



General Outlook

Markets	Growth Adds Value
COVID-19	Remote Control
Economy	Wheel of Fortune
Employment	Climbing Recovery Mountain
Monetary Policy	Cavalry to the Rescue
Outlook	Party Like it's 2009

Investment Environment

By Thomas J. Bisighini, CFA, Sr. Managing Director

Markets: Growth Adds Value

Domestic stocks rebounded sharply across the market cap spectrum from their March trough, registering their strongest quarterly advance in over twenty years, driven by monetary easing, fiscal stimulus and optimism about the re-opening of the domestic economy. Promising developments in Coronavirus (COVID-19) vaccine candidates, along with the evolution of healthcare treatment protocols and the effectiveness of prevention measures served as a foundation for the rebound, however markets really catapulted upward based on numerous Federal Reserve policy actions that stabilized credit markets and fiscal stimulus provided to consumers (including those suddenly unemployed). These initiatives translated into the start of v-shaped recoveries across many economic segments, most notably retail sales, housing, and manufacturing. Within this

backdrop, growth stocks significantly outpaced value shares, a surprising feat considering the frequent value leadership during past periods of positive economic inflection. Investors, skeptical of the sustainability of this recovery, remained concerned with massive downward earnings revisions, anxious about withdrawn forward guidance, and sought solace in the relative predictability and stronger fundamentals of secular growth companies. This environment helped facilitate relative outperformance for all of CCI's investment products.

Although excess monetary liquidity helped lower quality, higher beta, and smaller cap stocks outperform, growth-oriented factors, such as strong projected growth and forecasted earnings surprise (the primary focus of CCI's investment discipline),

Equity Markets (% Total Return)

	Second Quarter 2020			Year to Date 2020			
	Growth	Index	Value	Growth	Index	Value	
Russell 1000	27.84	21.82	14.29	Russell 1000	9.81	(2.81)	(16.26)
Russell Mid Cap	30.26	24.61	19.95	Russell Mid Cap	4.16	(9.13)	(18.09)
Russell 2500	32.87	26.56	20.60	Russell 2500	2.02	(11.05)	(21.18)
Russell 2000	30.58	25.42	18.91	Russell 2000	(3.06)	(12.98)	(23.50)
Russell Microcap	38.84	30.54	22.93	Russell Microcap	1.92	(11.21)	(21.44)
S&P 500		20.54		S&P 500		(3.08)	
International*		15.08		International*		(11.07)	
Emerging Markets**		18.18		Emerging Markets**		(9.67)	
Gold Price Change %		12.92		Gold Price Change %		17.38	

* MSCI EAFE in U.S. \$ ** MSCI EMF in U.S. \$

Source: FactSet (Indices)/Bloomberg (Gold Price Change%)

performed better than the historical norm at this juncture of the rebound as market participants worried about a second wave. Also focusing investors on sustainable growth during the quarter, Russell 1000 constituents reduced dividends at the fastest pace since 2009, the percentage of Russell companies lacking earnings (42% of Russell 2000) approached record highs, and the number of companies withdrawing forward guidance mounted. Earnings estimates for the second quarter experienced the largest ever intra-quarter decline and were poised for the weakest growth in over a decade. Investors filtered out these struggling companies and increasingly sought the relative visibility of secular growers who were not as reliant on stimulus lifelines and seemed better equipped to navigate the unpredictable economic path ahead. Valuations for growth companies seemed elevated by traditional measures, but investors were comforted by the near zero interest rate environment that fostered more premium valuations for longer duration assets.

COVID-19: Remote Control

Economic optimism emerged following the mid-April peak in new COVID-19 cases, as social distancing measures and remote working/learning precautions began to control the pandemic's spread to the point where governors authorized the phased re-opening of their respective state economies. Healthcare treatment protocol advances, adequacy of hospital supplies, expanded testing capabilities, and contact tracing initiatives provided added confidence to this decision-making process. Reckless behavior by individuals with this newfound freedom of movement soon created a sudden resurgence of new COVID-19 cases in several states, however, forcing state government officials to temporarily pause the economic recovery in their respective regions by returning to earlier safeguard measures that had successfully contained the pandemic's proliferation. Near-term, non-essential activities (e.g., elective medical procedures, restaurant dining) should remain volatile and highly dependent on pandemic case information, with comprehensive data analysis and adherence to federally mandated criteria outlining the eventual path to any sustained economic recovery. Longer term, assessing the COVID-19 disruptive effects on individual businesses, industries, supply chains and consumer behavior will increasingly influence investment decisions.

Economy: Wheel of Fortune

After falling over themselves early in the quarter attempting to predict the direness of second quarter GDP, economic prognosticators competed in a process reminiscent of the popular game show Wheel of Fortune. These market participants first characterized the economic outlook using letters depicting their forecasted shape of the recovery (e.g., V, W, U, L), before expanding to other symbols (e.g., check mark, square root, Nike swoosh) in hopes of providing visual clarity to this highly uncertain backdrop. Economic data (which had plunged over a cliff during the height of the pandemic) suddenly skyrocketed as economic stimulus was deployed, businesses reopened, confidence was boosted, and inadequate inventories were replenished. The housing and auto sectors (which have significant economic multiplier effects), retail sales, purchasing manager indices, and employment sharply rebounded from their depths and helped propel markets higher.

The road to recovery is rarely a straight-line, and markets ebbed and flowed based on high frequency daily and weekly data that serve as a real-time pulse for the recovering economy. As the economy migrates from stay at home towards back to normal, non-traditional data measures (e.g., mobility indices (people movement), open table reservations (restaurants), TSA passenger volumes (airline travel)), and data from providers such as Factive (entertainment/travel) and Homebase (small business workplace scheduling), supplement more customary data sets (e.g., credit card spending by category) to form a collage of economic activity which illustrates points of inflection. Scrutiny of these and other leading indicators is an essential component of the CCI investment process, and has proven invaluable to participating in accelerating trends and minimizing fundamental deterioration such that the aggregate level of fundamental growth and positive surprise across our portfolios has remained consistently positive even during market and economic turbulence.

Employment: Climbing Recovery Mountain

The most disruptive effect of the pandemic was the devastatingly sudden unemployment of more than 20 million people when stay-at-home orders were enacted. Since then, monthly payroll data surpassed consensus expectations in May and June, but has thus far only recovered about one-third of the jobs lost and nearly 15 million people are still out of work. Some of the most affected industries such as construction, retail, manufacturing, and leisure/hospitality have recouped over 40% of lost positions, but the road ahead may become more challenging. The shift of manufacturing production closer to home to avoid the supply chain bottlenecks incurred early in the outbreak serves as a potential benefit to the employment outlook, offsetting some of these damaging headwinds caused by the pandemic. Surveys have shown heightened interest in these facility relocations across sectors, most notably technology, healthcare and consumer staples companies.

Like climbing a mountain, the early employment recovery started off fast but may soon transition from a sprint to a marathon as the grueling journey unfolds and the lasting effects of the pandemic are realized before the mountain peak is attained, if at all. Each successive monthly payroll report has shown an increase in the number of permanent layoffs (2.9 million in July) and a decrease in the percentage of unemployed who view their layoff as temporary (less than 60% compared to about 75% at the peak), thus diminishing the economy's ultimate potential. In addition, the full impact of higher unemployment has been masked by the \$600 per week added benefit that may soon expire if Congress does not extend or offer new legislation. Ironically, the S&P 500 has achieved its best twelve month forward returns (+13-15%) subsequent to the most horrific payroll reports historically.

Monetary Policy: Cavalry to the Rescue

After launching a double shot of more accommodative monetary policy and increased quantitative easing last quarter, the Federal Reserve once again served as the cavalry, coming to the rescue when credit markets temporarily seized at the prospect of a wholesale demise of the small-medium business community. Small and medium-sized businesses were the most dramatically

impacted by the pandemic, and numerous bankruptcies were likely imminent without intervention. The Fed launched liquidity programs to support the Paycheck Protection Program (PPP) and Main Street Lending Program (MSLP), effectively providing a credit backstop that calmed investor fears and reversed deteriorating credit spreads. Interviews with Fed officials and minutes of formal meetings continue to support the notion that Chairman Powell and Company have a nearly endless supply of ammunition to reinforce the economy through innovative policy and lending actions, provided inflation remains contained. Hopefully, the need for the dramatic actions of the last several months will diminish as the economy and employment recover, but in the interim, the Fed continues to increase its balance sheet gradually through open-ended quantitative easing, and is completing its strategic review around the path forward. Investors will be looking to the September meeting for clarification around parameters for stronger forward guidance and yield curve control actions.

Outlook: Party Like it's 2009

Taking liberties with a popular song from musical legend Prince, markets partied like it was 2009, with the S&P 500 and Russell 2000 recovery paths off the March bottom showing a striking resemblance to the bounce off the March 2009 trough. Continuing that correlation would suggest further robust expansion into the Fall, before a brief pause followed by a renewed advance into the following year. Separately, the second

quarter represented only the 9th quarterly advance of greater than 15% for the S&P 500 since 1950, but there is historical precedent supporting further upside potential ahead. While the past is no guarantee for the future, average performance for quarters following such increases have been +9.5% (100% frequency of being positive), while the ensuing two quarters were nearly +14% (favorable 100% of the time) and a year after the initial 15%+ rise registered an additional 15% gain (88% positive frequency).

The government and central bank shock and awe efforts to soften the disruptive impacts of the pandemic have provided temporary relief, but the sustainability of the economic rebound remains highly uncertain, especially considering the recent obstacles experienced within states re-opening at an overambitious pace. The scarcity premium afforded to growth stocks should continue until COVID-19 clouds dissipate and investors become more confident in the recovery's durability, at which time, given our discipline, CCI's investment portfolios may experience some temporary underperformance. Concerns beyond the pandemic include ongoing trade tensions, corporate earnings progression and the upcoming Presidential election that may have significant ramifications for tax, healthcare and regulatory policy. We continue to evaluate the investment landscape for fundamental and price action leadership shifts, and will adjust portfolio exposures as deemed necessary to capitalize on any sustainable evolution.