

June 2020 Market Update

Equity markets continued to rally in June, with U.S. equities up 2.0% and international equities up 4.4%. U.S. equities are down 4.1% since the beginning of the year and international equities are down 11.2%. Bonds had a small gain for the month as the yield curve was largely unchanged. Bonds are now up 6.1% on the year. Real estate remains the worst asset class year-to-date with an 18.3% loss.

Here are important narratives in today's markets:

- A big dislocation exists between the economy and equity markets, driven mainly by unprecedented fiscal and monetary stimulus. The stock market has performed remarkably well considering the fragile economic outlook with double-digit unemployment and weak long-term GDP growth estimates. The Fed has done a remarkable job by injecting trillions in stimulus to bolster markets. Stocks have also received support from their relative attractiveness vs. low-yielding bonds.
- A huge outperformance gap has emerged between large cap over small cap stocks and growth over value. Chart 2 below highlights performance relative to the overall stock market by market capitalization and growth/value factors. Large-cap growth stocks have outperformed small-cap value by an incredible 32% year-to-date. Certainly large-cap growth stocks are better positioned to outperform small-cap value as a result of the coronavirus but it remains to be seen whether the 32% difference in valuation is justified.
- Small investors surged into the market in the first half of 2020, partially fueling some of the dynamics highlighted above. These investors have been driven by (1) the excitement of trading the stock market absent organized sports and other entertainment, (2) a huge increase in the savings rate, and (3) no-fee stock trades on platforms like Robinhood, TD Ameritrade and Schwab.
- Have we arrived at the end of a 30-year bull market in bonds? Many market participants believe interest rates have bottomed out and are forecasting low bond returns in the future.

Table 1: Benchmark Index Performance as of June 30, 2020

<i>Benchmark Index</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>5 Yr Ann</i>
U.S. Equities	1.99%	20.77%	-4.08%	10.2%
International Equities	4.36%	16.96%	-11.24%	2.3%
Fixed Income	0.63%	2.90%	6.14%	4.3%
US Real Estate	3.04%	11.71%	-18.34%	3.9%

Table 2: Vanguard Global Asset Allocation Benchmarks as of June 30, 2020

<i>Vanguard Fund or ETF: % Stock/% Bond</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>5 Yr Ann</i>
Total World Stock ETF: 100/0	3.1%	19.7%	-6.8%	6.4%
LifeStrategy Growth Fund: 80/20	2.6%	16.8%	-3.7%	6.6%
LifeStrategy Moderate Growth Fund: 60/40	2.2%	13.2%	-1.4%	6.2%
LifeStrategy Conservative Growth Fund: 40/60	1.7%	9.7%	0.9%	5.7%
LifeStrategy Income Fund: 20/80	1.2%	6.2%	3.0%	5.0%
Total International Bond ETF: 0/100	0.5%	2.9%	2.5%	4.4%

Chart 1: 2020 Year-to-Date Market Index Performance

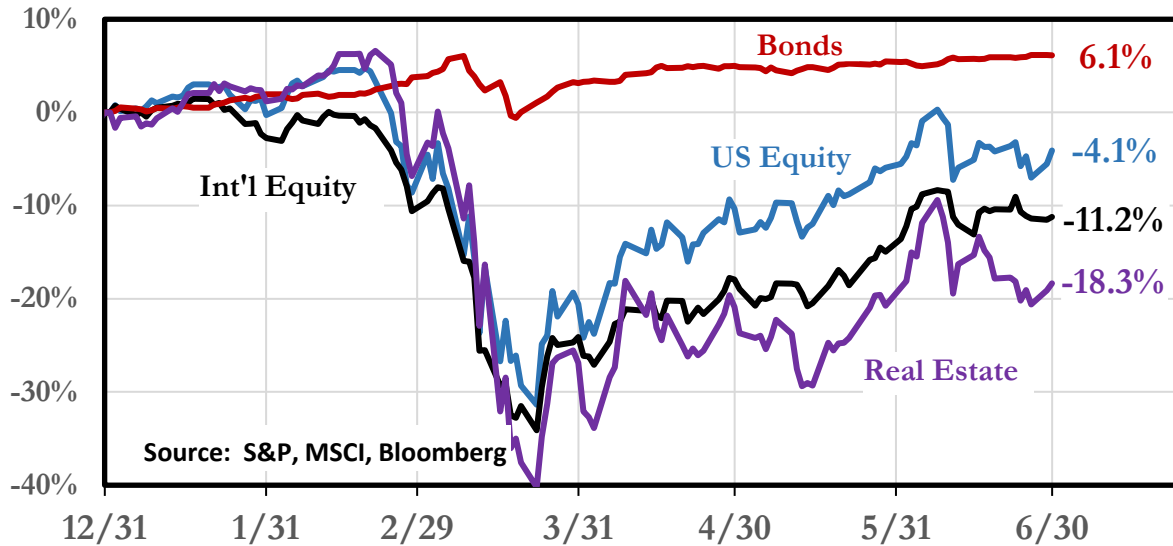


Chart 2: Performance Relative to the Overall Stock Market (S&P 1500 Composite) by Market Cap and Growth vs. Value since 2010

