MIRACLE MILE ADVISORS

MARKET LANDSCAPE

Q2 2020

2020 Q2 OVERVIEW

Q2 Performance Summary

Quarterly Recap

Following on the heels of the fastest bear market in history due to the global pandemic, equity markets along with other risk assets rebounded in the second quarter of 2020. Investor sentiment improved during the quarter as positive developments against COVID-19 led to the reopening of many countries and states, which resulted in an economic bounce off depression lows. However, recent data shows a deceleration in activity as people adapt to the new normal. The sharp recovery in asset prices for the quarter can largely be attributed to the unprecedented amounts of fiscal and monetary stimulus pumped into the global economy since late March.

Global equity markets posted the best quarterly performance in 11 years with the MSCI ACWI returning +19.2% for Q2, led by the mega-cap companies. The U.S. equity market (S&P 500 +20.5%) outperformed both developed international (MSCI EAFE +14.9%) and emerging markets (MSCI EM +18.1%). From a sector perspective, the top-performing sectors were Consumer Discretionary and Information Technology, while the laggards were Utilities and Consumer Staples.

The broad bond market delivered positive returns for the quarter with the Bloomberg Barclays Aggregate Index up +2.9% despite Treasury yields largely unchanged. High quality municipal bonds also participated in the rally with the Bloomberg Municipal Index up +2.7%. However, the standout performer for the quarter was corporate bonds with investment grade corporate bonds up +9.0% and high yield bonds up +10.2%, benefiting from the Fed's expanded asset purchase program.

Looking Ahead

There has been progress made over the past couple of months with economies reopening and people getting back to work. However, we are still at the early stages of a recovery as fundamental data continues to lag the performance of the markets. Both fiscal and monetary policies have greatly benefited risk assets and it remains to be seen if the economy can fully recover with additional stimulus.

While we are constructive on risk assets over the long term, we do expect volatility to remain elevated and the path forward to have many potential pitfalls with a resurgence in COVID-19 and Presidential elections right around the corner. We will continue to monitor and keep you updated as we move forward into the second half of the year.

Q2 ECONOMIC HIGHLIGHTS

- The U.S. Economy saw Q1 GDP decline -5%, while early Q2 estimates are for a drop of about -30%. However, the total fiscal and monetary stimulus injected into the economy is equal to about 20% of GDP.
- Corporate profitability in Q2 is expected to be worse for companies in the S&P 500 with a drop of about -44%, while 75 companies have filed for bankruptcy during the quarter, the fastest pace since 2009.
- While the unemployment rate spiked up to 14.7% in April, the economy has seen positive job growth over the past two months.

MIRACLE MILE INVESTMENT PERSPECTIVES

Economy Not Fundamentally Broken But In Recession

The U.S. economy officially fell into a recession starting in February with unemployment skyrocketing in April. The job market along with high frequency data have shown improvements with states reopening. But most recent numbers indicate a deceleration in activity and require additional monitoring. Corporations have also been hit hard with a decline in earnings, leading to an increase in dividend cuts.

Markets Are Priced For Growth, Not Perfection

Low yields provide little opportunity for income-oriented investors. But corporate bonds offer value with spreads above pre-pandemic levels. Similarly, global stocks offer better value with P/E ratios close to historical averages. However, other valuation metrics point to stocks being overvalued driven by a handful of companies.

Global Economic Steroid (Stimulus) Shots

Coordinated responses to the pandemic by central banks have alleviated liquidity concerns in capital markets. The total amount of stimulus from the five largest economies is multiples above the amount spent during the Great Financial Crisis. The Fed has become more creative with providing support and expanding its asset purchase program.

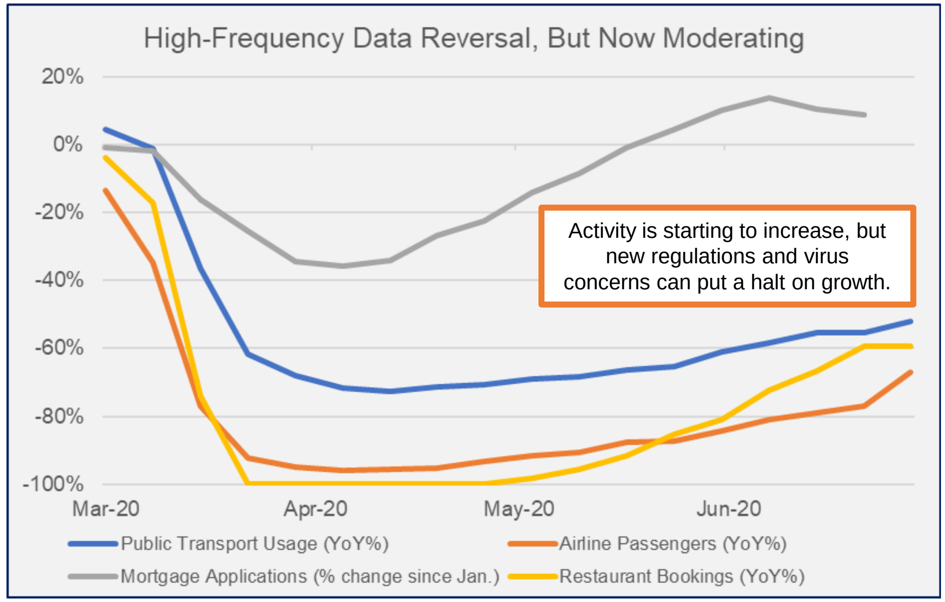
Sources: SPDR Indices, MSCI, Bloomberg Barclays, U.S. Federal Reserve of Economic Data

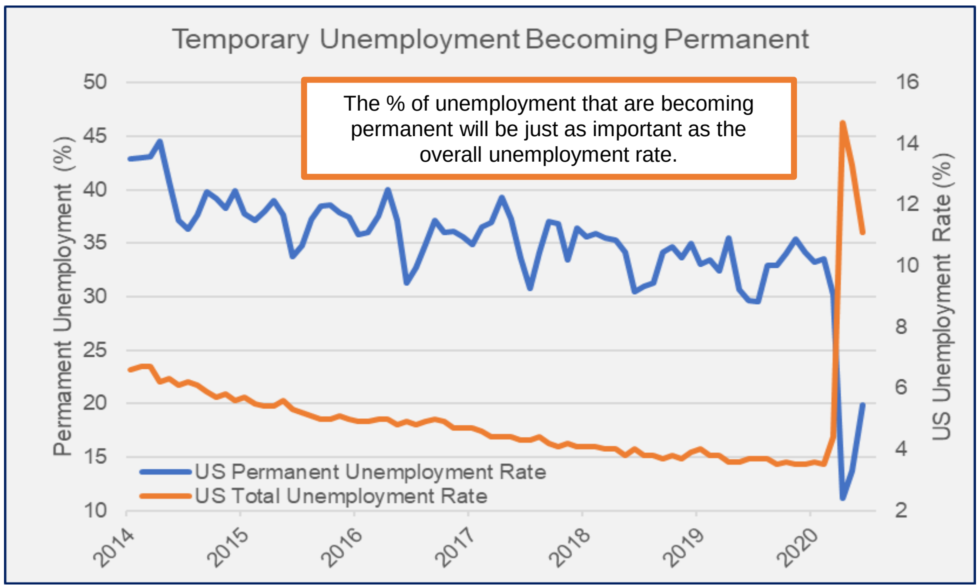
MIRACLE MILE INVESTMENT PERSPECTIVES

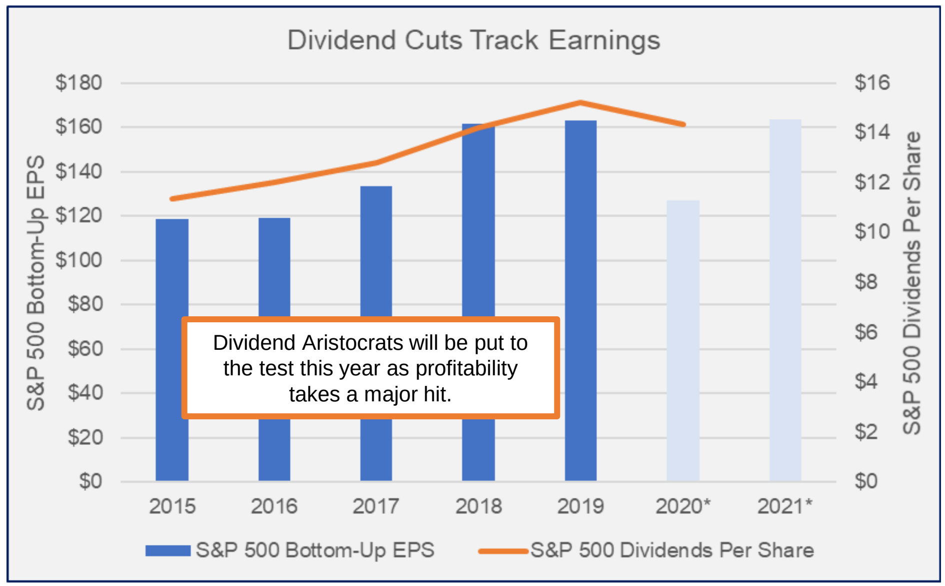
Economy Not Fundamentally Broken But In Recession

- **Temporary Unemployment Becoming Permanent.** Official unemployment rate decreased over the past two months, but the percentage of unemployment that is considered permanent has increased. These two data series have historically been highly correlated, and this divergence requires monitoring in the coming months to gauge the health of the economic recovery.
- **High-Frequency Data Reversal, But Now Moderating.** A complete halt was reported by activity trackers early in the quarter, especially for restaurants with a 100% drop in bookings year over year. States began reopening in May, which resulted in increased activity. At the end of the quarter, news of a second wave has caused a deceleration compared to a month ago.
- **Dividend Cuts Track Earnings.** S&P 500 earnings are expected to decline 22% this year, before fully recovering in 2021. To date, 50 companies have decreased or suspended dividend payments, and we expect more by year end with further deterioration.

Investment Outlook: The economy is improving from the lows, but additional stimulus will be needed to keep the current trajectory. A second virus wave can provide price dislocations and present buying opportunities.





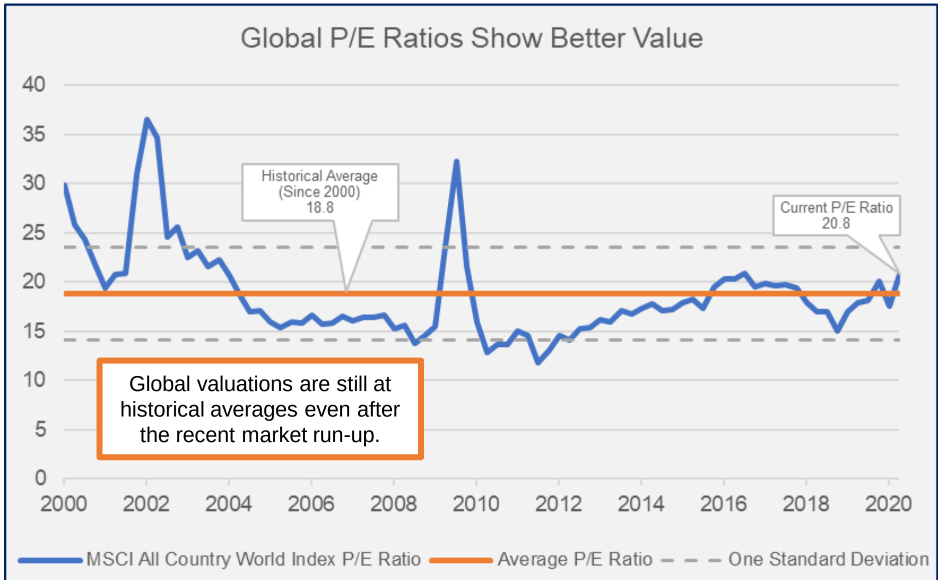


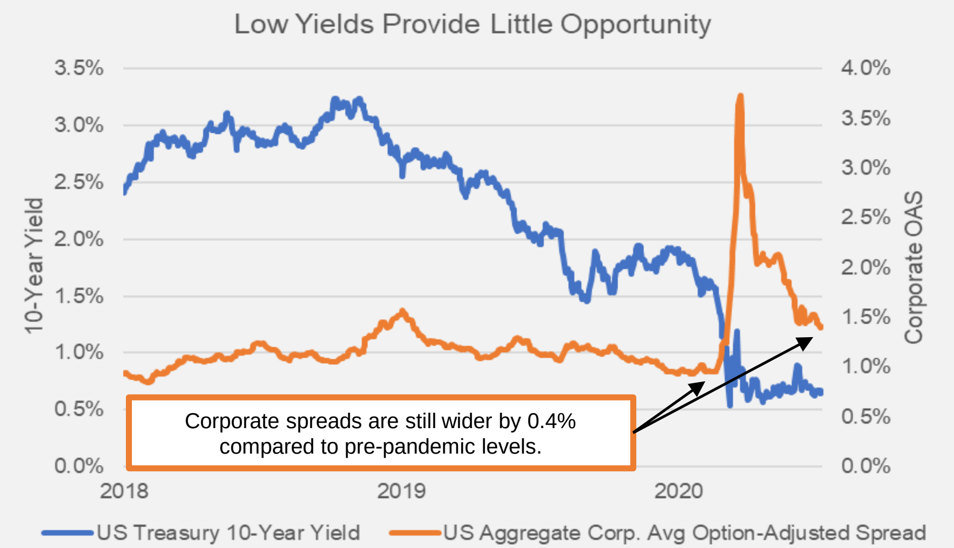
"Dividend Cuts Track Earnings" - 2020* & 2020* forecasts from FactSet Annual Forecast Report

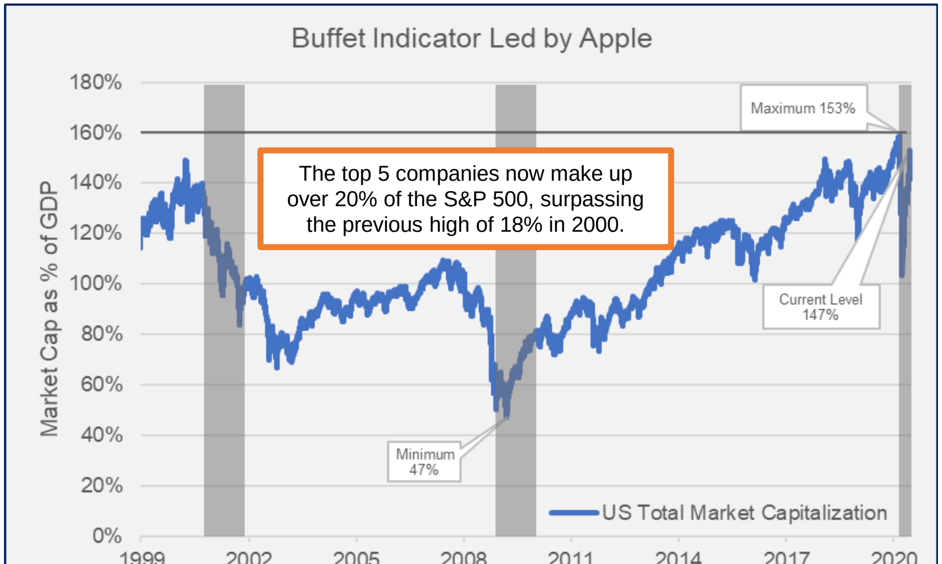
Markets Are Priced For Growth, Not Perfection

- **Low Yields Provide Little Opportunity.** Interest rates are still close to historic lows, and the Fed remains committed to “lower for longer” rates. However, volatility in the bond market this year has provided opportunities in corporate bonds with current spreads showing more room to tighten compared to pre-pandemic levels.
- **Global P/E Ratios Show Better Value.** Compared to previous outliers, the current MSCI ACWI P/E ratio is relatively close to the long-term historical average. Despite the sharp recovery in asset prices, equities on a global level seem fairly priced and offer decent value relative to other asset classes and historical averages.
- **Buffet Indicator Led By Apple.** One of Warren Buffet’s preferred valuation methods (the ratio of market cap to GDP) continues to flash that stocks are overvalued. The S&P 500 market cap compared to GDP is near all-time highs, led by the top 5 companies in the index.

Investment Outlook: It is important to stay well diversified in portfolios to reduce idiosyncratic risks. We continue to look for attractive opportunities in the equity market that offer compelling value. Concurrently, we remain focused on corporate bonds with its higher yields in the fixed income space.



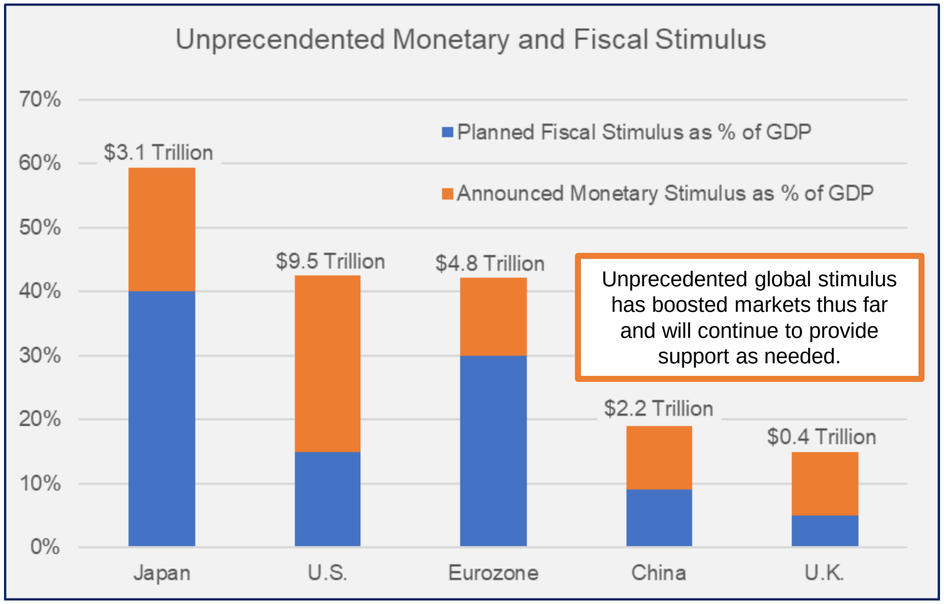


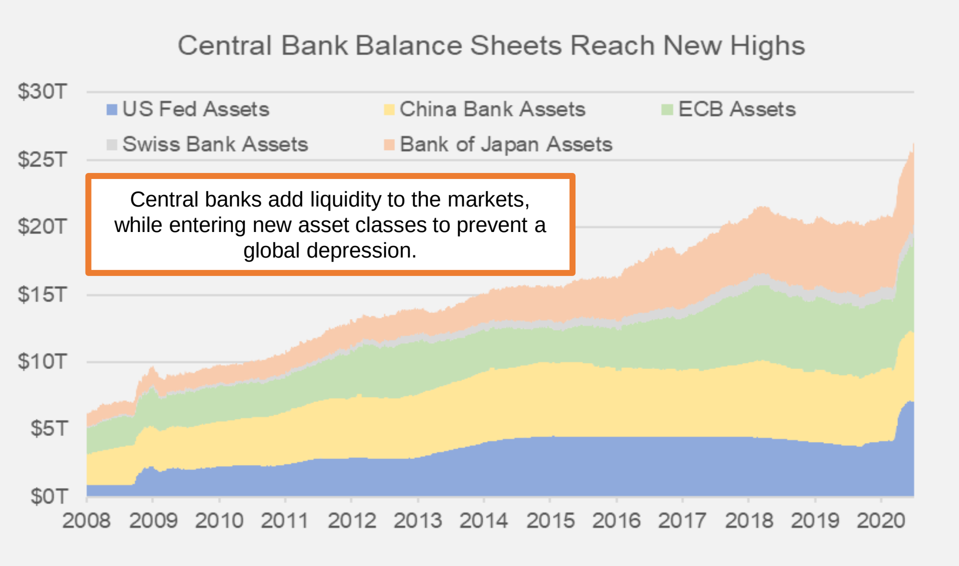


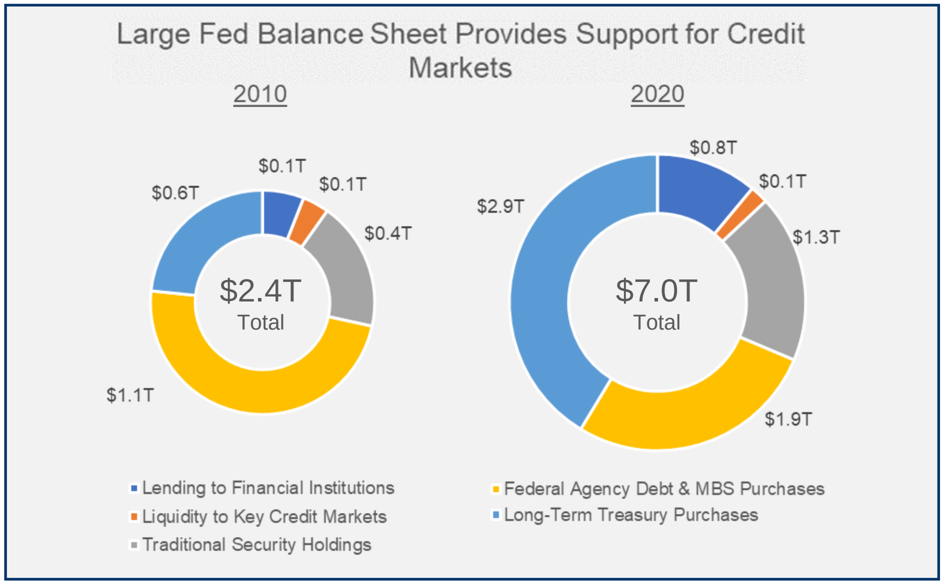
Global Economic Steroid (Stimulus) Shots

- **Central Bank Balance Sheets Reach New Highs.** In response to the recent pandemic, central banks have expanded their balance sheets to record levels at a rate and magnitude much larger than during the Great Financial Crisis.
- **Unprecedented Monetary and Fiscal Stimulus.** The amount of stimulus across the five largest economies is enormous, many times the size of the stimulus implemented during the Great Financial Crisis. The aggressive policy actions of global governments has thus far succeeded in pulling markets and the economy out of what otherwise would have been a nosedive into a depression.
- **Large Fed Balance Sheet Provides Support for Credit Markets.** As the Fed's balance sheet reaches $7 trillion dollars, asset purchases have expanded outside of the traditional Treasury and mortgage back securities sectors and into individual investment grade corporate securities, corporate bond ETFs, and certain high yield bonds known as "fallen angels".

Investment Outlook: Don't fight the Fed. As additional stimulus is provided by the Fed, we will be looking into the areas that receive this support, including high yield and potentially equity markets.







Q2 2020 MARKET OUTLOOK

Market Risks and Opportunities

KEY RISKS

NEAR TERM

Disappointing Q2 Earnings and Guidance

- Q2 earnings are estimated to decline 44%, the worst since 2009. U.S. bankruptcies accelerated with 75 companies filing for Chapter 11 or 7.
- Forward guidance and future growth expectations will be the focus for the rest of 2020 and 2021. Given current valuations and discounted earnings, management outlook expectations are high.

2nd Wave of COVID-19

- A resurgence of COVID-19 may lead to the reclosure of states and countries around the world. This may result in further stress on economies still recovering from the initial wave and limit the tools for central banks and governments to prevent another economic fallout.

LONGER TERM

Deglobalization of the Global Economy

- Heightened trade tensions across the globe move manufacturing back to the U.S. to create more reliable supply chains.
- Higher costs associated with production in the U.S. results in cost-push inflation and lower profit margins.

Inflation in the Distant Horizon

- The record-setting levels of fiscal and monetary stimulus will be a significant inflationary force once the economy recovers and the velocity of money increases.
- Inflation above the Fed's target will put pressure on them to raise rates and slow down the economy. Further, higher inflation will erode the value of most fixed income investments.

KEY OPPORTUNITIES

NEAR TERM

Another Round of Fiscal Stimulus

- Currently, the government is working on a Phase 4 bill to provide another $1 trillion to $3 trillion of stimulus.
- This bill is expected to pass before the August recess and will likely include one-time checks to individuals and/or an extension of federal unemployment.

Monetary Support for Credit Markets

- The Fed's expanded balance sheet has increased support for spread products such as investment grade corporate bonds and high yield bonds.
- This provides an attractive opportunity for investors given the Fed's asset purchase program and commitment to backstop the capital markets.

LONGER TERM

High Quality Companies and Value Stocks are at Significant Discounts

- Quality and value factors have underperformed other factors, such as momentum, over the past cycle and are poised to benefit from attractive valuations and a favorable macro environment.
- These stocks typically experience less price fluctuations than their growth counterparts during times of market stress, potentially providing better risk adjusted returns.

Technology Sector Benefits from Secular Trends

- Technology sector, specifically cloud-based computing, enterprise software, and work-from-home solutions, is expected to benefit from the current environment and the long-term changes to consumer behavior.
- Issues over privacy, data governance, and antitrust lawsuits will continue to be a headwind for the sector but are expected to only modestly slow growth.

Q2 2020 ASSET CLASS PERFORMANCE

Quarterly Performance Summary

Asset Class	Performance			
Growth	**Q2 2020**	**YTD***	**2019**	**2018**
MSCI All Country World Index	+19.2%	-7.1%	+26.4%	-10.1%
U.S. Large Cap Equities	+20.5%	-3.1%	+31.5%	-4.4%
U.S. Mid Cap Equities	+24.6%	-9.1%	+30.6%	-9.1%
U.S. Small Cap Equities	+25.4%	-12.9%	+25.5%	-11.0%
International Developed Equities	+14.8%	-11.3%	+22.0%	-13.8%
Emerging Markets Equities	+18.1%	-9.8%	+18.4%	-14.6%
Opportunistic Yield				
High Yield	+10.2%	-3.8%	+14.3%	-2.1%
Income & Stability				
U.S. Tax Exempt Fixed Income	+2.7%	+2.1%	+7.5%	+1.3%
U.S. Taxable Fixed Income	+2.9%	+6.1%	+8.7%	+0.1%

Sources: SPDR Indices, MSCI, Bloomberg, ycharts.com

*As of 6/30/2020. Performance values are the returns of the respective indices and are not inclusive of management fees: U.S. Large Cap = S&P 500 Composite, U.S. Mid Cap = Russell Midcap, U.S. Small Cap = Russell 2000, International = MSCI EAFE Net, Emerging Markets = MSCI EM (Emerging Markets) Net, U.S. Tax Exempt (Municipals) = Bloomberg Barclays U.S. Municipal Index, U.S. Taxable (Corporates) = Bloomberg Barclays U.S. Aggregate Index, Cash = ICE Bank of America/Merrill Lynch U.S. T-Bill 3 Month, Opportunistic Yield = Bloomberg Barclays U.S. High Yield Corporate Index. Past performance is no guarantee of future results.

DISCLOSURES

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Investing in securities involves risk and the possibility of loss of principal. Investing should be based on an individual's own goals, time horizon, and tolerance for risk

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