Second Quarter 2020 Market Commentary

Domestic Equity Market Recap

The ongoing COVID 19 crisis drove large segments of the US economy to shut down or reduce capacity during the majority of the second quarter. Despite this, the markets focused on the historic fiscal and monetary intervention on the part of the Federal Government and staged a dramatic rebound, with the S&P 500 rising +20.54% to close the quarter just -9.22% off February's all-time high. Fiscal measures included the Paycheck Protection Program and the Health Care Enhancement Act which offered forgivable SBA loans to small businesses that retained workers and additional money for grants and loans to small businesses, and The Coronavirus Aid, Relief and Economy Security (CARES) Act which offered tax rebates to individuals, and expanded unemployment benefits. For its part, the Federal Reserve responded with a $700 billion quantitative easing initiative. Actions included a lowering of the Federal Funds rate by 1.5% to 0-0.25%, measures to facilitate the commercial paper market, and the unprecedented purchase of corporate bonds and fixed income exchange traded funds (ETFs) in both the primary and secondary markets.

Growth strategies continued to outperform their value peers. Additionally, small cap strategies, which had suffered the most in the first quarter, exhibited the strongest performance this quarter.

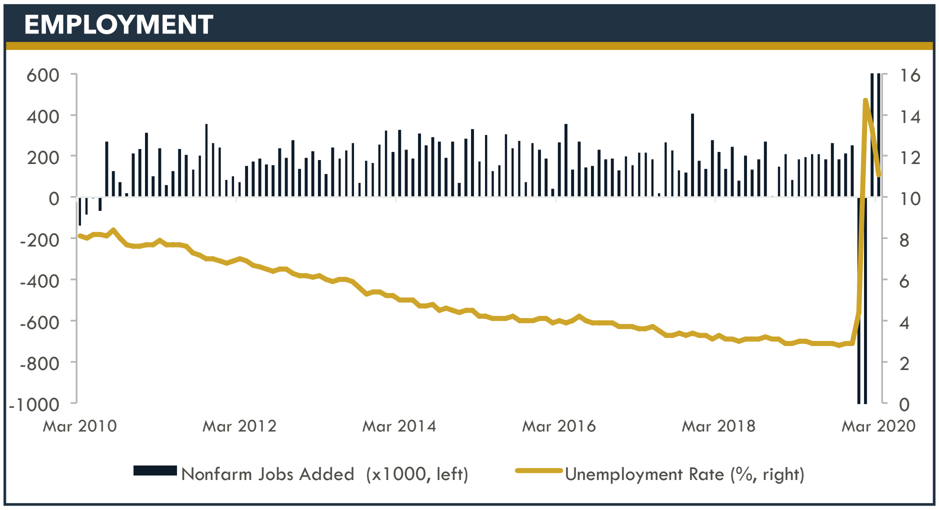
BENCHMARK RETURNS (3 TO 10 YEAR FIGURES ANNUALIZED)

EQUITY INDICES (%) **Period Ending 6.30.2020**	**1M**	**3M**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
Large Cap							
S&P 500	1.99	20.54	-3.09	7.49	10.71	10.71	13.97
Russell 1000	2.21	21.82	-2.81	7.47	10.62	10.45	13.95
Russell 1000 Growth	4.35	27.84	9.81	23.28	18.98	15.87	17.22
Russell 1000 Value	-0.66	14.29	-16.26	-8.85	1.81	4.62	10.40
Mid Cap							
Russell Mid Cap Core	1.80	24.61	-9.13	-2.24	5.79	6.76	12.35
Russell Mid Growth	2.34	30.26	4.16	11.92	14.74	11.58	15.07
Russell Mid Value	1.13	19.95	-18.09	-11.83	-0.57	3.30	10.28
Small Cap							
Russell 2000	3.53	25.42	-12.99	-6.65	1.98	4.26	10.48
Russell 2000 Growth	3.84	30.59	-3.07	3.45	7.82	6.82	12.90
Russell 2000 Value	2.90	18.91	-23.51	-17.50	-4.36	1.24	7.81

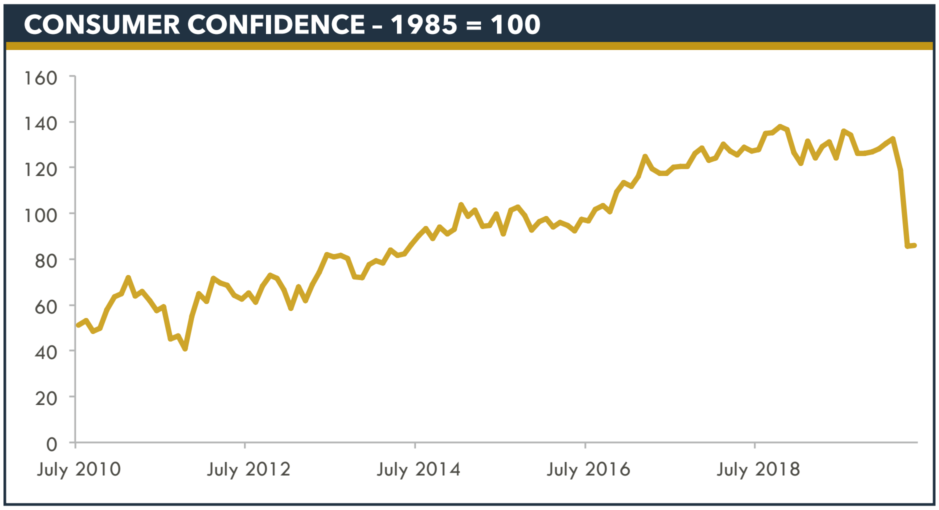
Source: Northern Trust

Domestic Economic Highlights

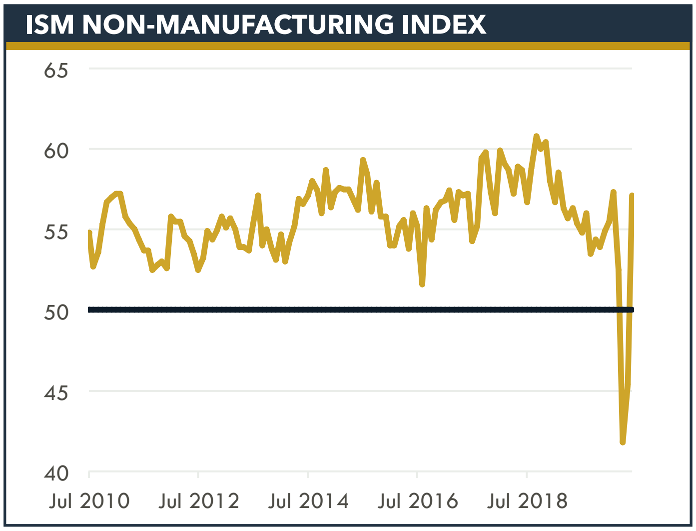
Not surprisingly, economic indicators reacted quickly to the COVID-19 shutdown of the economy in April, though most indicators have improved in the ensuing months. The unemployment rate spiked to a high of 14.7% and has since leveled off to 11.1%, though a decline in labor force participation means that these figures may understate weakness in the labor markets. Consumer Confidence plummeted from 118.8 in March to 85.7 in April, with respondents reporting the largest ever month on month decline in their current economic situation. Business confidence saw similar declines as the ISM Manufacturing Index fell to 41.5 in April while the Non-Manufacturing reached 41.8. However, the May economic numbers generally experienced a bounce with the unemployment rate dropping to 13.3%, the ISM Manufacturing rising to 43.1, and the ISM Non-Manufacturing moving up to 45.4. The strength and longevity of any rebound is still debatable.



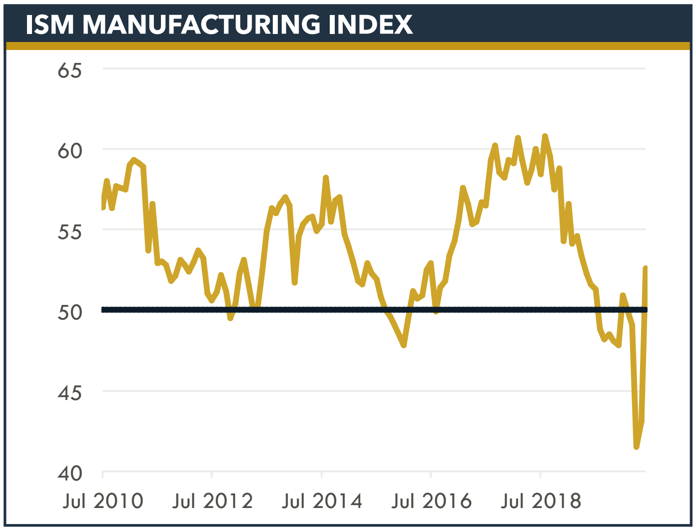
Source: Northern Trust



Source: Northern Trust



Source: Northern Trust



Source: Northern Trust

International Equity Market Recap

Overseas, international markets experienced a less pronounced rebound than that experienced in the U.S. Emerging Markets did, however, outperform Developed peers. This was likely attributable mainly to lower oil prices though the spot price of oil did rise from record lows during the quarter offering some relief to energy export-based EM economies.

INTERNATIONAL EQUITY INDICES (%) Period Ending June 30, 2020

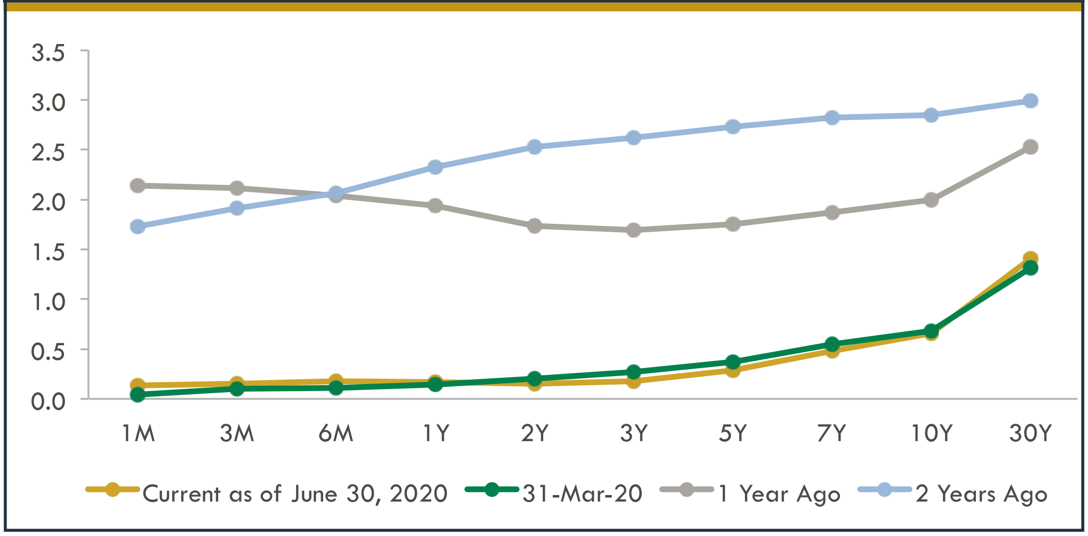
Period	1M	3M	YTD	1Y	3Y	5Y	10Y
MSCI Europe	4.49	15.82	-12.35	-5.94	0.57	2.03	6.23
MSCI Japan	0.09	11.49	-6.73	3.66	3.34	3.77	6.39
MSCI EAFE	3.45	15.15	-11.03	-4.63	1.38	2.63	6.31
MSCI Emerging Markets	7.36	18.14	-9.70	-3.11	2.23	3.24	3.63

Source: Northern Trust

Domestic Bond Market Recap

At the end of the first quarter, the Federal Reserve cut the Federal Funds rate target to 0-0.25% in response to the COVID-19 epidemic and pledged to keep rates near the zero-bound level through 2022. It also implemented quantitative easing programs to support credits and the corporate bond markets. Since then the spreads of investment grade corporate bonds over treasuries, which ended last quarter at 2.55%, have declined to 1.42%, near the historical average of 1.29%. High yield spreads have also declined but remain elevated at 6.27% versus a historical average of 503 basis points. With the exception of a spike to 0.95% in early June, the 10-year Treasury Yield has traded in a range of approximately 0.55-0.70%.

YIELD CURVE (UNITED STATES)



Source: FactSet

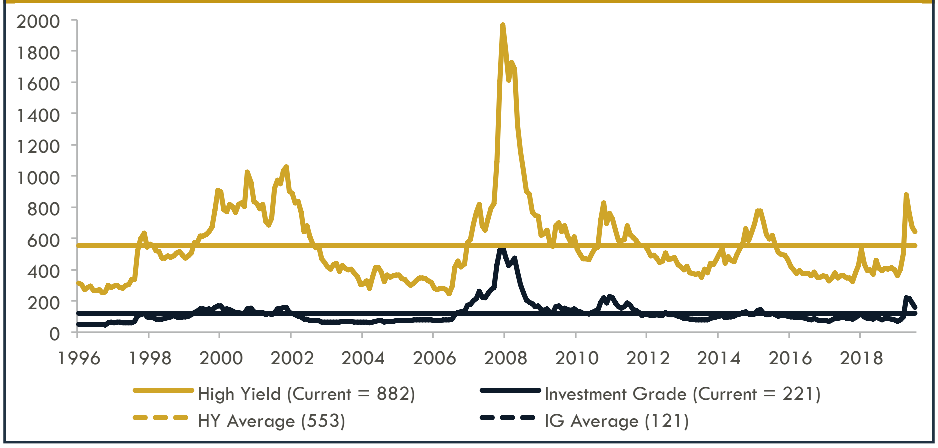
continued on page 4

Domestic Bond Market Recap *continued*

FIXED INCOME (%) Period Ending June 30, 2020							
FIXED INCOME INDICES (%)	**1M**	**3M**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
Bloomberg Barclays Aggregate	0.63	2.90	6.14	8.74	5.32	4.30	3.82
Bloomberg Barclays Gov/Credit	0.87	3.71	7.21	10.02	5.86	4.74	4.12
Bloomberg Barclays Treasury	0.09	0.48	8.71	10.45	5.57	4.07	3.40
Bloomberg Barclays Intermediate Gov/Credit	0.62	2.81	5.28	7.12	4.42	3.46	3.12
Bloomberg Barclays Long Term Gov/Credit	1.55	6.23	12.82	18.91	10.31	8.97	7.83

Source: Northern Trust

OPTION ADJUSTED SPREADS - BASIS POINTS



Source: Northern Trust

Commodity Recap

Driven by the uncertainty introduced by the COVID-19 epidemic, gold has been one of the strongest asset classes year-to-date . The precious metal rose +13.24% during the quarter and has now appreciated +18.00% on the year. Crude oil appreciated a whopping +91.47% for the quarter, the best quarterly performance in 30 years. However, this hardly portrays an accurate account of oil market fundamentals. The price war between Saudi Arabia and Russia combined with the COVID-19 epidemic combined to drive crude prices to historic lows during the first quarter. These drivers dissipated somewhat in the second quarter resulting in a sharp rebound. However, the commodity is still down -35.77% year-to-date.

COMMODITIES (%) Period Ending June 30, 2020							
	1M	**3M**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
Copper	13.23	25.87	-1.92	1.22	3.15	-1.03	-1.94
Silver	1.45	28.10	-1.11	15.39	3.19	2.25	0.49
Gold	3.23	13.24	18.00	40.26	15.96	8.66	5.05
West Texas Oil Crude	10.40	91.47	-35.77	-13.02	-9.93	-5.99	-6.80

Source: FactSet

Insurance Insights

Submitted by:

Michael J. Smith, CPCU, CIC, CSRM
Vice President Berkshire Insurance Group

MJSmith@berkshireinsurancegroup.com
Toll Free Number: 866.636.0244

Workers' Compensation is an important coverage for injuries or illnesses contracted at work. Most Workers' Comp. policies will pay for COVID-19 related illnesses if it is determined that it was work-related. The problem is that it is hard to determine the origin.

Most businesses' **property insurance** policies include Loss of Income coverage; however, two triggers are generally required to activate a claim. First, there must be damage to the insured premises. And secondly, that damage must be caused by an insured peril (or a covered cause of loss). COVID-19 does not cause direct damage to structures, and as a communicable disease is specifically excluded on most property insurance policies. Nearly all insurance companies are therefore not providing coverage for virus related loss of income claims. There is currently much debate on this topic, and communicable disease coverage may become more widely available in the future.

General Liability coverage protects business owners from lawsuits. It may be difficult to prove that a business caused an individual to contract the disease, however there may be some coverage for legal expenses and defense costs on the General Liability policy.

Director's & Officer's Liability (D&O) provides protection from lawsuits related to decision making activities of a company's board of directors. There is no standard D&O insurance policy; they are all different. Most do not have an exclusion for communicable diseases; therefore, most will respond to these types of claims. Some recent COVID-19 related D&O lawsuits include improper financial disclosure, lack of cleaning protocols, and failure to communicate a plan. Certainly, there will be many more D&O claims in the coming months.

This is a very fluid situation and many changes will take place in the near future due to COVID-19.

2020 Outlook

Fiscal and monetary stimulus on the part of the Federal government and governments around the world have had the desired effect. At quarter end, the stock market as measured by the S&P 500 had recovered most of the severe losses experienced in the first quarter. However, the shape, robustness, and longevity of the nascent economic rebound is uncertain. The COVID-19 virus is far from defeated. In some areas of the United States, cases are once again increasing at a substantial rate. This will cause state/local/federal governments to slow or reverse business re-openings. Second quarter company earnings reports will likely be far from inspiring. The presidential election this fall brings further uncertainty to the market. In addition, the sharp rebound in equity markets have left stocks trading at elevated valuations by some measures. We continue to favor a broadly diversified approach to investing with an emphasis on high quality equities and fixed income instruments with sustainable competitive advantages. With yields historically low, investors should avoid the temptation to reach for higher yields in riskier credits and look instead to tactical plays along the curve and strategies to harness the elevated equity risk premium. With such strategies, however, manager selection is key to managing risk and return potential.