CAPITAL MARKET REVIEW

Second Quarter 2020

IRON CAPITAL ADVISORS

The Economy

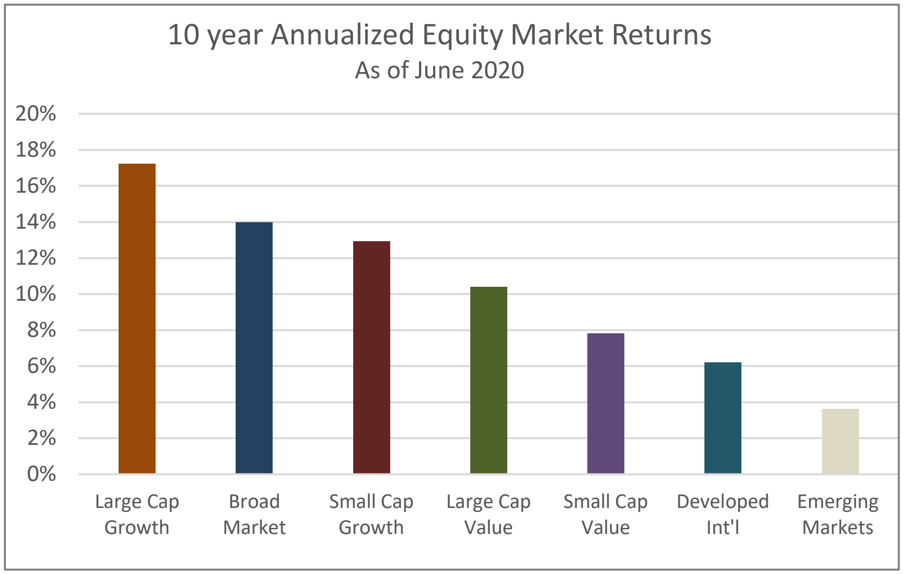
For the last decade growth stocks have outperformed value stocks; large company stocks have outperformed small company stocks; and domestic company stocks have outperformed international company stocks. This is not sustainable and it will end, the questions are how and when will it end?

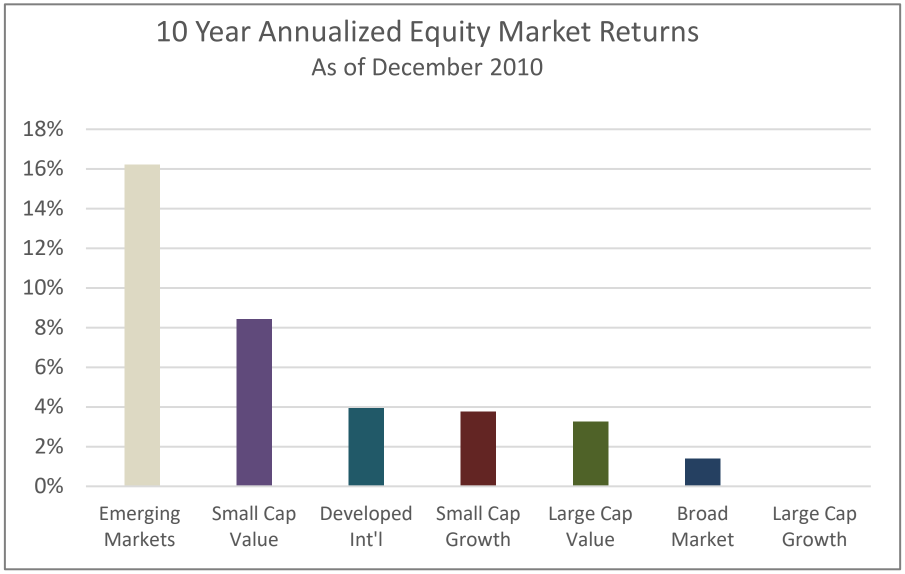
This tilt towards US based growth companies began in the aftermath of the financial crisis. When the global economy should have been rebounding dramatically, we instead went on a horrible detour of economic stupidity. Governments seemingly did everything in their power to keep us in the “new normal”. That was artificially low economic growth. During a period of low economic growth investors will generally favor the stocks of companies that can grow faster than the economy. As of June 30, 2020, the Russell 1000 Growth index is up 17.2 percent annualized. The Russell 2000 Value index is up 7.8 percent. The MSCI EAFE index is up 6.2 percent. The MSCI Emerging Markets index is up only 3.6 percent.

Not only has this been going on for a decade, but it has gotten worse lately. The last 12 months saw the Russell 1000 Growth go up 23.2 percent while the Russell 2000 Value is down 17.4 percent. This is the largest gap since the Tech bubble. That ended and this will too.

This leads us to our questions, how and when? No one knows when, but with things this extreme it would seemingly have to be soon. How is the more interesting.

There is really a lost decade in stocks not included in the US large growth bucket. I believe we will see a long period of reverting to the mean and these companies will once again get to lead the way. Markets can go up being led by companies other than US tech firms. It is about time for that to happen. Diversification has not really helped investors over the last decade, which leads me to believe it will be more important than ever over the next decade.





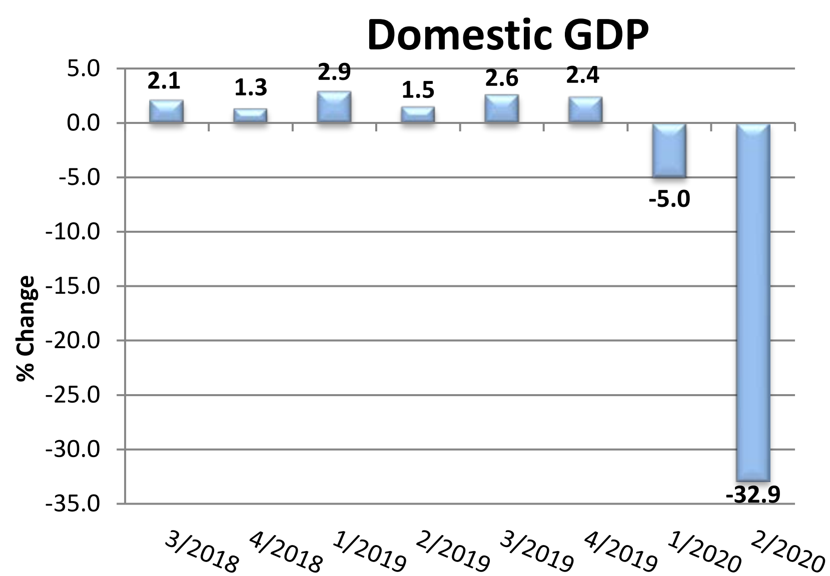
Source: Zephyr *StyleADVISOR*

The Economy

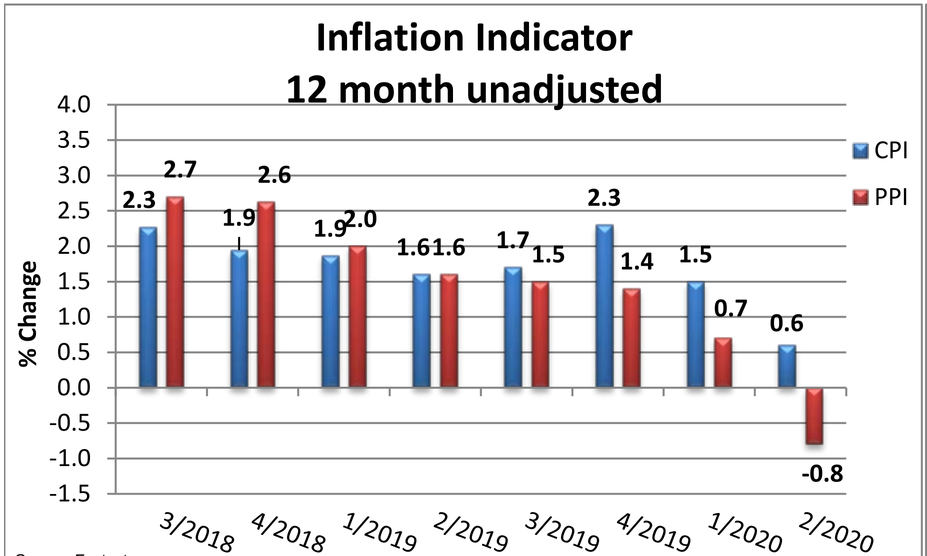
The 2nd quarter 2020 GDP was down 9.5 percent, which under any other circumstances would be horrible, but in this world that was better than expected. On an adjusted annualized basis, which is the standard reporting method, it was a negative 32.9 percent. Under the circumstances that has less meaning than usual.

The official unemployment rate is 11.1 percent in June. Again, a horrible number under normal times, but experts thought it would be 20 percent or higher. Two reports in a row have seen the rate drop significantly.

Inflation is 0.6 percent based on the latest consumer price index report. Oil has normalized which has gotten us out of deflation, but we are a long way from the 2 percent Fed target. Expect the Fed to continue to be very aggressive.



Source: Factset



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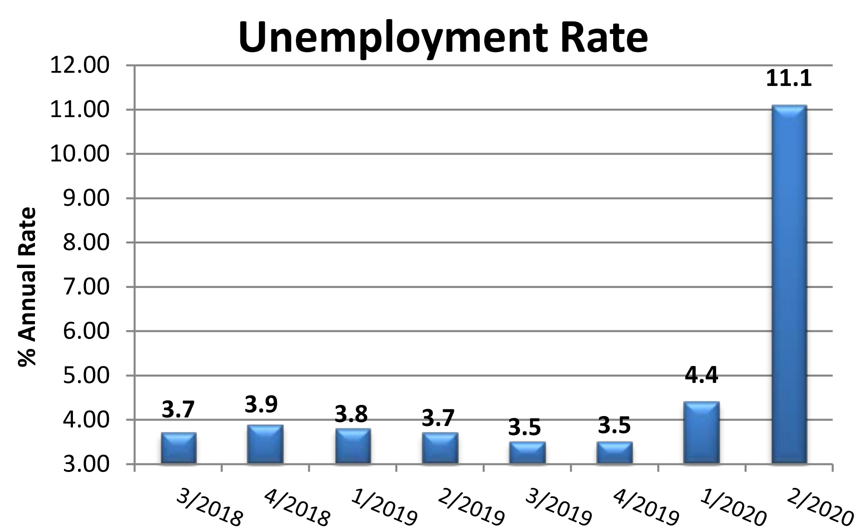

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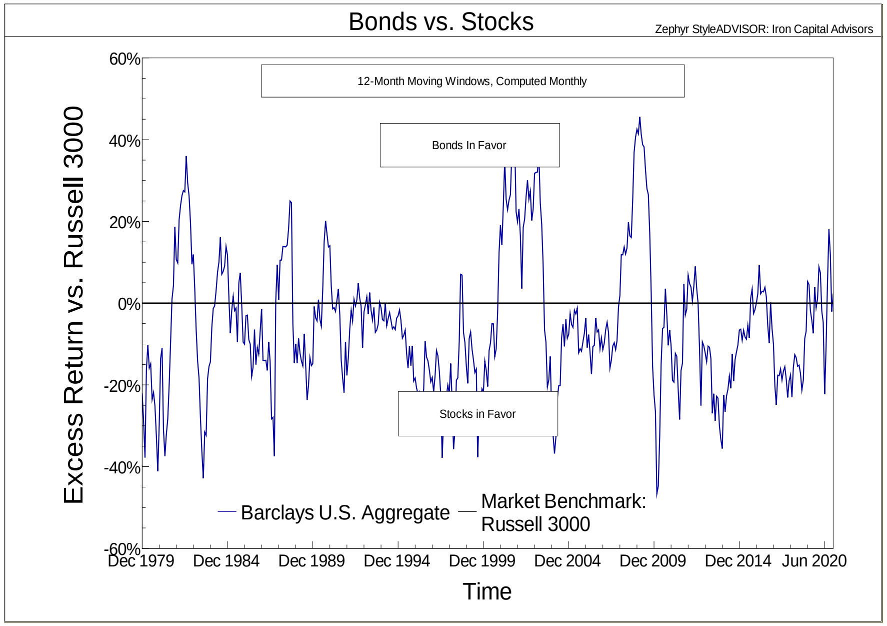
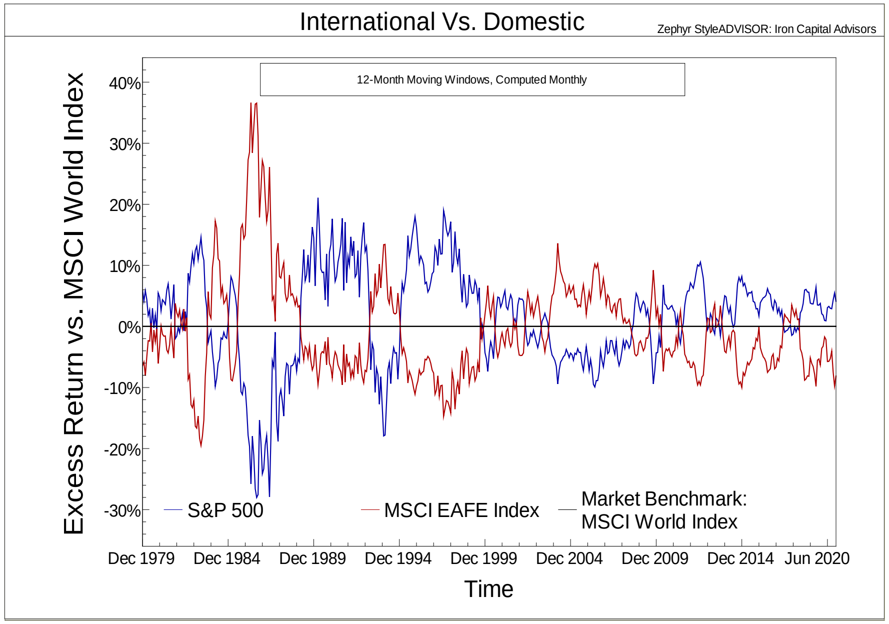
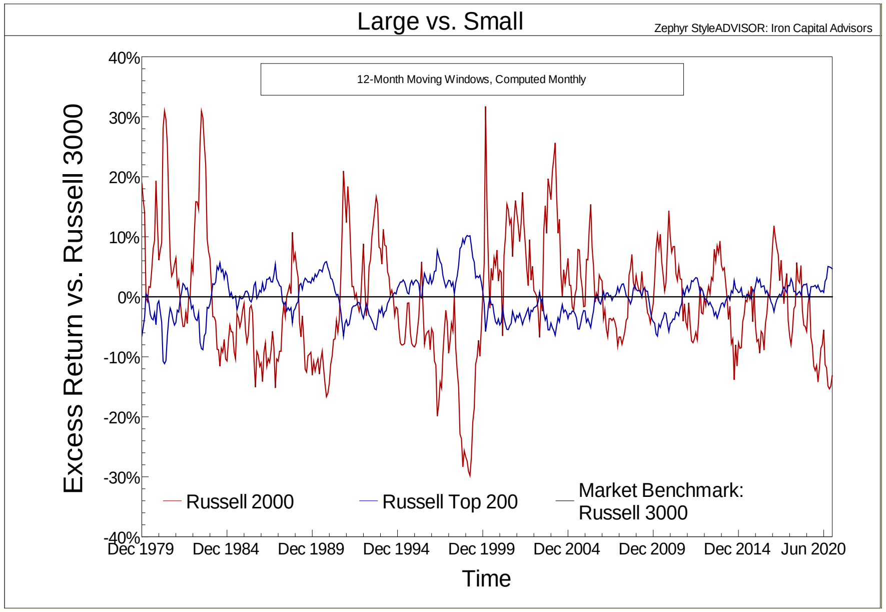
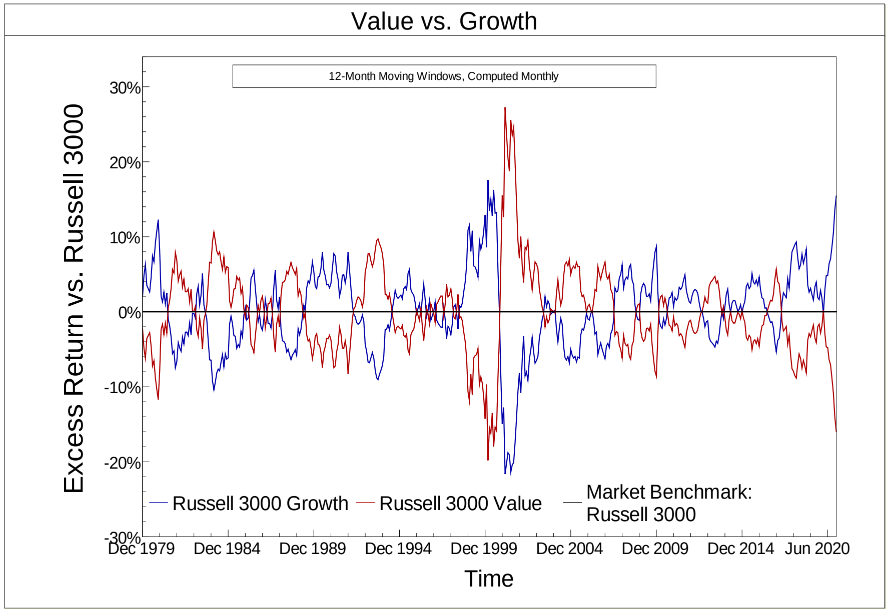

Bonds vs. Stocks
Zephyr StyleADVISOR: Iron Capital Advisors
12-Month Moving Windows, Computed Monthly
Bonds In Favor
Stocks in Favor
Excess Return vs. Russell 3000
60%
40%
20%
0%
-20%
-40%
-60%
Barclays U.S. Aggregate
Market Benchmark: Russell 3000
Dec 1979
Dec 1984
Dec 1989
Dec 1994
Dec 1999
Dec 2004
Dec 2009
Dec 2014
Jun 2020
Time


International Vs. Domestic
Zephyr StyleADVISOR: Iron Capital Advisors
12-Month Moving Windows, Computed Monthly
Excess Return vs. MSCI World Index
40%
30%
20%
10%
0%
-10%
-20%
-30%
S&P 500
MSCI EAFE Index
Market Benchmark: MSCI World Index
Dec 1979
Dec 1984
Dec 1989
Dec 1994
Dec 1999
Dec 2004
Dec 2009
Dec 2014
Jun 2020
Time


Large vs. Small
Zephyr StyleADVISOR: Iron Capital Advisors
12-Month Moving Windows, Computed Monthly
Excess Return vs. Russell 3000
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
Russell 2000
Russell Top 200
Market Benchmark: Russell 3000
Dec 1979
Dec 1984
Dec 1989
Dec 1994
Dec 1999
Dec 2004
Dec 2009
Dec 2014
Jun 2020
Time


Value vs. Growth
12-Month Moving Windows, Computed Monthly
Excess Return vs. Russell 3000
30%
20%
10%
0%
-10%
-20%
-30%
Russell 3000 Growth
Russell 3000 Value
Market Benchmark: Russell 3000
Dec 1979
Dec 1984
Dec 1989
Dec 1994
Dec 1999
Dec 2004
Dec 2009
Dec 2014
Jun 2020
Time

Domestic Equity Markets

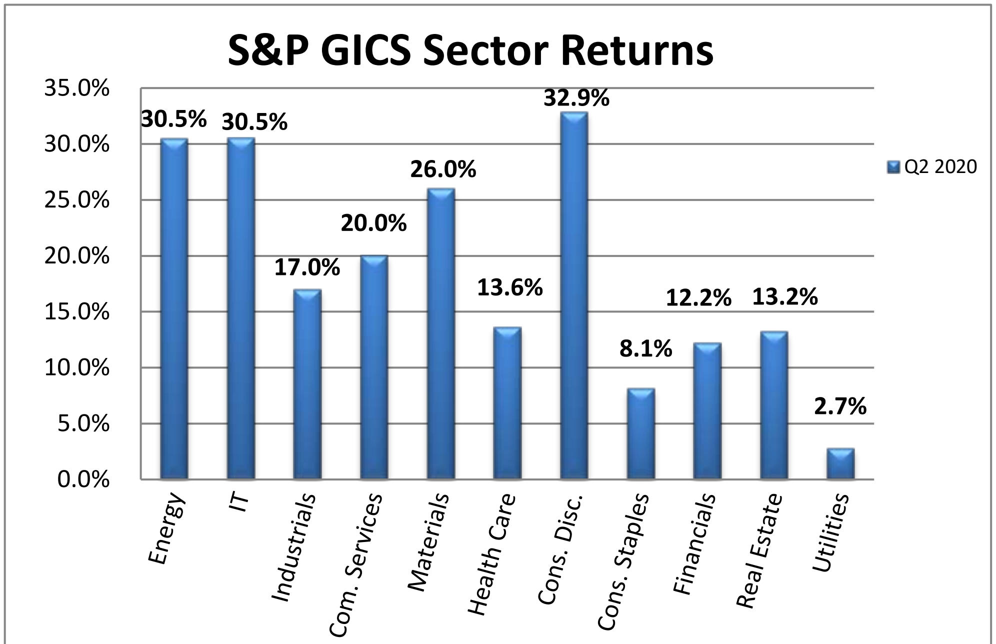
The market bounced back. For the quarter the S&P 500 finished up 20.54 percent and small company stocks represented by the Russell 2000 index were up 25.42 percent. Growth outpaced value dramatically.

Consumer discretionary was the best place to be as consumers continued to spend even from home. Technology and energy were tied for second place but for different reasons. Tech was continuing its huge outperformance while energy was bouncing off of the bottom. Going forward tech companies have a much clearer path for success. The only question is how much is already priced in.

Utilities and staples were the worst place to be as confidence grew for a recovery in the economy.

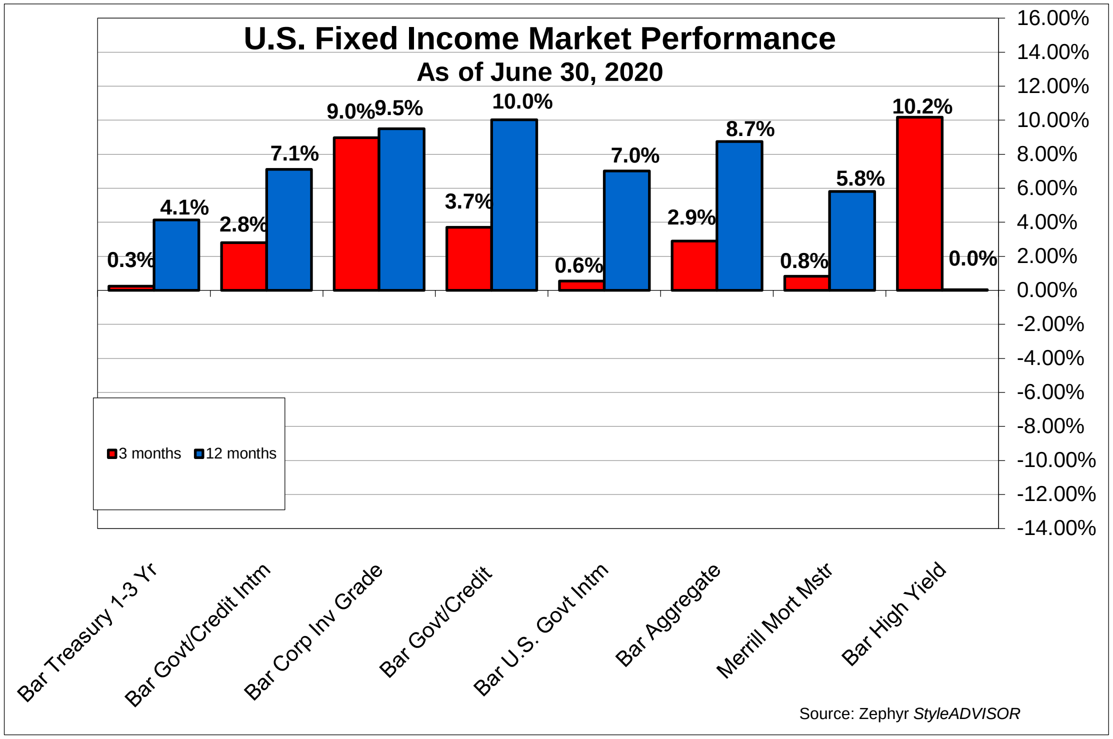
Domestic Indices Three Months Ending June 30, 2020

	Yield	Price/Earnings	Price/Book
S&P 500	1.87%	22.3	3.52
Russell 1000 Gr	0.88%	35.7	11.00
Russell 1000 Val	2.75%	17.6	2.01
Russell Midcap	1.92%	24.3	2.58
Russell 2000 Gr	0.55%	-250.4	4.69
Russell 2000 Va	3.09%	59.8	1.09



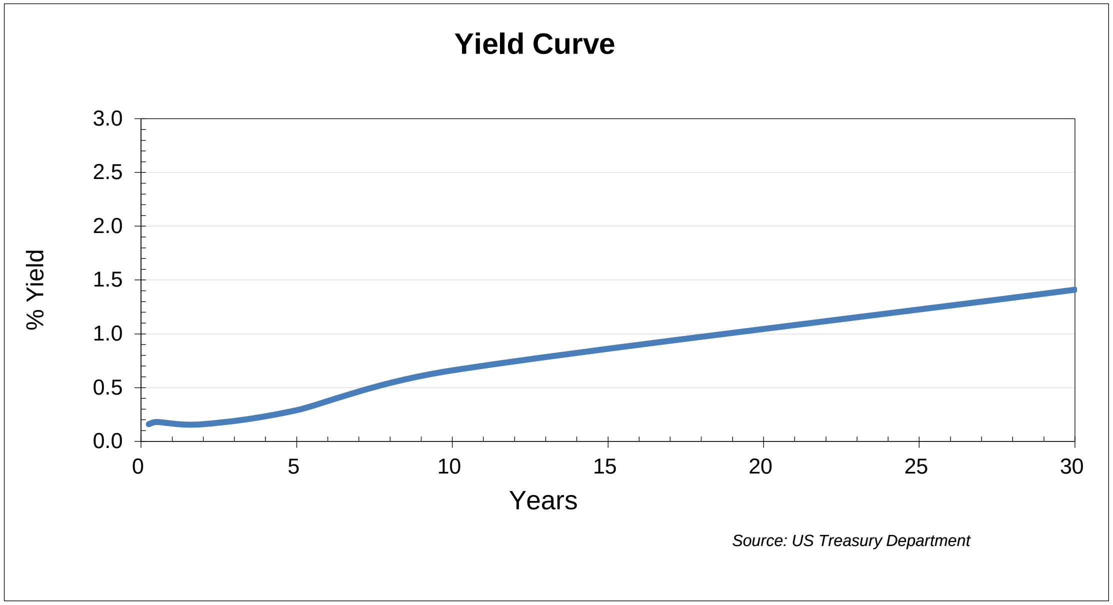
Source: Factset

DOMESTIC FIXED INCOME MARKET



Bonds were up for the quarter. The Barclays US Aggregate Bond index ended up 2.90 percent. High yield bonds rose10.18 percent.

The ten-year treasury ended the quarter with a yield of 0.66%. This does not bode well for savers and retirees.



Yield Curve as of June 30, 2020

Time to Maturity	Interest Rate
3 Month	0.16
6 Month	0.18
2 Year	0.16
5 Year	0.29
10 Year	0.66
30 Year	1.41

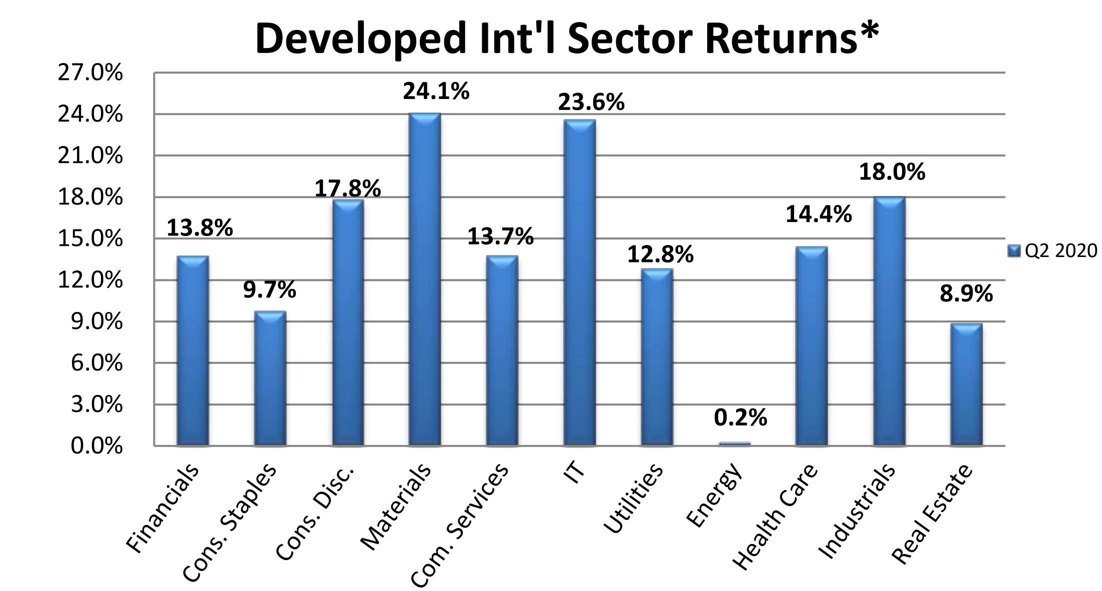
INTERNATIONAL MARKETS

International stocks rebounded as well. The EAFE index finished up 15.08 percent while the MSCI Emerging Markets index ended the quarter up 18.18 percent.

As lockdowns ease globally the world economy is starting to pick back up. Materials led the way outside the US as demand rebounded particularly in China.

Technology was the next best place to be. International markets has historically been far less focused on investment style. Growth and value had little meaning outside of the US where investors resisted being put into a box. This no longer seems to be the case as growth has outpaced value almost to the same extent it has in the US.

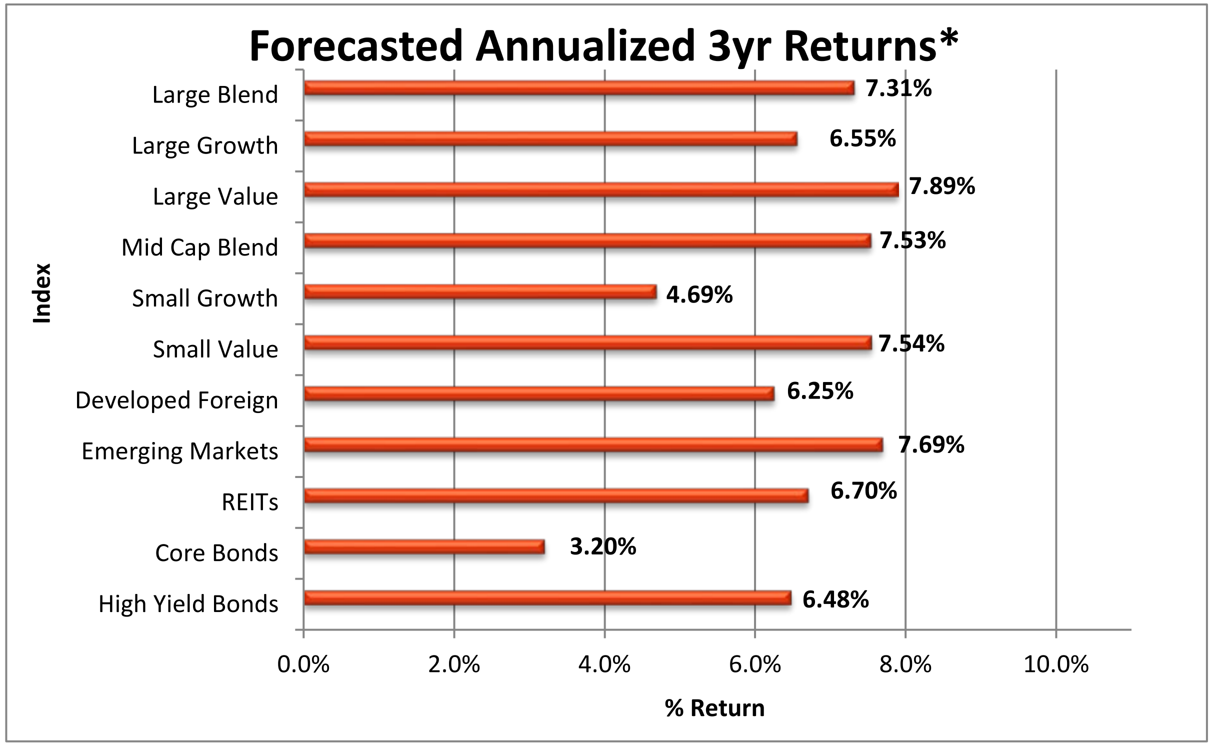
Time will tell if this behavior remains or is fleeting. In our opinion this is one American habit investors outside of the US should not copy.



Source: T. Rowe Price — ** MSCI EAFE Index*

MSCI Country Returns
Three Months Ending June 30, 2020

	Return US$ (%)	Return Local Currency (%)	Currency Effect(%)
Austria	20.82%	18.04%	2.78%
Belgium	13.30%	10.69%	2.61%
Denmark	18.89%	16.01%	2.88%
Finland	21.70%	18.90%	2.80%
France	16.48%	13.79%	2.69%
Germany	27.15%	24.22%	2.93%
Ireland	19.69%	16.93%	2.76%
Italy	16.44%	13.76%	2.68%
Netherlands	24.90%	22.19%	2.71%
Norway	15.05%	5.69%	9.36%
Portugal	13.12%	10.51%	2.61%
Spain	10.45%	7.91%	2.54%
Sweden	20.39%	13.21%	7.18%
Switzerland	11.51%	9.20%	2.31%
UK	7.79%	8.17%	-0.38%
Europe Total	**15.57%**	**13.40%**	**2.17%**
Australia	28.96%	14.64%	14.32%
Hong Kong	9.16%	9.16%	0.00%
Japan	11.64%	11.57%	0.07%
New Zealand	28.07%	17.95%	10.12%
Singapore	9.55%	7.33%	2.22%
Pacific Total	**14.19%**	**11.73%**	**2.46%**
Brazil	22.87%	30.07%	-7.20%
Canada	20.44%	15.25%	5.19%
China	15.37%	15.33%	0.04%
Greece	10.97%	8.41%	2.56%
Hungary	14.29%	9.72%	4.57%
India	20.64%	20.41%	0.23%
Indonesia	24.37%	8.93%	15.44%
Korea	19.62%	18.20%	1.42%
Mexico	11.01%	9.34%	1.67%
Poland	20.81%	15.06%	5.75%
Russia	18.87%	9.70%	9.17%
Thailand	23.77%	16.57%	7.20%
Emerging Markets	**18.18%**	**16.85%**	**1.33%**



We have come back a long way and done so very quickly. The economy continues to provide positive surprises, which leads us to be cautiously optimistic. This remains a stock pickers market, as some companies will emerge stronger and some will not emerge at all.

Small company stocks still have more room to run, but that will depend on the economy. If the economy remains weak large companies will be the safer place to be. International stocks have not come back as far and may be better values.

Bonds make no sense at these prices. High yield bonds may be the only place to get positive long-term returns.

Changes in Return Expectations as of June 30, 2020

Asset Class	Change Over Quarter	Change Over Year
Large Blend	-0.80%	-0.76%
Large Growth	-0.70%	-0.82%
Large Value	-1.22%	-0.84%
Mid Cap Blend	-1.06%	-0.80%
Small Growth	-0.98%	-1.36%
Small Value	-1.83%	-1.39%
Developed Foreign	-1.19%	-0.91%
Emerging Markets	-1.17%	-1.08%
REITs	-0.44%	-0.28%
Core Bonds	-0.21%	-0.62%
High Yield Bonds	-1.01%	0.15%

*Forecasted 3 year annualized returns represent Iron Capital's investment return expectations for various asset classes over the next 3 years. They are calculated using a weighted average of historic returns and forward return assumptions. They are meant to be a tool to judge relative attractiveness of asset classes and not a guarantee of future investment returns.

SELECTED INDEX RETURNS - PERIODS ENDING June 30, 2020

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
US EQUITIES						
Broad Stock Market - Russell 3000	22.03%	-3.48%	6.53%	10.04%	10.03%	13.72%
Large Stocks - S&P 500	20.54%	-3.08%	7.51%	10.73%	10.73%	13.99%
Dow Jones Industrial Average	18.51%	-8.43%	-0.54%	9.08%	10.62%	12.99%
Medium-Size Stocks - Russell Mid-Cap	24.61%	-9.13%	-2.24%	5.79%	6.76%	12.35%
Small Stocks - Russell 2000	25.42%	-12.98%	-6.63%	2.01%	4.29%	10.50%
Small Value Stocks- Russell 2000 Value	18.91%	-23.50%	-17.48%	-4.35%	1.26%	7.82%
Small Growth Stocks- Russell 2000 Growth	30.58%	-3.06%	3.48%	7.86%	6.86%	12.92%
Large Value Stocks - Russell 1000 Value	14.29%	-16.26%	-8.84%	1.82%	4.64%	10.41%
Large Growth Stocks - Russell 1000 Growth	27.84%	9.81%	23.28%	18.99%	15.89%	17.23%
US FIXED INCOME						
1-3 Yr Treasury (Gov't) Bonds - Barclays Capital	0.25%	3.01%	4.14%	2.70%	1.86%	1.34%
US Government Bonds Int - Barclays Capital	0.55%	5.75%	7.01%	4.09%	2.97%	2.51%
US Corporate Inv Grade Bonds - Barclays Capital	8.98%	5.02%	9.50%	6.34%	5.83%	5.47%
Government/Credit (Corp) Bonds - Barclays Capital	3.71%	7.21%	10.02%	5.87%	4.74%	4.13%
Int Govt/Credit (Corp) Bond - Barclays Capital	2.81%	5.28%	7.12%	4.43%	3.46%	3.13%
US Aggregate Bond Market - Barclays Capital	2.90%	6.14%	8.74%	5.32%	4.30%	3.82%
Mortgage Master - Merrill Lynch	0.82%	3.63%	5.81%	4.05%	3.29%	3.08%
US Corp High Yield Bonds - Barclays Capital	10.18%	-3.80%	0.03%	3.33%	4.79%	6.68%
INTERNATIONAL (Measured in US Dollars)						
Non-US Stocks - MSCI EAFE	15.08%	-11.07%	-4.73%	1.30%	2.54%	6.22%
World Stocks (includes US) - MSCI World	19.54%	-5.48%	3.40%	7.29%	7.50%	10.57%
European Stocks - MSCI Europe	15.57%	-12.43%	-6.31%	0.59%	2.06%	6.28%
Japanese Stocks - MSCI Japan	11.64%	-6.92%	3.51%	3.34%	3.81%	6.39%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	20.22%	-12.94%	-12.65%	0.94%	2.81%	5.78%
Chinese Stocks - MSCI China	15.37%	3.58%	13.28%	8.73%	5.49%	6.60%
Indian Stocks - MSCI India	20.64%	-16.91%	-17.00%	-1.56%	0.93%	1.70%
Emerging Markets - MSCI EM	18.18%	-9.67%	-3.05%	2.27%	3.24%	3.63%
Int'l Gov't Bonds -Citi World Gov't Bond (Non USD)	2.98%	1.04%	0.86%	2.87%	3.32%	1.81%
REAL ESTATE						
FTSE NAREIT Equity-Reits Index	11.82%	-18.71%	-13.04%	-0.11%	3.97%	9.01%
SHORT TERM INTEREST RATES						
T-Bills	0.14%	0.52%	1.56%	1.72%	1.15%	0.61%

Note: Returns for periods longer than 12 months are annualized.