DT INVESTMENT PARTNERS, LLC

Q2 2020
FINANCIAL MARKETS COMMENTARY

"The Return of the Unloved Bull Market"

DT INVESTMENT PARTNERS

RISK-BASED ASSETS PERFORMANCE SUMMARY

- After bottoming on March 23rd at 34% below the all-time high reached on February 19th, the S&P 500 Index rose back to bull market territory (20% higher than 52 week low) by April 8th. The shortest drop (15 trading days) to a bear market was followed by the shortest rise to a new bull market (12 trading days). U.S. stocks went on to finish their best quarter since 1998, as a new bull market emerged.

- At the start of the quarter, few investors could have anticipated the incredible rally in stock prices after the coronavirus pandemic brought daily life and business around the world to a complete stop. The unprecedented levels of monetary and fiscal policy stimulus (more than $7 trillion) combined with ultra-low interest rates and bond yields encouraged investors to look past the immediate situation and focus on the future. Stock markets are forward-looking by nature leading to price rallies before business prospects begin to improve in any meaningful and sustainable way. No asset class was left behind as the rally lifted everything from beaten-down energy, bank, and retail stocks to large technology companies (See page 5).

- The U.S. dollar weakened during the quarter thanks to much more aggressive monetary and fiscal policy responses from U.S. policymakers. The Fed expanded its balance sheet by purchasing bonds to support prices. This resulted in a significant rise in global dollar liquidity, which tends to weaken the value of the dollar. The prices of International and Emerging Market stocks, as well as oil and industrial commodities responded favorably to the weakening dollar. Gold prices also rose with uncertainty about the economic recovery and ultralow interest rates lifting demand for the precious metal. While stocks rallied as the world economy reopened, many investors remained bullish on Gold because of the unknown direction of the coronavirus pandemic.

- All U.S. Large Cap sectors rose for the quarter led by Consumer Discretionary (Amazon), Technology, and Energy stocks. The defensive Utilities sector, although higher for the quarter, significantly trailed all other sectors in the U.S. Large Cap market.

BOND PERFORMANCE SUMMARY

- All fixed income sectors moved higher in price during the quarter, led by Investment Grade Corporate bonds. After a punishing first quarter that pushed yield spreads much wider, corporate bonds looked very attractive on a relative basis. In addition, as part of a continuing effort to support market functioning and ease credit conditions, the Fed added functions to its Secondary Market Corporate Credit Facility allowing it to buy corporate bond ETFs and individual bonds.

- U.S. Treasuries and Agency Mortgage-Backed Securities (MBS) were the worst performing fixed income sectors for the quarter. The safe haven appeal of Treasuries faded as risk-taking returned to the financial markets. Low mortgage interest rates fueled a surge in refinance activity which leads to increased prepayment speeds for MBS. When interest rates are so low, the last thing a bond investor wants is to have their principal returned to them well before maturity, leaving them forced to reinvest at lower yields.

- Tax-Exempt municipal bonds saw a strong price rally off the March lows, generating positive returns for both the quarter and year-to-date. Yield spreads tightened significantly during the quarter with higher credit quality names leading the way. While supply has picked up since its near halt in the first quarter, demand rebounded in the second quarter and now outpaces supply.

CONTRIBUTORS & DETRACTORS TO PERFORMANCE

- Performance contributors versus the Global Stock/Intermediate Maturity U.S. Bond blended benchmark index during the quarter included our overweight allocations to U.S. Large Cap stocks, and Investment Grade Corporate bonds, our underweight allocation to U.S. Treasuries and our outside-of-benchmark allocation to Gold.

- Detractors to performance versus the benchmark index included our underweight allocation to risk-based assets and our overweight allocation to fixed income (bonds) and cash. In particular, our underweight allocation to U.S. Mid Cap and Emerging Market stocks detracted from performance during the quarter.

GLOBAL MARKETS & ECONOMY

- After bottoming in the first quarter, the S&P 500 Index had its best 50 day surge in nine decades in April and May before rising 2% in June. Policymakers around the globe responded to the deflationary shock from COVID-19 with unprecedented and rapid monetary and fiscal policy stimulus. Optimism surged as lockdowns began ending in May, and businesses re-opened as the rate of virus spread declined across Asia, Europe, and the U.S.

- The U.S. economy officially entered a recession in February. The economy hit its peak in February and has since fallen into a downturn, the National Bureau of Economic Research's Business Cycle Dating Committee announced. A recession begins when the economy reaches a peak of activity and ends when it reaches its trough. Economists expect this recession to be both deep in nature and short in duration. Economic data for the second and third quarters will likely be very weak. However, a fourth quarter rebound is still a possibility, as long as the spread of the virus weakens and the current setback to economic re-opening is short-lived.

- At its June 10th FOMC (Federal Open Market Committee) meeting, Fed officials signaled plans to keep interest rates near zero through 2022. They also announced that they are studying how to provide more support to a U.S. economy battered by COVID-19 and related shutdowns. Fed Chairman Powell stated "We are strongly committed to using our tools to do whatever we can and for as long as it takes to provide some relief and stability."

- In the latter half of June, optimism was shaken by social unrest and a re-acceleration of virus cases throughout the U.S., threatening to set back re-openings and any economic progress made since the pandemic began. Investor sentiment has been far from exuberant during the second quarter stock rally. Per the widely followed American Association of Individual Investors (AAII) survey during the last week of the quarter, investor optimism declined to its lowest level and pessimism rose to its highest level in the past six weeks. Bullish sentiment remains at an unusually low level and bearish sentiment remains at an unusually high level. While a new bull market (20% rise from 52 week low) began on April 8th, it remains just as unloved as the previous bull market which lasted from early March of 2009 thru early March of 2020.

- Due to some of the highest levels of economic uncertainty and volatility in the U.S. stock market ever recorded, many investors rushed into money market funds (cash) during the quarter. Assets in the funds recently ballooned to $4.6 trillion, the highest level on record, according to data from Refinitiv Lipper going back to 1992. In addition, investors have socked away cash in bank deposits causing CD rates to plummet as financial institutions are flush with cash.

- Already nervous about the economic downturn, many investors are questioning if stocks have risen too far, too fast. They have chosen the safety of cash over investing in the stock market. Other investors are keeping cash on the sidelines, waiting for an attractive buying opportunity. Despite the advance, overall stock positioning among investors remains among the lowest levels of the past decade, according to data from Deutsche Bank. During the March selloff, individual investors jumped into the stock market, while large institutional investors have only recently started increasing exposure to risk-based assets. Such high cash balances are a positive sign for the future direction of stocks as they represent buying fuel to power a continued rise in equity prices.

- As we begin the third quarter, we do so with more unknowns than knowns. We have no idea when the virus will peak, whether there will be a second wave of infections this Fall, what proportion of people are infected without symptoms, and when a vaccine will be ready for use. We have no way to accurately project the negative impact upon corporate earnings. Additionally, we don't know if efforts to contain the spread of the virus will have long-term, economic behavioral consequences on individuals and businesses.

- What we do believe is that the disruption from this virus represents a temporary setback for the global economy, akin to a natural disaster. There will be an end to this pandemic, just like every pandemic in history before it. It will not permanently change the global economy's natural tendency to grow. Once this situation settles down, businesses will still have the incentive to produce goods and provide services in order to profit in a free-enterprise system. However, it may just take a little longer.

PORTFOLIO STRATEGY & OUTLOOK

- There is no shortage of risks to the stock market in the near term. Extensive economic damage from coronavirus lockdowns, the upcoming U.S. elections in November, trade tensions between China and U.S., and social unrest across America will likely keep investors on edge and volatility elevated. The downside in stocks may be limited given how many investors missed the rebound in stock prices, how many investors remain bearish, and how large cash balances sitting on the sidelines have become. Abundant monetary and fiscal policy stimulus measures combined with the strong likelihood of additional fiscal stimulus from Washington D.C. later this summer, may encourage investors to buy market dips/corrections.

- We view deflation as a much bigger risk than inflation over the next few years, despite the unprecedented amount of monetary stimulus and liquidity in the financial system. Aggregate demand remains low in a heavily indebted world that has an abundance of supply in just about everything from goods and services to labor and savings.

- All asset allocation portfolios are slightly underweight risk-based assets and slightly overweight bonds and cash. In particular, we are overweight U.S. Large Cap and International Developed Market stocks and Investment Grade Corporate bonds. We are equal-weight High Yield bonds and Gold and underweight U.S. Mid Cap stocks, U.S. Treasuries, and MBS. We have no direct allocation to U.S. Small Cap or Emerging Market stocks. Our investment discipline, which revolves around fundamental, valuation, and technical analysis, will continue to guide our future asset allocation decisions.

- Once the re-escalation of documented virus cases subsides, economies around the globe will accelerate re-opening plans and the U.S. dollar may continue its weakening trend. As a defensive currency, the dollar should come under pressure as the global economy and risk-based assets recover.

- International stocks tend to outperform U.S. stocks when the dollar is weakening. Economic activity in Europe is starting to recover, particularly in Germany and the U.K. Negative bond yields are forcing European investors into stocks, which have higher yields than bonds and the potential for price appreciation. In Japan, many of the country's listed companies have attributes that could benefit investors regardless of whether things get much better or take a turn for the worse. If the global recovery is faster than expected, the transportation, electronics, information and communications equipment stocks that make up a large portion of the Japanese stock market would benefit. If the recovery is slower or more economically damaging than expected, Japanese companies may not be as negatively impacted as they are sitting on large amounts of cash.

- In the fixed income markets, corporate bonds may outperform government bonds and MBS, but a major bear market in U.S. Treasuries is not likely, just yet. There will certainly be some pressure on corporate and municipal borrowers as credit downgrades are likely to occur. However, a large amount of corporate defaults seems unlikely given the Federal Reserve and U.S. government's willingness to intervene in this unprecedented healthcare crisis with historic amounts of stimulus. In addition to U.S. Treasuries and agency MBS, the Fed is buying individual investment grade and High Yield corporate bonds and ETFs along with state and local municipals.

- While there could be temporary setbacks as a spike in virus cases is occurring shortly after the re-opening of several economies, we do not believe the recovery will be stopped. The world now has a playbook for dealing with COVID-19 until more anti-viral treatments and vaccines emerge. Continued monetary and fiscal policy stimulus should keep the new, unloved bull market running.

Andrew Zimmerman, Chief Investment Strategist

ASSET CLASS TOTAL RATE OF RETURN PERFORMANCE SUMMARY AS OF 6/30/2020

Stock Indices	Asset Class	QTD Return	YTD Return	1 Year Return
MSCI AC World Daily TR N	Global Equities	19.22%	-6.25%	2.11%
S&P 500 INDEX	U.S. Large Cap Equities	20.54%	-3.09%	7.49%
S&P 400 MIDCAP INDEX	U.S. Mid Cap Equities	24.07%	-12.78%	-6.71%
RUSSELL 2000 INDEX	U.S. Small Cap Equities	25.42%	-12.99%	-6.65%
MSCI EAFE	International Developed Market Equities	15.15%	-11.03%	-4.63%
MSCI EM	Emerging Market Equities	18.14%	-9.70%	-3.11%
FTSE E/N All Eqty ReitTR	Real Estate (REITs)	13.25%	-13.30%	-6.47%
U.S. Large Cap Sector Stock Indices				
S&P 500 ENERGY INDEX	U.S. Large Cap Equities - Energy Sector	30.51%	-35.34%	-36.09%
S&P 500 HEALTH CARE IDX	U.S. Large Cap Equities - Health Care Sector	13.59%	-0.81%	10.90%
S&P 500 CONS DISCRET IDX	U.S. Large Cap Equities - Consumer Discretionary Sector	32.86%	7.23%	12.59%
S&P 500 CONS STAPLES IDX	U.S. Large Cap Equities - Consumer Staples Sector	8.12%	-5.66%	3.62%
S&P 500 INFO TECH INDEX	U.S. Large Cap Equities - Information Technology Sector	30.53%	14.95%	35.90%
S&P 500 UTILITIES INDEX	U.S. Large Cap Equities - Utilities Sector	2.74%	-11.14%	-2.11%
S&P 500 INDUSTRIALS IDX	U.S. Large Cap Equities - Industrials Sector	17.01%	-14.64%	-9.05%
S&P 500 COMM SVC	U.S. Large Cap Equities - Telecom Sector	20.04%	-0.31%	11.08%
S&P 500 MATERIALS INDEX	U.S. Large Cap Equities - Materials Sector	26.01%	-6.92%	-1.11%
S&P 500 FINANCIALS INDEX	U.S. Large Cap Equities - Financials Sector	12.20%	-23.65%	-13.98%
S&P 500 REAL ESTATE IDX	U.S. Large Cap Equities - Real Estate Sector	13.21%	-8.53%	-2.02%
Commodities Indices				
ISHARES GOLD TRUST	Gold	12.74%	17.17%	25.85%
S&P GSCI Tot Return Indx	Broad Commodities	10.47%	-36.31%	-33.90%
Bond Indices				
U.S. Aggregate	Core Bonds	2.90%	6.14%	8.74%
Intermediate	Intermediate Government & Corporate Bonds	2.81%	5.28%	7.12%
US Corporate High Yield	High Yield Debt	10.18%	-3.80%	0.03%
U.S. Treasury	U.S. Treasuries	0.48%	8.71%	10.45%
U.S. TIPS	U.S. TIPs	4.24%	6.01%	8.28%
U.S. Agency	U.S. Government Agencies	0.88%	5.06%	6.79%
U.S. MBS	Mortgage-Backed Securities	0.67%	3.50%	5.67%
Corporate	Corporate Debt	8.98%	5.02%	9.50%
Municipal Bond Index	Municipal Debt	2.72%	2.08%	4.45%

Notes: The DT Investment Partners' Commentary and Outlook discusses general developments, financial events in the news and broad investment principles. It is provided for information purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Investments in various asset classes entail different investment risks. For example, small cap stocks tend to be more volatile than large or mid-cap stocks. International and emerging markets stocks have exposure to currency fluctuations, foreign taxes, political instability and the possibility for illiquid markets. Fixed income investments involve interest rate and credit risks among others. Real estate investing includes risks such as declines in value of real estate, changing economic conditions, tax laws or property taxes. Commodities' investing is highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. One cannot invest directly in an index. Past performance does not guarantee future results.