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## **Second-Quarter 2020 Market Review ~ The Great Disconnect**

### **July 2020**

- Wall Street vs. Main Street, The Great Disconnect?
- Despite a contracting economy, stocks rallied in the second quarter.
- Large, publicly traded companies ended mid-year with minimal losses, some with gains.
- Time will tell how the coronavirus affects smaller publicly traded and privately owned companies.

Wall Street vs. Main Street, The Great Disconnect? Despite record unemployment levels and a contracting economy due to coronavirus-induced business closures, stocks rallied in the second quarter, reversing much of the first-quarter collapse. It was the best quarter for the Standard & Poor's 500-stock index since 1998, rebounding 20.5% (total return), while the Dow Jones Industrial average jumped 17.8% and the NASDAQ Composite index soared 31.0%.



With a level of job losses not seen since The Great Depression, all employment gains over the past decade were wiped out in one month (April). Total unemployment claims during the pandemic have exceeded 40 million, with initial weekly claims above one million for 15 consecutive weeks. The pre-pandemic weekly record was 695,000 in 1982.

Unlike prolonged market declines during the Great Depression and the Great Recession, stocks surged in the second quarter even though job losses mounted and COVID-19 infections spiked. Pundits will surely come up with a name for this period, but from an investor standpoint, it may be known as "The Great Disconnect." Large, well-established, publicly traded companies ended mid-year with minimal losses and some with gains, while smaller domestic and all international stocks finished with mostly double-digit declines.

After sinking nearly 34% from its all-time mid-February high to its March 23 low (a loss of nearly 29% year-to-date) the S&P 500, comprised of the largest 500 U.S. companies, briefly turned positive in early June and ended the quarter lower by only 3.1% (total return). Moreover, the tech-heavy NASDAQ, with many companies benefitting from the stay-at-home economy, turned positive for 2020 in early May, crossed the 10,000 mark for the first time ever and continued to set all-time highs in June, and was higher by 12.4% at quarter end.

With uncertainty about the COVID-19 path and some of the economy still in "time-out", time will tell how the coronavirus affects smaller publicly traded and privately owned companies.

Bond markets also recovered during the second quarter, with U.S. Corporate High Yield and International Emerging Markets Bonds at the top of the pack with 10% jumps. Short-term Treasuries were little changed at quarter end, while long-term rates were a bit higher, as the

yields on the 10-year U.S. Treasury note and 30-year Treasury bond finished at 0.65% and 1.41%, respectively, up 5 and 17 basis points, respectively, for the quarter.

The Federal Reserve met twice during the quarter. Post-meeting statements indicated that they would keep interest rates low as long as it takes the economy to recover from the pandemic, with the expectation that rates will remain near zero through at least 2022. The Fed forecasts the unemployment rate to be 9.3% at the end of 2020 and 6.5% at the end of 2021. In April, the rate hit 14.7% after 20.5 million monthly job losses were tallied, its highest since 1982, rising from a low of 3.5% in February.

Below are rates of return for selected market indices for the second quarter and first half of 2020, and the three, five, and 10-year compound annual returns as of December 31, 2019.

<b><u>Equity (Stock) Indices</u></b>	<b><u>2Q:2020</u></b>	<b><u>YTD-2020</u></b>	<b><u>3-Year</u></b>	<b><u>5-Year</u></b>	<b><u>10-Year</u></b>
<b>Domestic</b>					
Russell 1000 - Large Cap	21.82%	-2.81%	15.05%	11.48%	13.54%
Russell Midcap	24.61%	-9.13%	12.06%	9.33%	13.19%
Russell 2000 - Small Cap	25.42%	-12.98%	8.59%	8.23%	11.83%
Real Estate (FTSE NAREIT Equity REITs)	11.82%	-18.71%	8.14%	7.21%	11.94%
Commodity (Dow Jones Commodity Index)	8.69%	-21.41%	1.54%	-2.40%	-2.88%
<b>International</b>					
MSCI EAFE Developed Large Cap	15.08%	-11.07%	10.11%	6.18%	6.00%
MSCI EAFE Developed Small Cap	20.04%	-12.91%	11.35%	9.25%	9.12%
MSCI Emerging Markets	18.18%	-9.67%	11.99%	6.01%	4.04%
Global - MSCI All Country IMI	20.00%	-6.80%	12.68%	8.92%	9.47%
<b><u>Fixed-Income (Bond) Indices</u></b>					
<b>Bloomberg Barclays</b>					
Global Aggregate - Unhedged	3.32%	2.98%	4.27%	2.31%	2.73%
Global Aggregate - Hedged	2.41%	3.90%	4.30%	3.57%	NA
U.S. Aggregate	2.90%	6.14%	4.03%	3.05%	3.75%
U.S. Treasury TIPs	4.25%	6.01%	3.32%	2.62%	4.09%
U.S. Corporate High Yield	10.17%	-3.80%	6.37%	6.13%	7.18%
Municipal	2.73%	2.08%	4.72%	3.53%	4.65%
International Emerging Markets	10.00%	-0.43%	6.07%	5.84%	7.20%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloomberg.com