

## Risk Assets and Economic Data Diverge in May

May 2020

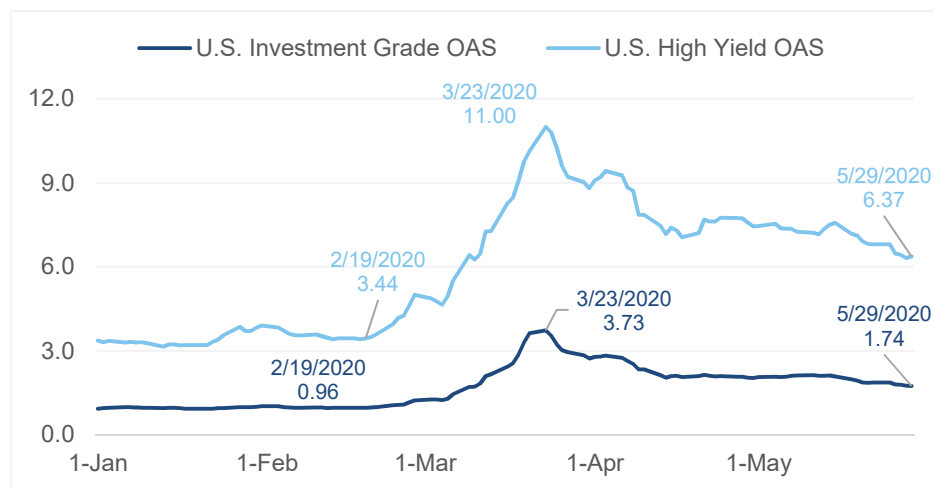
*Markets rebound as Covid-19 infection rates decline*

### Key Observations

- Global assets continued to recover in May but year-to-date returns broadly remain negative with the exception of fixed income.
- As expected, lagged economic data revealed the unprecedented depth of the economic impact of COVID-19, but re-opening the economy means the future economic data may not be as bad.
- Financial asset risks appear balanced as policy leaders stand ready to ease further if the bear market persists.

### Market Recap

Global risk assets continued to recover from first-quarter losses in May but broadly remain negative year-to-date. Volatility further declined toward its historical average while COVID-19 infection rates decreased and testing capabilities increased. Support for risk assets also came in the form of clear forward guidance from the Federal Reserve and global policy leaders that more easing is coming. With Congress debating additional fiscal stimulus in the U.S., the European Central Bank (ECB) expects to ease monetary policy at its June meeting by raising the Pandemic Emergency Purchase Programme (PEPP) by €500 billion to €1.25 trillion. There is even speculation the ECB may extend its asset purchase program beyond 2020.



Amid a backdrop of more accommodative policy measures, investor risk sentiment improved in May and fixed income asset classes generated positive returns. Within global fixed income, U.S. Treasury yields ended the month mostly unchanged, but credit spreads fell toward historical averages, most notably in riskier segments of the market. Core U.S. bonds gained 0.5 percent in May, bringing the year-to-date return to 5.5 percent. U.S. High Yield bonds returned 4.4 percent however remain negative for the year.

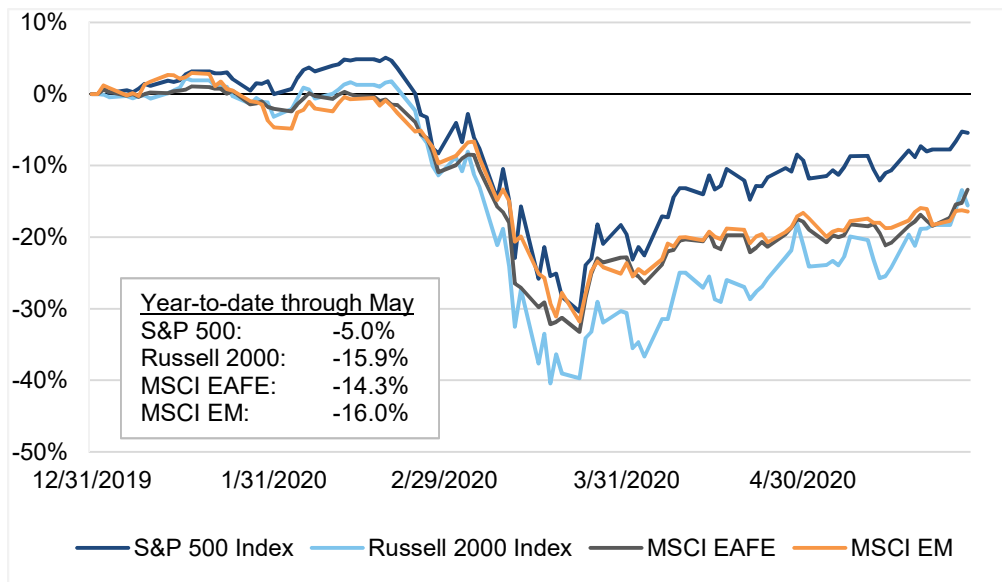
Source: Bloomberg.

Past performance does not indicate future results and there is a possibility of loss.

This report is intended for the exclusive use of clients or prospective clients of FNBC BANK AND TRUST. Content is privileged and confidential. Dissemination or distribution is strictly prohibited. Information has been obtained from a variety of sources which are believed though not guaranteed to be accurate. Past performance does not indicate future performance. This paper does not represent a specific investment recommendation. Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice.

**Not FDIC Insured | May Go Down In Value | Not Guaranteed By Bank | Subject To Investment Risk**

For the second time in as many months, a late month rally lifted small-cap stocks over large caps. The Russell 2000 ended 6.5 percent higher while the S&P 500 returned 4.8 percent. However, year-to-date returns remained in negative territory for both. Recent U.S. dollar strength waned in May, a welcome reprieve for international developed equity investors, but rising geopolitical tensions weighed on emerging market returns. Global developed stocks (MSCI EAFE Index) returned 4.4 percent in May, but emerging market equities (MSCI EM Index) rallied just 0.8 percent. Year-to-date, both indices remain down 14.3 percent and 16 percent, respectively.



Source: Bloomberg  
 Past performance does not indicate future results and there is a possibility of loss.

Within real assets, a historic rebound in crude oil prices (+88.4 percent) lifted Midstream Energy nine percent. Expectations for better economic data and relatively attractive yields in a low rate environment lifted Real Estate Investment Trusts (REITs) 0.2 percent in May. Year-to-date, Midstream Energy and REITs are still down 30.3 and 21.1 percent, respectively.

### Economic Conditions

While global assets continued to recover from the first quarter sell-off in May, unemployment data, reported with a one-month lag, revealed the unprecedented damage done by the global COVID-19 pandemic. From March to April, the U.S. unemployment rate jumped from a 50-year low of 3.5 percent to a 90-year high of 14.7 percent. Initial jobless claims rose more than 10 million since April, bringing total job losses since March 14 to more than 40 million, lifting the consensus estimate for the May unemployment rate close to 20 percent. As the economy re-opens, continuing claims data, released weekly, should serve as a barometer for the speed and magnitude of the recovery.

This report is intended for the exclusive use of clients or prospective clients of FNBC BANK AND TRUST. Content is privileged and confidential. Dissemination or distribution is strictly prohibited. Information has been obtained from a variety of sources which are believed though not guaranteed to be accurate. Past performance does not indicate future performance. This paper does not represent a specific investment recommendation. Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice.

**Not FDIC Insured | May Go Down In Value | Not Guaranteed By Bank | Subject To Investment Risk**

Since household consumption represents approximately two-thirds of the U.S. GDP, it's no surprise that second-quarter real GDP forecasts are staggering. However, it's worth remembering that changes to real GDP growth are reported as an annualized figure. For example, the Atlanta Federal Reserve's GDPNow model estimate for real GDP growth in the second quarter is -51.2 percent, which roughly translates to a \$2.4 trillion decline from the first quarter. The second-quarter estimate may be revised higher as the economy re-opens or additional fiscal stimulus aids the hardest-hit segments of the economy, namely households and businesses. On a positive note, global business activity picked up from April, but remained weak.

**Market Outlook**

The dichotomy between rising financial asset prices (forward-looking) and historically weak economic data (lagged) has been stark this quarter. However, market risks appear balanced. Aggressive monetary easing, the prospect of more fiscal stimulus and falling infection rates support the sharp rebound in risk assets. On the other hand, it will likely take the economy years to recover from the shutdown, valuations are relatively less attractive today than at the end of the first quarter and a second wave of infections is possible. Lastly, bear markets associated with recessions usually last longer than four weeks.

INDEX PEAK	INDEX TROUGH	MONTHS TO TROUGH	PEAK TO TROUGH DECLINE	6-MONTH RETURN AFTER TROUGH
June 1948	June 1949	12	-21%	+23%
January 1953	September 1953	8	-15%	+18%
August 1956	October 1957	15	-22%	+10%
August 1959	October 1960	15	-14%	+25%
November 1968	May 1970	18	-36%	+21%
January 1973	October 1974	21	-48%	+30%
February 1980	March 1980	1	-17%	+31%
November 1980	August 1982	21	-27%	+42%
July 1990	October 1990	3	-20%	+29%
March 2000	October 2002	31	-49%	+12%
October 2007	March 2009	17	-57%	+50%
<b>AVERAGE</b>		<b>15</b>	<b>-30%</b>	<b>+26%</b>
<b>MEDIAN</b>		<b>15</b>	<b>-22%</b>	<b>+25%</b>

*Past performance does not indicate future results and there is a possibility of loss.*

This report is intended for the exclusive use of clients or prospective clients of FNBC BANK AND TRUST. Content is privileged and confidential. Dissemination or distribution is strictly prohibited. Information has been obtained from a variety of sources which are believed though not guaranteed to be accurate. Past performance does not indicate future performance. This paper does not represent a specific investment recommendation. Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice.

**Not FDIC Insured | May Go Down In Value | Not Guaranteed By Bank | Subject To Investment Risk**

From an asset allocation perspective, we continue to update and evaluate our capital market assumptions and assess the implications for our client's portfolios. In the absence of any changes in objectives or cash needs, we advocate for maintaining the established strategic asset allocation rooted in fundamentals. Timing markets correctly is very challenging, especially in today's environment. We encourage investors to keep their investment horizon in focus and not allow emotions to influence portfolio positioning.

For more information, please contact any of the professionals at FNBC Bank & Trust.

This report is intended for the exclusive use of clients or prospective clients of FNBC BANK AND TRUST. Content is privileged and confidential. Dissemination or distribution is strictly prohibited. Information has been obtained from a variety of sources which are believed though not guaranteed to be accurate. Past performance does not indicate future performance. This paper does not represent a specific investment recommendation. Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice.  
***Not FDIC Insured | May Go Down In Value | Not Guaranteed By Bank | Subject To Investment Risk***