THE CAPITAL MARKETS

Presbyterian FOUNDATION
NEW COVENANT TRUST COMPANY
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The Dow Jones Industrial Average (DJIA) finished May at 25,383 up +4.26% for the month, and down -11.06% year-to-date. The S&P 500 closed May 29 at 3,044 up +4.53% for the month, down -5.77% so far for the year. The NASDAQ Composite rose +6.75% in May, up +5.76% for the year. Small-company stocks as measured by the Russell 2000 ended May at 1,394, up +6.36% for the month, and down -16.45% year-to-date. Technology (+7.84%) was the best performing sector in May.

"The S&P 500 index finished May with its best two-month gain since April 2009, some 17.79%, and a 36.06% rise since the March 23 low." (Barron's, *Up & Down Wall Street*, Randall Forsyth, May 29, 2020)

Market Reality Diverges From Reality On the Ground

As we enter June, the surreal and unprecedented nature of 2020 continues. Over 40 million Americans have filed for unemployment since the COVID-19 pandemic began, U.S. GDP is expected to contract by as much as -50% on an annualized basis in the current quarter, and protests and civil unrest have broken out across much of the country following the police killings of George Floyd, Breonna Taylor, and too many others. In the midst of such historically tragic conditions on the ground, financial markets have rallied, turning in their best 60 days in over a decade. On the same day the April jobs report revealed an understated 14.7% unemployment rate, the worst since the Great Depression, the S&P 500 gained over +1.5%. Data released revealing historic month-over-month declines in retail sales, manufacturing, and consumer sentiment, all were shrugged off by markets that continued to push higher.

Some of this can be explained by the forward-looking nature of markets, which are pricing stocks based on companies' expected future profits for many years to come. In the event of a 'v-shaped' recovery, where following one or two deeply negative quarters economic activity rebounds quickly back toward pre-COVID levels and beyond, the currently high valuations can be more reasonably justified. Such an outcome, however, is far from certain and will be driven primarily by the public health-focused developments of a novel virus, about which there's still much we don't know. Markets are rallying on optimism surrounding the reopening of states' economies, and in some cases on certain nontraditional data such as smartphone GPS data, traffic patterns, and Google searches for things such as 'file for unemployment'. As regular readers have heard before, such sentiment-driven market action can reverse quickly and sharply following unexpected bad news. We'd encourage investors to evaluate any cash needs for the next 12 months, and to consider replenishing cash reserves that have been drawn down throughout this year, if applicable. We can help you evaluate this or any other concern your committee has at this time. In a year where renewed understanding and context have been put around what's most important, our prayers are with you, your families, and with each of your communities in the month ahead.

"Fresh data showed that U.S. consumer spending fell by a record 13.6% in April during coronavirus lockdowns. But there are signs that purchasing is starting to pick up as states start to reopen businesses and Americans return to work. The University of Michigan's closely watched survey showed that a measure of consumer sentiment rose in May from April as Americans' view of the economy improved." (The Wall Street Journal, *Stocks Notch Big Monthly Gains*, Gunjan Banerji, May 29, 2020)

Market Timing and Diversification

It is likely the COVID-19 pandemic will offer multiple valuable lessons, across many different topics, when studied in hindsight. One lesson investors can draw from the experience is around the benefits of diversification and the difficulties of market timing. From just the 24 trading days between February 19 and March 23, the S&P 500 fell -33.92%. In the same time period, the U.S. Aggregate Bond Index fell just -1.55%, providing a valuable buffer and highlighting the well-known diversification benefits high quality bonds have to stocks. Just three weeks later, on April 17, the S&P 500 was up +28.48% from its low and had recovered over half of the losses experienced in the downturn. An investor who had fled equities in the downturn would have had to be right on time to jump back in, or would have risked missing much of the early recovery. These examples highlight our belief in broad diversification, balanced portfolios, and a long-term disciplined approach to investing.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 04/30/2020	CLOSE AS OF 05/29/2020	CHANGE PREVIOUS MONTH END	2020 YTD % CHANGE
Dow Jones Industrial Average	24,345.72	25,383.11	+1,037.39	-11.06%
S&P 500	2,912.43	3,044.31	+131.88	-5.77%
NASDAQ Composite	8,889.55	9,489.871	+600.32	+5.76%
RUSSELL 2000	1,310.66	1,394.04	+83.38	-16.45%
Fed Funds Rate	0.00%- 0.25%	0.00% - 0.25%	UNCHANGED	
2-Year Treasury	0.20%	0.14%	-0.06%	
10-Year Treasury	0.64%	0.65%	+0.01%	
Crude Oil $ per Barrel	$18.84	$35.49	+$16.72	-41.76%
Gold $ per Troy oz.	$1,694.20	$1,751.70	+$56.60	+14.95%
UK Pound in U.S. $	$1.2613US = 1£	$1.2363US = 1£	$ STRONGER	-6.68%
Euro in U.S. $	$1.0953US= 1€	$1.1124US= 1€	$ WEAKER	-0.90%
Canada $ per U.S. $	$1.38895C = $1.00 US	$1.3822C = $1.00 US	$ WEAKER	+6.59%
Japan Yen per U.S. $	106.935¥=$1.00 US	107.735¥=$1.00 US	$ STRONGER	-0.86%

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