TFC FINANCIAL
The Financial Counselors

COMMENTARY | 2Q 2020
July 2020

OUR VIEW

Global equities, as represented by the MSCI All Country World Index, rose by more than 19% in the second quarter, recovering a significant amount of the losses from the first quarter.

Second Quarter Review

Global equities, as represented by the MSCI All Country World Index, rose by more than 19% in the second quarter, recovering a significant amount of the losses from the first quarter. Year-to-date through June 30, the MSCI All Country World Index declined approximately 6%. The second-quarter market rally was helped by fiscal support provided to households and struggling businesses, forceful central bank intervention, and efforts to relax economic shutdowns.

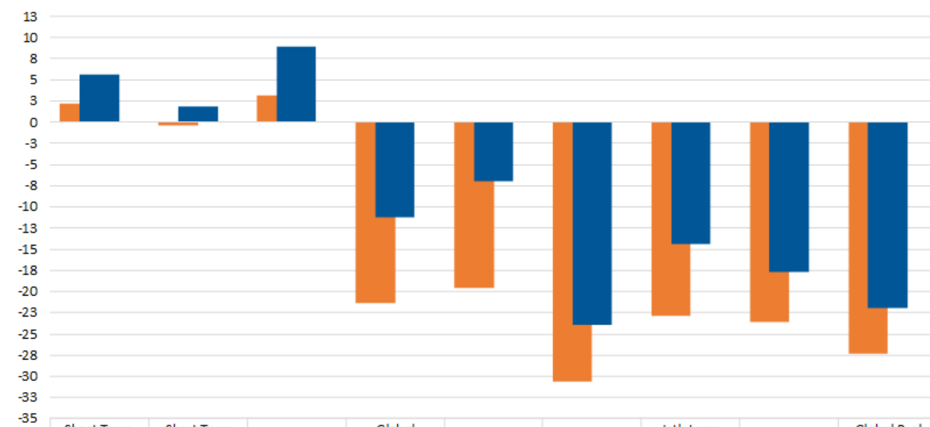
The S&P 500 Index gained more than 20% during the quarter, its biggest percentage gain since 1998, but remained down approximately 3% year-to-date through June 30. Growth stocks continued to outperform relative to value stocks, with U.S. large company growth stocks gaining nearly 28% during the quarter. Large company value stocks gained more than 14% for the quarter, but trail growth stocks by approximately 25% year-to-date. U.S. small company stocks gained more than 25% during the quarter, also with dramatic performance dispersion between value and growth stocks. Developed international stocks, as measured by the MSCI EAFE Index, gained nearly 15% during the quarter. Emerging markets stocks gained more than 18% for the quarter. U.S. small company and developed international stocks have double-digit year-to date declines through June 30; emerging markets stocks have fallen by nearly 10% year-to-date.

From a sector perspective in the U.S., technology, consumer discretionary and communications services stocks were strong performers during the quarter and year-to-date periods. The consumer discretionary numbers, however, are distorted by the strong performance of Amazon. Energy stocks gained more than 30% during the quarter but have declined 35% year-to-date.

Bonds turned in a less spectacular quarter but provided safety and liquidity. Treasury holdings and short-term, high quality bonds provided positive returns during the quarter. Investment-grade and high yield corporate bonds were strong performers during the quarter, benefiting from central bank intervention and fiscal support. Municipal bonds had a less volatile quarter than the first quarter, but still have not fully recovered from pandemic-inspired selling.

TFC FINANCIAL
The Financial Counselors

Quarter To Date Returns 3/31/2020



	Short Term Bonds	Short Term Muni Bonds	Barclays Agg.	Global Equities	S&P 500	U.S. Small	Intl. Large Core	EM	Global Real Estate
QTD	2.2	-0.4	3.1	-21.4	-19.6	-30.6	-22.8	-23.6	-27.4
12M	5.6	1.9	8.9	-11.3	-7.0	-24.0	-14.4	-17.7	-22.0
Full Cycle*	2.8	2.4	4.3	2.5	6.6	4.3	-0.5	-1.2	0.9

* Full Cycle is the annualized return from October 2007 peak to present.

TFC client portfolios benefited from the market rebound during the quarter, gaining ground in absolute terms and performing in line with client benchmarks in relative terms. Portfolio changes made by TFC to balance risk and return in an uncertain environment helped relative performance during the quarter. Notably, reduced investments in funds with significant holdings of highly cyclical/highly indebted segments of the stock market helped relative performance. TFC's small company growth holdings were standouts in absolute and relative terms during the quarter and year-to-date period. TFC's value-oriented equity holdings provided positive returns for the quarter but trailed in relative terms.

Outlook

We enter the third quarter with a mixed outlook, with more optimism about the prospects for equities over the next 12-18 months than for the next 3-6 months. Influencing our outlook is the expectation that a Covid-19 vaccine, produced in enough volume to meet global demand, is at least a year away. We are closely watching the following factors that are likely to influence either a breakout to the upside or a market correction:

We enter the third quarter with a mixed outlook, with more optimism about the prospects for equities over the next 12-18 months than for the next 3-6 months.

<u>Percentage of positive test results and hospitalizations for Covid-19:</u> Although Europe and Asia have made considerable progress containing Covid-19 case counts and deaths, case counts in the U.S. are heading in the wrong direction. Investors are understandably concerned about the surge of Covid-19 infections in states that have re-opened, such as Florida, Texas, and Arizona. The growth in reported case counts is important but is only one dimension of analysis. Rising case counts may in some cases be attributable to increased testing for Covid-19. Consequently, it is important to also look at whether the percentage of positive tests is increasing. Unfortunately, many of the states with a surge of new infections also have a rising percentage of positive tests. Hospitalizations represent another dimension of analysis, providing insight into the severity of the new cases and to potential strains on health care capacity. Although the U.S. health care system appears to have made great strides in Covid-19 preparedness since March, ICU and hospital bed utilization rates are reaching troubling levels in some cities and states. The coming weeks will provide insight about whether there is sufficient health care capacity to handle rising Covid-19 case counts as the country relaxes social distancing measures, and whether advances in treatment help mitigate the severity of the virus.

The coming weeks will provide insight about whether there is sufficient health care capacity to handle rising Covid-19 case counts as the country relaxes social distancing measures, and whether advances in treatment help mitigate the severity of the virus.

Activity and mobility measures: There may be big differences between what people are “allowed” to do and what they are willing to do as lockdowns are relaxed. Activity and mobility measures provide early indications of changes in behavior, measuring activities such as trips to work, use of public transportation, shopping in retail stores, dining out at restaurants and hotel stays. Activity and mobility measures provide important clues about the trajectory of economic recovery post-lockdown. The pace and magnitude of the rebound in activity will have a significant influence on equity returns for the remainder of the year, as there won't be normalcy until there is a Covid-19 vaccine. We have seen significant improvement in activity measures in the U.S. and Europe, but some signs of flattening of progress in the U.S. as Covid-19 case counts rise.

State government response to the virus: One factor contributing to the market rally is the expectation that state leaders have little appetite to resume the extreme lockdown measures that decimated economic growth in April and May. Investors expect states to respond to rising infections by slowing the pace of reopening and tightening social distancing protocols. State governments could rethink their plans if hospitalizations, strains in the health care system and death rates surge in more of the country. Public statements from governors and mayors may provide advance warning of shifts in sentiment toward a resumption of lockdowns.

The next federal fiscal package: The $3 trillion aid bill passed by the U.S. House of Representatives in May has virtually no chance of becoming law, but Congress is likely to provide additional financial assistance to reduce the economic harm from the pandemic. Aid to state and local governments, burdened by pandemic-related revenue losses and cost increases, is likely to be forthcoming. Without federal help, many state and local governments will find themselves in a budget crunch that could force drastic spending or service cuts. State and local governments have already laid off or furloughed about 1.5 million workers. There is some opposition in Congress to providing aid to state governments because states such as Illinois and New Jersey face pension-funding deficits that are unrelated to the pandemic. Assistance to state and local governments will probably be attached with conditionality, preventing the aid from being applied to pension funding shortfalls. Additional help for small businesses

TFC FINANCIAL
The Financial Counselors

We will be hosting a TFC webinar on July 23 at 1:00 PM, which will provide an updated market outlook and extended Q&A session, sharing more detail and graphics than we are able to include in this letter.

and extension of unemployment benefits for workers will also be on the table for discussion, though there will be heated debate about the merits of extending the $600 enhanced unemployment benefits.

Election watch: Investor consensus is that President Donald Trump will continue to blame China, but policy moves before the election might be "all bark and no bite." In the view of many investors, Chinese commitments to buy American agricultural products and the importance of the Chinese market to U.S. multinationals will dissuade Trump from following through on many of his threats. However, if Trump believes he is trailing in the election race after Labor Day, the odds of an "October surprise" will rise. Under that scenario, relations between the U.S. and China could degenerate further, with an even more direct economic conflict. Investors will also be evaluating the likelihood that a victory by former Vice President Joe Biden would have long enough "coattails" to keep Democratic control of the House and whether it's possible to flip the Senate to Democratic control.

Portfolio Positioning

From a positioning perspective, TFC is positioned roughly in line with long-term strategic targets for stocks, though in many cases we have taken advantage of market strength to address anticipated client cash needs for the remainder of the year. Within equity portfolios, we have emphasized quality – strong balance sheets, cash flow and liquidity – while reducing investments in more cyclical segments of the market. Within the value segment of TFC portfolios, we have invested with fund managers that assess the ability of companies to withstand the extreme economic volatility caused by the Covid-19 pandemic. TFC continues to favor shorter-term/investment grade credits, but also invest in intermediate-term bonds that provide desirable diversification in the event that economic growth falls short of expectations.

We will be hosting a TFC webinar on July 23 at 1:00 PM, which will provide an updated market outlook and extended Q&A session, sharing more detail and graphics than we are able to include in this letter.

As always, we welcome your comments and questions.

Sincerely,

Daniel S. Kern, CFA, CFP®
Chief Investment Officer

Renée Kwok, CFP®
President & CEO

Disclaimers:

1. This commentary may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.
2. Past performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor.
3. This commentary is intended to provide general information only and should not be construed as an offer of specifically tailored individualized advice.
4. Any information provided regarding historical market performance is for illustrative and education purposes only. Clients or prospective clients should not assume that their performance will equal or exceed historical market results and/or averages.
5. While we believe the outside data sources cited to be credible, we have not independently verified the correctness of any of these inputs or calculations and, therefore, cannot warranty the accuracy of any third-party sources or information.
6. Specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable.
7. Investment process, strategies, philosophies and allocations are subject to change without prior notice.
8. Adviser has selected the stated benchmarks to allow the comparison of a client’s performance to that of well-known indices. The benchmarks are shown for comparative purposes and to establish current market conditions. Clients cannot invest directly into an index. Clients should be aware that the referenced benchmark funds may have a different security composition, volatility, risk, investment objective and philosophy, diversification, and/or other investment-related factors that may affect the benchmark funds’ ultimate performance results. Additionally, referenced indices may not include fees, transaction costs or reinvestment of income. Therefore, the Adviser’s composite and investor’s individual results may vary significantly from the benchmark’s performance. Benchmarks used by Adviser are current as of the date indicated and may change without notice.
9. Registration with the SEC should not be construed as an endorsement or an indicator of investment skill, acumen or experience.

TFC FINANCIAL
The Financial Counselors

Notice of Form CRS (Client Relationship Summary), Also Known as Form ADV Part 3

Under rule 204-5 of the Investment Advisers Act of 1940, investment advisers are now required to deliver to retail investors (defined as any natural persons) a *relationship summary* (Form ADV Part 3) disclosing certain information about the firm. The *relationship summary* is designed to promote effective communication between advisory firms and retail investors. It summarizes our services, fees, conflicts of interest, standards of conduct, disciplinary history and how you may obtain more information about our firm.

Once you receive Form CRS, we encourage you to review this new form and contact us with any questions regarding its content.

We will update and file the *relationship summary* within 30 days whenever any information in it becomes materially inaccurate and communicate any changes in the updated *relationship summary* to existing clients within 60 days after the updates are required to be made.

Additional information about our firm is available on our website www.tfcfinancial.com and through the Investment Adviser Public Disclosure system: www.adviserinfo.sec.gov.

Please do not hesitate to contact us if you have any questions.