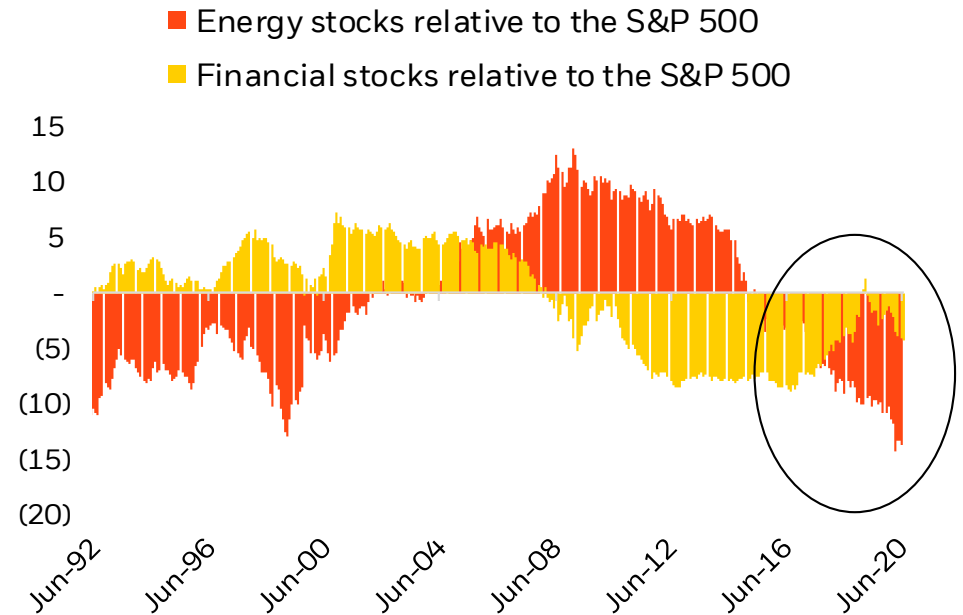
### Value vs Growth index composition difference

Value index weight minus growth index weight, as of 6/30/20



### 10-year rolling performance vs the S&P 500

(7/1/92 - 6/30/20)



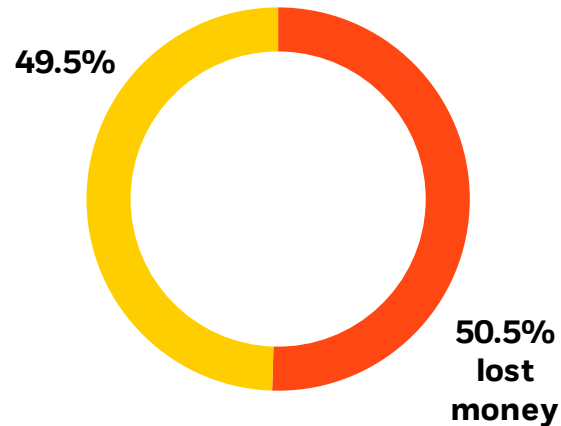
Morningstar as of 6/30/20. Value stocks represented by the Russell 1000 Value Index, an unmanaged index that is generally considered representative of value stocks. Growth stocks by the Russell 1000 Growth Index, an unmanaged index that is generally considered representative of growth stocks. Energy stocks by the S&P 500 Sector/Energy Index, an unmanaged index that is generally considered representative of energy sector stocks. and Financial stocks by the S&P 500 Sector/Financial Index, an unmanaged index generally considered representative of financial sector stocks. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# 5

## Individual U.S. stocks vs U.S. stock funds

U.S. stock index is up 10.7% over the last 5 years

### Individual U.S. stocks



### U.S. stock funds and ETFs (mutual funds and ETFs)



	# positive	# negative	% lost money
U.S. stocks	1793	1828	50.5%
U.S. stock mutual funds	1638	134	7.6%
U.S. stock ETFs	236	10	4%

Source: Morningstar as of 6/30/20. Mutual Funds and ETFs are the Morningstar U.S. Equity Category, oldest share class only. US Individual Stocks are the Morningstar US Stock Universe, all securities on the NYSE and NASDAQ. Analysis does not include obsolete mutual funds, ETFs or stocks as defined by Morningstar. **Performance is historical and does not guarantee or indicate future results.**

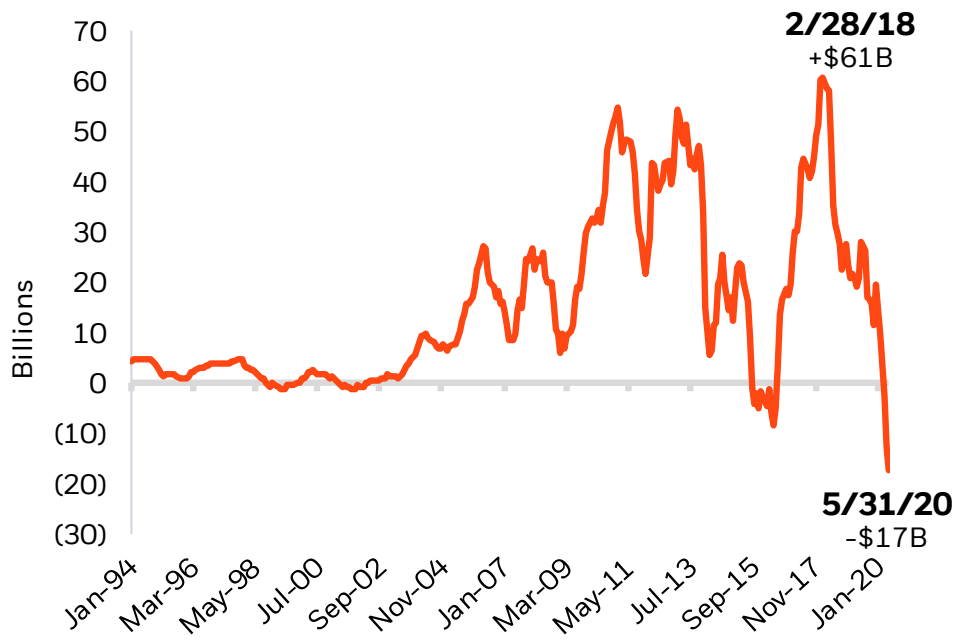
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# Going against the crowd in emerging market stocks

Historically emerging market returns are best following periods of outflows

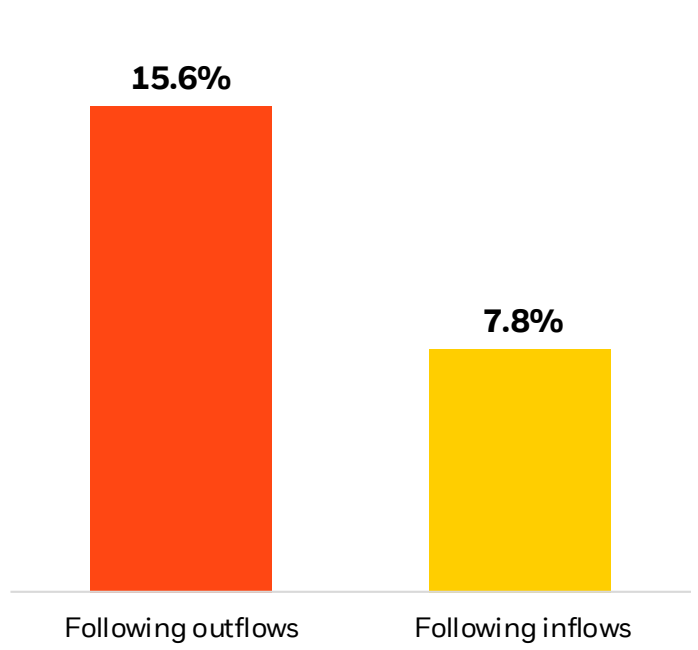
### Emerging market stock fund flows

(12-month rolling flow Mutual Funds and ETFs, 1/1/94 – 5/31/20)



### 3-year performance following inflow or outflow periods

(1/1/94- 5/31/20)



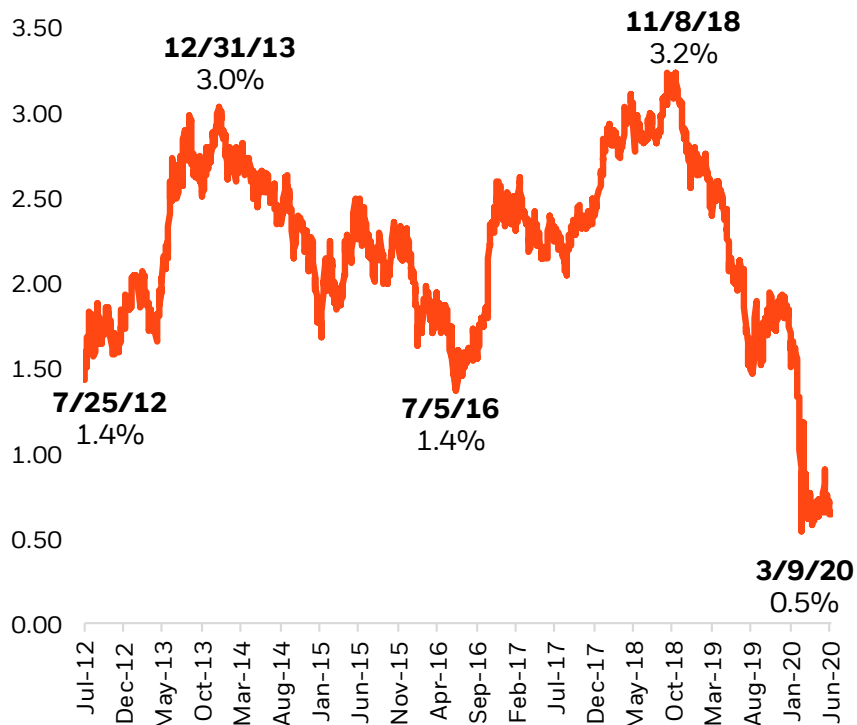
Morningstar as of 5/31/20. Emerging market stocks represented by FTSE Emerging Index from 1/1/1994 to 12/31/2000 and the MSCI EM index from 1/1/2001 to 6/30/2020, unmanaged indices that are generally considered representative of emerging market stocks. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.



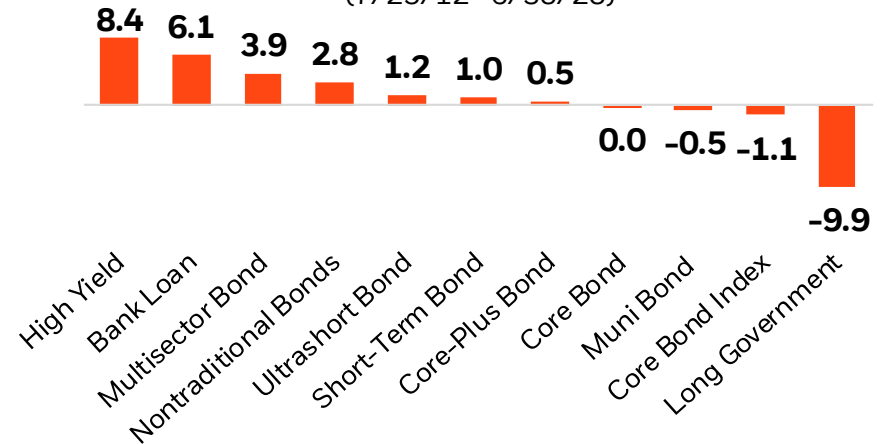
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# Interest rate environments and bond performance

**Interest rate changes**  
(10-year U.S. Treasury Bond)



**Bond fund and index performance when interest rates go up**  
(7/25/12 - 6/30/20)



	Rising interest rate environment	Falling interest rate environment
High Yield Bond Index	8.4	3.2
Bank Loan Index	6.1	1.2
Multisector Bond Funds	3.9	4.3
Nontraditional Bond Funds	2.8	1.5
Ultrashort Bond Funds	1.2	1.6
Short-Term Bond Funds	1.0	3.0
Core-Plus Bond Funds	0.5	7.6
Core Bond Funds	-0.0	7.8
Muni Bond Index	-0.5	8.7
Core Bond Index	-1.1	9.2
Long Government	-9.9	26.8

Morningstar as of 6/30/20. U.S. core bond index s represented by BbgBarc US Bond Index, high yield bonds by the BbgBarc US corporate high yield index, bank loans by the S&P LSTA leveraged loan Index, multisector bonds by the Morningstar multisec tor bond fund category, nontraditional bonds by the Morningstar nontraditional bond fund category, Ultrashort bonds by the Mornin gstar multisec tor bond category short term bonds by the Morningstar Short term bond category, core-plus bonds by the Morningstar core-plus bond category, core bonds by the Morningstar core bond category, Muni Bonds by the BbgBarc muni bond index and long government by the Morningstar long government bond index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Student of the Market: July 2020

Returns as of 6/30/2020	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	7.51	10.73	13.99
BBgBarc Municipal TR USD	4.45	3.93	4.22
BBgBarc US Agg Bond TR USD	8.74	4.30	3.82
BBgBarc US Corporate High Yield TR USD	0.03	4.79	6.68
FTSE Emerging TR USD	-3.27	2.93	3.62
IA SBBI US Large Stock TR USD Ext	7.51	10.73	13.99
MSCI EM NR USD	-3.39	2.86	3.27
Russell 1000 Growth TR USD	23.28	15.89	17.23
Russell 1000 Value TR USD	-8.84	4.64	10.41
S&P 500 Sec/Energy TR USD	-36.09	-9.18	0.21
S&P/LSTA Leveraged Loan TR	-1.99	2.89	4.17
US Fund Intermediate Core Bond	7.89	3.90	3.66
US Fund Intermediate Core-Plus Bond	6.83	3.98	4.16
US Fund Long Government	24.11	8.86	7.65
US Fund Money Market - Taxable	1.22	0.80	0.41
US Fund Multisector Bond	0.69	3.30	4.44
US Fund Nontraditional Bond	-0.51	2.07	2.79
US Fund Short-Term Bond	3.09	2.18	2.08
US Fund Ultrashort Bond	1.78	1.64	1.23
S&P 500 Sec/Financials TR USD	-13.92	5.41	9.68

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown.

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