What a wild ride the first half of the year has been. The onset of the coronavirus put us into a tailspin the first quarter of this year with the fastest peak to bear market territory in history. The market was suffering and so too were our people as the spread of the virus grew so rapidly. Q2 however, surprised us all by rebounding to historic highs, almost completely washing away any setbacks we endured during the first quarter. Contributing to the comeback was aggressive government fiscal and monetary stimulus and policy, promising vaccine developments, and an improved economic outlook. The market was flipped on its head during the second quarter and finished the best quarter for stocks since 1998! It's been quite a ride.

Below you will find a look back on our markets and the economy over the second quarter of this year. For additional in-depth analysis, you may read our weekly *The Markets & the Economy* communications at RocklandTrust.com/Wealth&Investments.

Key Takeaways from Q2 2020:

- The Q2 rally marked the best quarter for stocks since 1998
- States began to reopen which lead to a better than expected unemployment rating, a rise in retail sales, and improved consumer confidence but at a cost of our country's debt to GDP ratio
- Promising coronavirus vaccine developments showing initial positive results

US Economy

In the 2nd quarter of 2020, the US economy experienced the most severe economic downturn since the Great Depression as our country officially entered its first recession in more than a decade. In order to combat the growing threat of COVID-19, we intentionally shuttered our economy. This was an unprecedented move that brought business activity to a halt. The resulting economic damage has been sharp and deep, as evidenced by the Atlanta Fed's GDPNow model anticipating a 35.2% decline in real GDP growth in the second quarter.

The COVID-19 pandemic has claimed over a half a million lives worldwide and over 125,000 deaths here in the US. At one point during the quarter, 95% of Americans were under stay-at-home orders in an attempt to curb the spread of the virus and reduce strains on our healthcare system. Data from Johns Hopkins shows that social distancing was effective in flattening the curve during our country's lockdown phase. However, as state economies have begun to slowly re-open we have seen some of our progress reversed as states such as Florida, Texas, Arizona, and California have seen a recent surge in daily new cases. The uptick in COVID-19 cases calls into question the speed and success of many states reopening their economies and the continued implementation of social distancing measures may continue to impede many industries and consumer behavior until we see a successful vaccine brought to market.

After losing over 20 million jobs due to the COVID-19 pandemic business shutdowns, our labor market appears to be on the mend. The June non-farm payroll report showed that the unemployment rate fell from 13.3% to 11.1% in June and the US economy regained 4.8 million jobs. Employment metrics are slowly improving as businesses reopen and in June we saw that 40% of the employment growth job came from the disproportionately affected leisure and hospitality sectors. While recent employment numbers are encouraging and trending in the right direction, we still stand with one of the highest levels of job loss in the history of the country. Prior to the pandemic, we had the lowest unemployment rate in 50 years at 3.5%. Going forward, the recent surge of coronavirus infections in certain states could have an impact on the pace of the job market recovery.

Traditional Asset Class Returns Q2 2020

Asset Class	Benchmark	Q2
US Stocks	S&P 500	20.54%
US Gov't Bonds	BbgBarc US Govt Intermediate	0.55%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.02%

US Stocks

Despite the economic challenges, the S&P 500 is down only -3.1% on a total return basis year-to-date. Its path to get there, however, has been a volatile one. From its February peak, the S&P 500 declined -33.8% to its March 23rd low, as COVID-19 shut down economies across the country. This was followed by a +39.3% rally from the March low to the end of the quarter, as economies across the country began re-opening and massive government stimulus packages boosted market confidence. The -19.6% decline we saw in the first quarter of the year marked the fifth-worst quarter since 1950 and the worst quarter since 2008, while the +20.5% second quarter rally was the best quarter we have seen since 1998.

All 11 sectors in the S&P 500 posted positive returns in the quarter. The Consumer Discretionary (+32.9%), Information Technology (+30.5%), and Energy (+30.5%) sectors were the best performers. The Nasdaq Composite, which is heavily weighted toward large technology companies like Apple and Microsoft, has done even better, up +31.0% in the quarter and up +12.7% for the year, respectively.

From a market capitalization standpoint, Small Cap stocks (+25.4%) outperformed Large Cap stocks (+21.8%) in the quarter, however on a year-to-date basis Large Cap stocks (-2.8%) are significantly outperforming Small Cap stocks (-13.0%). From a style perspective, Growth stocks continue to significantly outperform. Growth stocks, or those stocks that are expected to grow sales/earnings faster than the market, but typically trade at higher multiples, outperformed Value stocks by over 13% in the quarter and are now outperforming by nearly +26% year-to-date.

Analysts are predicting that earnings among companies in the S&P 500 are going to contract nearly 22% this year. The biggest year-over-year declines are expected in the more cyclical Financials (-36%), Industrials (-49%), Consumer Discretionary (-57%), and Energy (-105%) sectors. The only two sectors with positive year-over-year earnings growth expectations are the Utilities and Technology sectors (+1%).

US Bonds

US interest rates experienced small changes across the curve during the 2nd quarter and the 10-year Treasury ended the quarter at 0.67%. As stated in last quarter's report, the Fed initiated a substantial and wide-ranging buying program, which included government, corporate and municipal securities, as well as high yield ETFs. This along with the government's stimulus packages first calmed and then repaired much of the damage done during late February and through March, due to the COVID-19 pandemic. Indeed, the overall investment grade and high yield credit markets continued to improve throughout the quarter returning a positive 8.5% and 9.5% for the quarter, respectively.

Calendar year-to-date US Treasury securities are still the highest returning fixed income sector at +8.7% with global investment grade bonds now in positive territory at +2.7%, while US high yield bonds remain at a loss down -4.5%.

Diversifying Asset Classes

Q2 was a risk-on environment and many of the equity-related diversifying asset classes failed to add value relative to the S&P 500 in the quarter. MLPs skyrocketed +50.2%, as oil prices recovered, and riskier Mid Cap (+24.6%) and Small Cap (+25.4%) stocks outperformed Large Cap stocks. The story was much different with regard to fixed-income investments, where many of the diversifying asset classes outperformed Intermediate Government and Corporate Bonds. Convertible bonds, which can participate in the upside due to the optionality to convert to common stock, rallied +27.4% as equity markets recovered. Riskier Emerging market bonds +11.2% and High Yield Bonds +10.2% also rallied in the month, as the reopening economies, positive economic data, and government stimulus all helped quell concerns about these markets.

Asset Class	Benchmark	Q2
Foreign Stocks	MSCI EAFE	14.88%
Emerging Markets Stocks	MSCI Emerging Markets	18.08%
US Mid Cap Stocks	Russell Mid-Cap	24.61%
US Small Cap Stocks	Russell 2000	25.42%
REITs	MSCI US REIT	11.70%
Commodities	Bloomberg Commodity	5.08%
MLPs	Alerian MLP	50.18%
Managed Futures	Morningstar US Managed Futures	(2.37%)
Foreign Bonds	FTSE WGBI Non-USD	2.98%
Emerging Market Bonds	JPM EMBI Global	11.21%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	4.24%
Floating Rate Loans	Credit Suisse Leveraged Loan	9.71%
US High Yield Bonds	BbgBarc US Corp High Yield	10.18%
Convertible Bonds	ICE BofAML Convertible Bonds	24.15%

Conclusion

The path and impact of the coronavirus has been just as volatile as the market has over the last two quarters. We are hopeful the promising news of a vaccine will continue to build, the rise in new cases will abate, and our economy will be running again smoothly in the near term. We at IMG are staying agile, responding to the changing needs of our clients and exploring optimal ways to continue to offer the personal approach you have come to expect and deserve. We accept the challenges that come with understanding and navigating this new environment and commit to finding ways to overcome them and create new opportunities.

Sincerely,

David B. Smith, CFA
Chief Investment Officer
Investment Management Group