Source: Morningstar Direct, 6/30/2020. Cash represented by the Barclays U.S. Treasury Bellwethers 3Mon Index. U.S. investment-grade bonds represented by the Barclays U.S. Aggregate Bond Index. High-yield bonds represented by the Barclays U.S. HY 2% Issuer Cap Index. International bonds represented by the Barclays Global Aggregate Ex U.S. Index. U.S. large-cap stocks represented by the S&P 500 Index. REITs represented by the FTSE NAREIT All Equity REITs Index. Developed international large-cap stocks represented by the MSCI EAFE NR Index. U.S. mid-cap stocks represented by the Russell Mid Cap Index. U.S. small-cap stocks represented by the Russell 2000 Index. International small- and mid-cap stocks represented by the MSCI EAFE Small-cap Index. Emerging-market stocks represented by the MSCI EM Index. Commodities represented by the S&P GSCI Index. Past performance does not guarantee future results. An index is unmanaged and is not available for direct investment.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Second Quarter in Review

Investment markets rebounded in Q2, with stocks outpacing bonds amid a sharp rally following the pandemic-driven sell-off. Sizable policy responses prompted markets to shift their sights toward the reopening of the economy and the rebound in consumer and business spending. While a sustained expansion will take shape, in our view, equities will likely proceed in a choppier fashion than experienced the past few months.

Strongest quarter in more than two decades – U.S. large-cap equities gained 20% from April through June, the best quarter since 1998 and the fourth-best in the past 70 years, putting the market 40% above the March lows at the halfway mark of 2020. Looking back at quarters with a gain of more than 15%, the average return in the next quarter was 7%.* While there is no guarantee that the worst is behind us or that history will repeat itself, since 1950, every instance in which the stock market rose more than 30% from a bear market low turned out to be the beginning of a bull market.

Policy and progress spark a turnaround – A historic spike in unemployment and an economic shutdown prompted unprecedented support from the Federal Reserve and the federal government, including the largest fiscal rescue program since the 1930s. These actions, in combination with incremental progress related to the health care crisis, shifted the market's sights to the reopening of the economy and a rebound in corporate profits.

Higher-volatility, economically sensitive areas led the way – All 12 asset classes in our diversified portfolio framework logged positive returns in Q2, with the more cyclical investments leading the way. This showed up in the outperformance of small-cap equities as well as leadership from the technology and consumer discretionary sectors. Bonds posted modest gains as longer-term interest rates remained near historic lows.

▶ *Action for Investors*

Performance in the first half of 2020 highlights the importance of a long-term perspective, diversification and a disciplined strategy. We anticipate greater volatility as we advance this year, so consider opportunities for proactive rebalancing and enhanced diversification within both equity and fixed-income allocations.

*Source: FactSet, S&P 500 Total Return Index, Edward Jones calculations since 1970. The S&P 500 Total Return Index is unmanaged and is not available for direct investment. Past performance of the market is not a guarantee of what will happen in the future.

Rebalancing and diversification do not ensure a profit or protect against loss.

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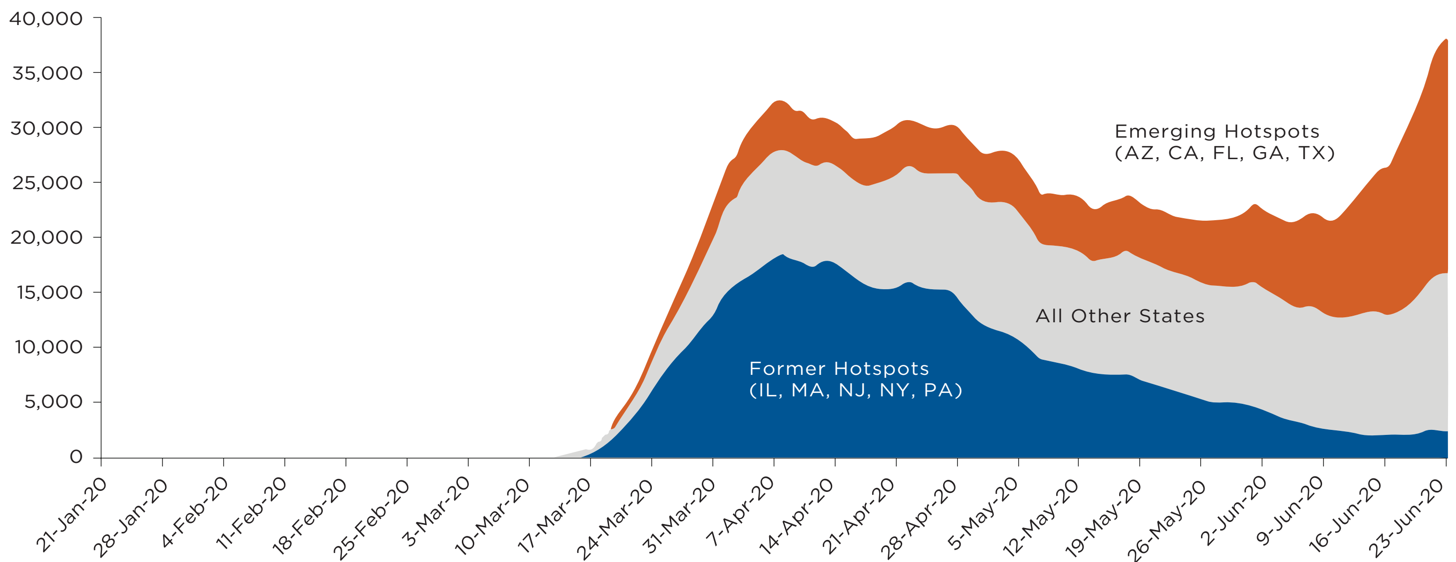

Source: European Centre for Disease Prevention and Control.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Economic Outlook

Since the downturn was triggered by a biological crisis, we think the path of the coronavirus pandemic will shape the path of the economic recovery. An increase in infection rates could slow, though not derail, the economic rebound that we think will start later this year and continue into 2021.

The path of COVID-19 will shape the economic recovery – The U.S. reported 41,500 new coronavirus cases on June 30, topping the previously recorded daily high of 36,291 cases set on April 24.* New York and New Jersey have lowered their number of daily new cases, but Arizona and Texas have dialed back the reopening of their economies. As long as medical advances continue and new cases stay contained, we think it is unlikely the country will re-enact a national lockdown, but we expect the rebound to be constrained until there's a vaccine for or effective treatment of the virus.

The path from recession to recovery starts with a sharp bounce, followed by a long haul – The severe decline in Q2 is likely the worst since the Great Depression. We expect a quicker-than-average start to the rebound in Q3, due to pent-up consumer demand. After this quick bounce, it will take much longer to return to pre-pandemic levels of economic growth due to labor market weakness and businesses' inability to run at full capacity. With 17.8 million workers unemployed, it may take years for the unemployment rate to return to the 50-year lows reached earlier this year. On the plus side, the consumer balance sheet remains solid, with debt levels low and savings rates at record highs. Early data shows signs of life in retail sales, increasing at the highest monthly rate on record in May. We believe the strength of the economic rebound will be determined by consumers' capacity to spend and confidence they can safely resume normal economic activities.

▶ *Action for Investors*

Market sentiment is likely to swing from optimism to anxiety as the economy continues down the path of recovery. Use periodic market swings to help fill in portfolio gaps and enhance diversification across asset classes, sectors and geographies.

*Source: Johns Hopkins University Coronavirus Resource Center.

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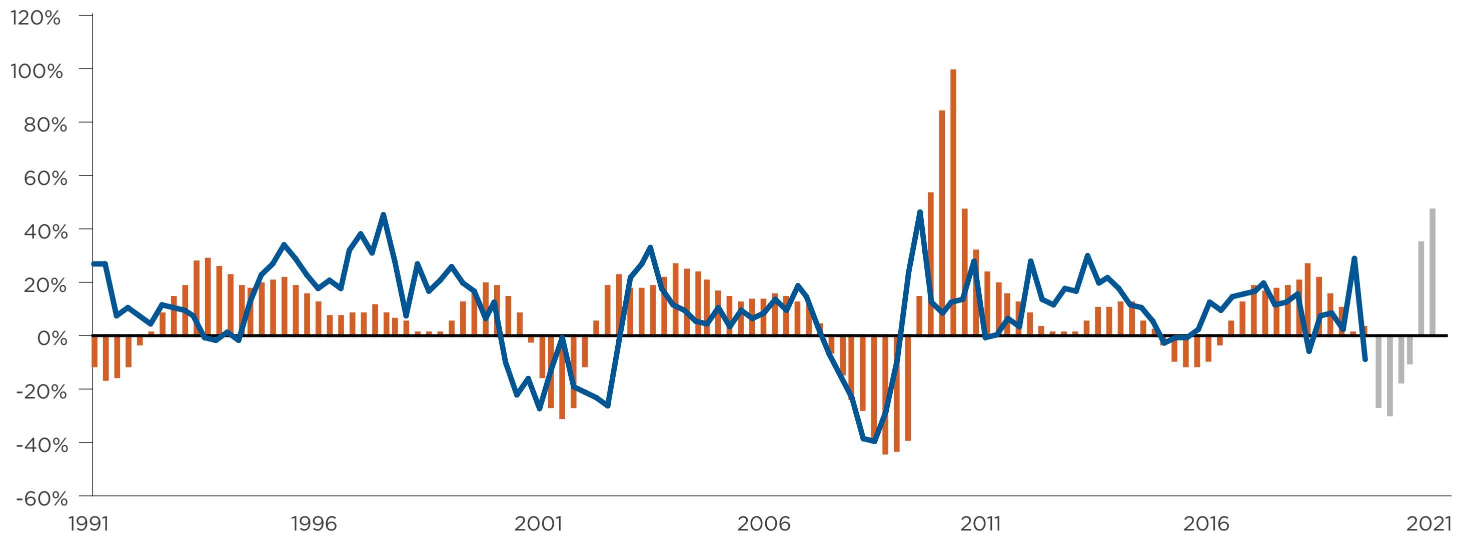

Source: Dow Jones S&P Indices, S&P 500 Index. The S&P 500 Index is unmanaged and is not available for direct investment. Past performance is not a guarantee of future results.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Equity Outlook

Much of the world was under a lockdown in April, so we expect the brunt of COVID-19's impact on corporate earnings to hit in Q2. Though the earnings slump is likely to improve in the second half of the year, a full earnings recovery may take two to three years.

Stocks to continue a wobbly grind higher – The strong rally in stocks was driven primarily by 1. aggressive and early fiscal and monetary stimulus; and 2. market optimism about a quicker-than-average earnings recovery, starting in 2021. We expect equities to continue to rise in the second half of the year, guided by a sustainable, albeit uneven, economic expansion, low interest rates and a gradual rebound in corporate profits. Occasional downward swings are likely as market sentiment adjusts to the uncertainty around the pandemic. An earnings decline has pushed valuations above historical levels, but still reasonable in our view. However, election and trade uncertainty is likely to keep volatility elevated for the remainder of 2020.

The earnings recovery will take time – Corporate earnings, which drive stock prices over the longer term, are expected to decline this year due to restrictions placed on the economy to contain the spread of COVID-19. The estimated consensus earnings decline for S&P 500 companies is nearly 44% from a year ago, which would be the largest decline since 2008. History shows a full recovery to pre-pandemic levels of corporate profits is unlikely to happen within the next year. Additionally, we expect companies to face higher costs and supply chain disruptions tied to the global pandemic, which is likely to dampen market optimism for a quick rebound and prompt occasional market pullbacks.

▶ *Action for Investors*

Long-term investors can use periods of volatility to trim overweight allocations and fill in gaps in underrepresented asset classes and sectors. Maintaining diversification across defensive and cyclical sectors may help reduce the risk of loss during the economic downturn and position portfolios to take advantage of the economic recovery.

Investing in equities involves risks. The value of your shares may fluctuate, and you may lose principal. Diversification does not ensure a profit or protect against loss in a declining market.

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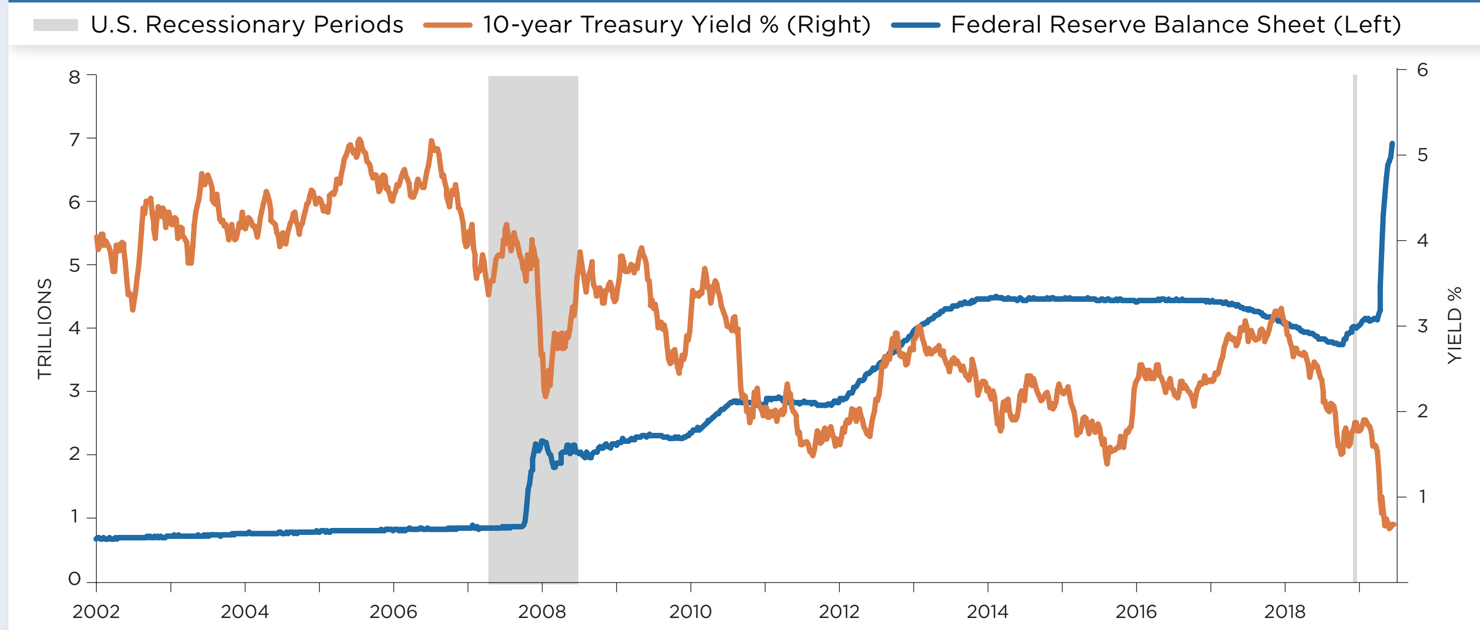

Source: FactSet, Edward Jones. 10-year U.S. Treasury bond rate.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Fixed-income Outlook

Interest rates have fallen to historic lows amid the economic downturn and ramped-up central bank stimulus. The rebound in GDP should offer modest support, but we expect rates to remain relatively low for an extended period. At the same time, our expectation for ongoing equity market volatility means a diversified allocation to fixed-income investments offers valuable downside protection for portfolios, in our view.

Low rates linger on – Ten-year interest rates are near 0.60%, slightly above the record low touched earlier this year. We think sizable Fed stimulus programs and subdued inflation will keep interest rates relatively low for an extended period. The Federal Reserve has expanded its balance sheet above $7 trillion to support the economy and credit markets through the pandemic. We doubt this will be unwound rapidly as the economic recovery will be gradual.

Credit stress warrants diversification within bond portfolios – Corporate debt levels were already at their highest since the late 1980s, and the economic shutdown is likely to result in an uptick in defaults this year.
The Fed has pledged extraordinary support as a way to provide a financial bridge over this crisis. We expect the Fed to remain committed to credit market support, which we think should support investors' confidence in maintaining appropriate – but diversified – bond allocations.

Policy responses have longer-term implications – In addressing the more immediate threat from the pandemic, potential longer-term implications have been created, namely a bloated Fed balance sheet and rising federal budget deficits/debt. We don't see runaway inflation or a government default playing out, but we do think inflation and interest rates will eventually rise from current levels.

▶ *Action for Investors*

During the recent sell-off, bonds provided a modest positive return, stabilizing portfolios. We recommend a neutral fixed-income allocation in line with your long-term target, and we favor the stability of higher-quality investment-grade bonds. An increased allocation to high-yield bonds can help add yield while benefiting from a sustained economic recovery.

Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

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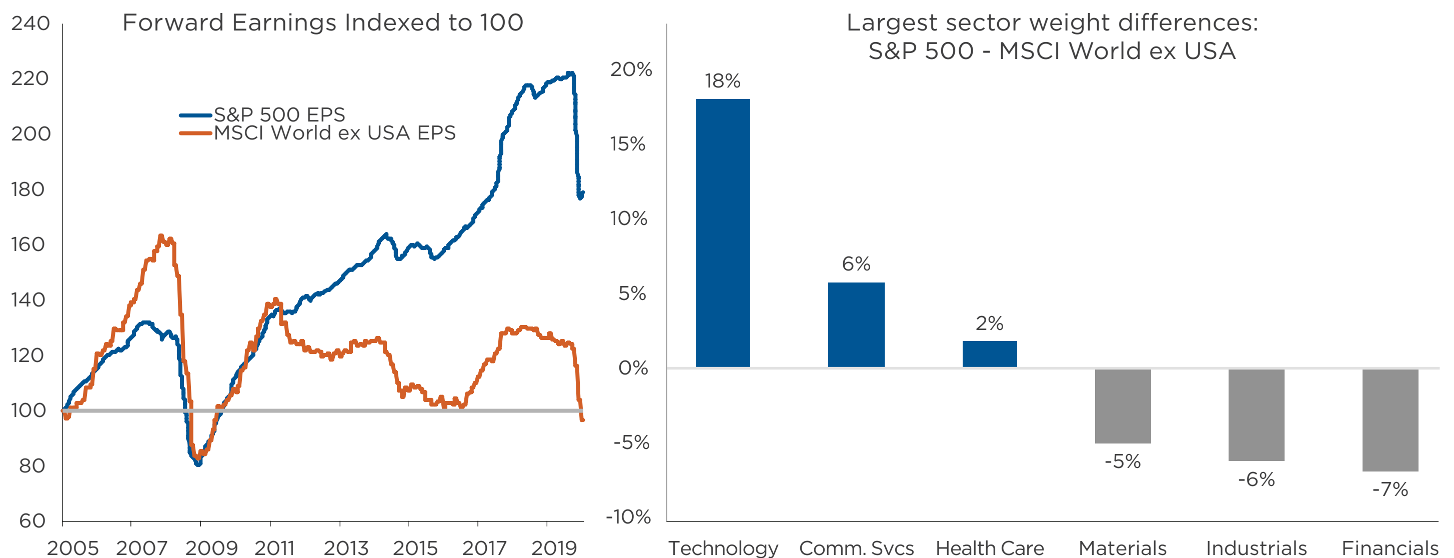
U.S. Likely to Maintain Its Earnings Advantage If Recovery Is Gradual and Uneven



Source: FactSet; S&P 500, MSCI World ex USA next 12-month earnings per share. Sector composition as of 5/31/2020.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

International Outlook

Q2 likely marked the steepest drop in global economic growth since WWII, with 95% of countries projected to experience a decline in GDP.* Absent a medical breakthrough, we expect the recovery to be gradual, uneven and likely slower than the consensus assumes.

From recession to recovery – Most major economies will likely experience a sharp snapback in activity in Q3, but we expect growth to be gradual and uneven as pent-up demand fades. Economic activity will likely take years to reach pre-pandemic levels. The pace of the recovery will largely depend on how well countries manage the ongoing health crisis, which will determine how fast consumer confidence and jobs return.

Fiscal and monetary policy to stay supportive – World governments and central banks have taken sizable measures to provide relief, but more support is likely needed. U.S. policymakers are considering additional fiscal relief on top of stimulus measures that accounted for 14% of U.S. GDP. Europe is also stepping up its efforts, announcing a proposal for common bond issuance among member countries for the first time in the EU's history.

Balancing earnings against valuation differences – Corporate earnings outside the U.S. struggled to gain traction during the last economic expansion and have now taken a hit because of the pandemic. International indexes are weighted more heavily toward cyclical sectors such as financials and industrials that depend on above-average global growth for improved relative performance. The U.S. equity market is likely to maintain its earnings advantage as its equity market is tilted toward sectors with more resilient earnings streams. We believe discounted international valuations will unlock value in the long term, but we don't currently see a catalyst for this.

Action for Investors

We recommend a neutral allocation to international equities and an underweight allocation to international fixed income. While international equities are trading at discounted levels, the macroeconomic backdrop and relative earnings trends act as headwinds, in our view. Global diversification can help moderate volatility and position portfolios for long-term growth.

*Sources: IMF, World Economic Outlook Update, June 2020.

Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

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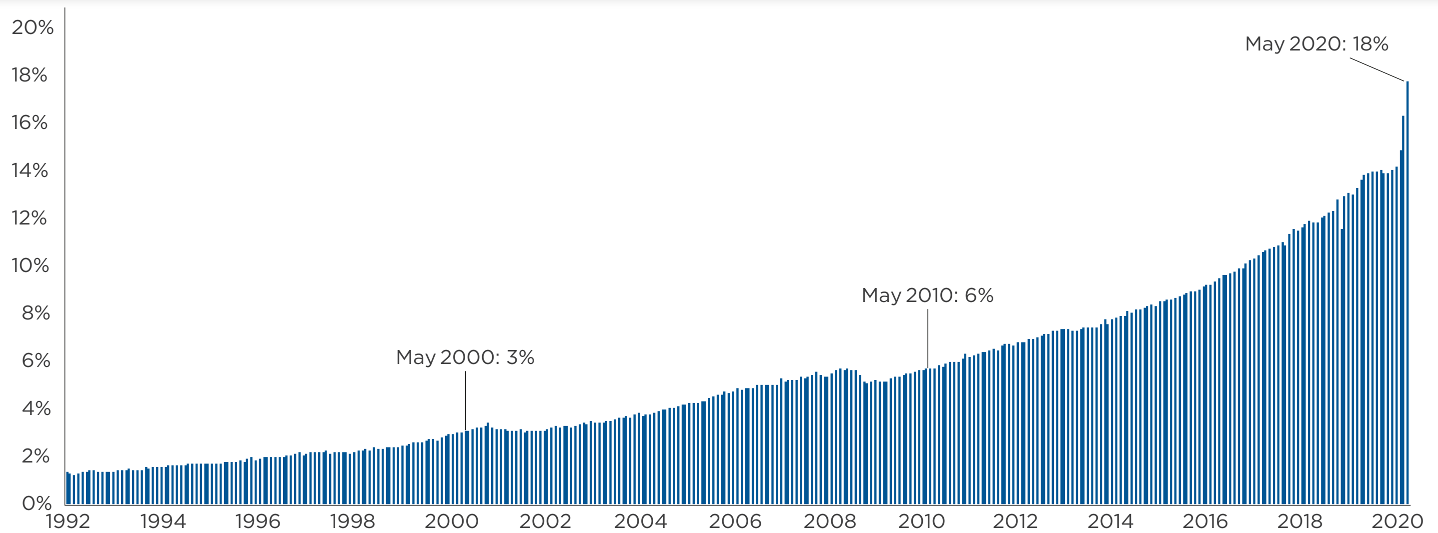

Source: FactSet, U.S. Census Bureau.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Beyond COVID-19: Long-term Economic Impacts

COVID-19 is a health and economic crisis, with profound short- and long-term socioeconomic implications. While the new normal creates new challenges for policymakers and investors, it also seems poised to accelerate existing trends that can enhance productivity and drive efficiencies.

A catalyst for rapid tech adoption – Online shopping, digital payments, telemedicine, video conferencing and cloud computing will likely experience a lasting increase in demand. Online sales was the only major retail category to post an increase during the height of the pandemic, and its market share is poised to continue to expand. Businesses are embracing technology and finding new, innovative ways to serve customers. Incorporation of technology could boost productivity, cut costs and raise profitability.

A shift in capital and resource allocations – Economic models and allocation of capital will likely be revisited once the storm has passed. A further shift toward online spending and working from home could weigh on demand for commercial property and office space, but increase demand for logistics and warehouse facilities. Suburban residential property could become more attractive relative to city centers, and remodeling could get a boost as homeowners spend more time at home. The pandemic exposed vulnerabilities in supply chains and the flow of goods, which might lead to some manufacturing returning to the U.S. and spending more on automation.

A legacy of debt – The government relief measures announced since the start of the pandemic are necessary, in our view. However, they add to the sizable government debt, which is expected to balloon to 108% of GDP by 2021, up from 79% in 2019 and the highest in the nation's history. In the long term, a combination of tax increases and benefit cuts will likely be needed to reduce the size of the debt.

▶ *Action for Investors*

Investing in a balanced and properly diversified portfolio can better position you to take advantage of the shifts in economic trends and market leadership. Focusing on innovative companies with competitive advantage and the financial resources to prepare for and embrace change and disruption is paramount in a fast-changing investment landscape. Last, consider the possibility of higher taxes and fewer benefits when planning for your financial future.

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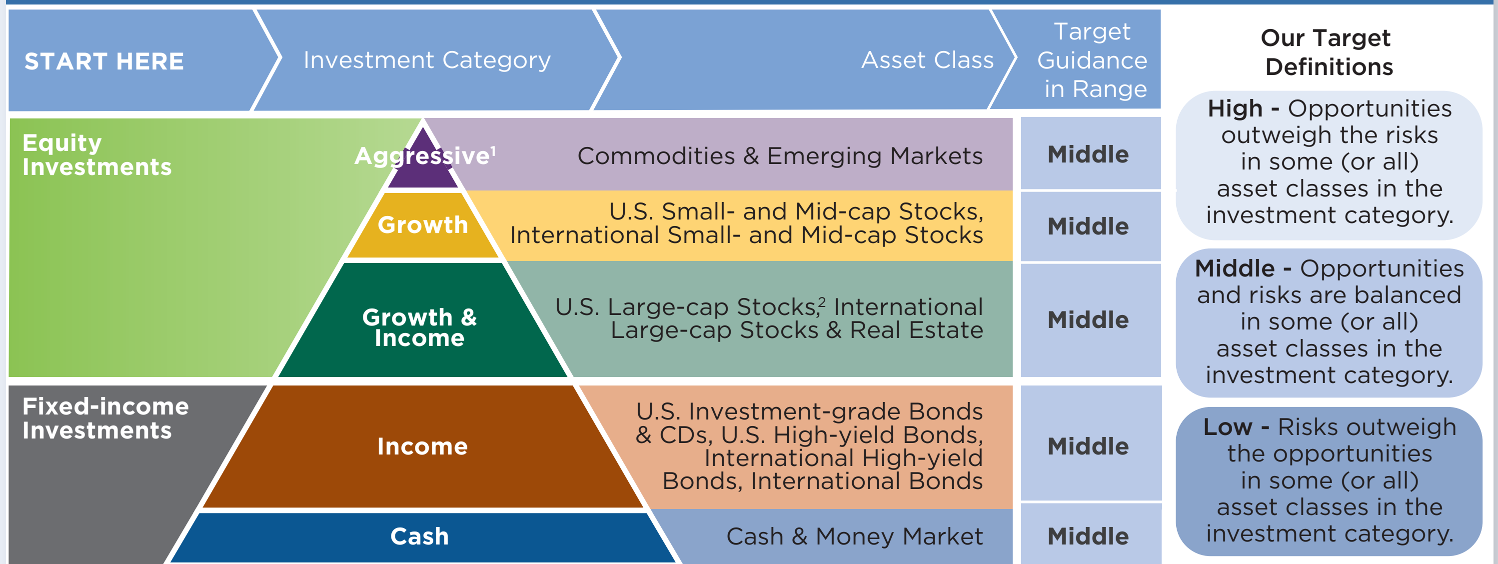
Target Guidance by Investment Category



1 Alternative investments and stocks trading less than $4 align with the Aggressive investment category, but they are not recommended.

2 Large-cap stocks that do not pay a dividend are in the Growth investment category.

Asset classes we don't recommend separately include alternative investments and micro-cap equities.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Asset Class Outlook

Equity versus Fixed Income (Target = Middle) – Given the high level of economic and corporate earnings uncertainty, we recommend a neutral allocation between equity and fixed income. A laddered bond portfolio and an average amount in cash may help provide downside protection for portfolios when markets are volatile.

Domestic versus International (Target = Middle) – We recommend a neutral allocation to international equities (including emerging-market stocks) and underweighting international fixed income. Global growth will likely take a material hit in Q2, but we believe output can start recovering in the second half of the year, assuming progress on virus containment. While international equities are trading at discounted (favorable) levels compared to history and relative to U.S. equities, there is now little margin or earnings advantage internationally.

Asset Class Diversification

Aggressive (Target = Middle): We remain cautious on commodity investments and recommend a neutral allocation to emerging-market equities, as their exposure to secular tailwinds such as favorable demographics is balanced by their sensitivity to trade and commodity demand.

Growth (Target = Middle): Opportunities and risks appear balanced for U.S. small- and mid-cap stocks and international small-cap stocks as concerns about a sharp decline in economic activity are largely reflected in the price.

Growth & Income (Target = Middle): We think risks and opportunities are balanced for real estate investments and U.S. large-cap stocks. We recommend weighting international developed-market large-cap equities in the middle of the recommended range of international equity holdings because the sudden slowdown brought on by the COVID-19 pandemic has hit the reset button on global economic cycles, putting the U.S. and global economies all back in the early stages of emerging from recession toward their respective recoveries.

Income (Target = Middle): Long-term interest rates are likely to stay low for longer until disinflationary pressures from the slump in economic activity subside. The aggressive-income target is high because we recommend overweighting U.S. high-yield bonds as interest rate spreads have risen to levels that have historically corresponded to positive forward relative returns versus investment-grade bonds.

Cash (Target = Middle): Real cash returns are negative and are likely to remain less attractive relative to bonds as the Fed maintains a 0% policy rate and seeks to keep longer-term rates low in support of an economic recovery.

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal. The prices of small-cap, mid-cap and emerging-market stocks are generally more volatile than those of large-company stocks. Special risks are inherent in international and emerging-market investing, including those related to currency fluctuations and foreign political and economic events.

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Investment Performance Benchmarks

It's natural to compare your portfolio's performance to market performance benchmarks, but it's important to put this information in the right context and understand the mix of investments you own. Talk with your financial advisor about any next steps for your portfolio to help you stay on track toward your long-term goals.

As of June 30, 2020

Benchmarks for Investment Categories

Total Returns	YTD	1-Year	3-Year	5-Year
U.S. Cash	0.6%	1.7%	1.8%	1.2%
U.S. Bonds	6.1%	8.9%	5.3%	4.4%
U.S. High-yield Bonds	-3.8%	-0.2%	3.3%	4.7%
International Bonds	0.6%	1.1%	2.5%	3.0%
International High-yield Bonds	-4.7%	-2.2%	2.2%	4.4%
U.S. Large-cap Stocks	-3.1%	6.7%	10.7%	10.6%
Real Estate	-13.3%	-6.2%	3.5%	6.3%
International Large-cap Stocks	-11.3%	-5.6%	0.8%	1.9%
U.S. Mid-cap Stocks	-9.1%	-2.9%	5.8%	6.6%
U.S. Small-cap Stocks	-13.0%	-6.8%	2.0%	4.2%
International Small-cap Stocks	-13.1%	-4.3%	0.5%	3.6%
Emerging-market Stocks	-9.8%	-4.2%	1.9%	2.9%
Commodities	-36.3%	-33.9%	-8.7%	-12.2%

Source: Morningstar Direct, 06/30/2020. Cash represented by the Barclays U.S. Treasury Bellwethers 3Mon Index. U.S. bonds represented by the Barclays U.S. Aggregate Bond Index. U.S. high-yield bonds represented by the Barclays U.S. HY 2% Issuer Cap index. International bonds represented by the Barclays Global Aggregate Ex U.S. Index. International high-yield bonds represented by the BbgBarc Global High Yield Index. U.S. large-cap stocks represented by the S&P 500 Index. Real estate represented by the FTSE NAREIT All Equity REITs Index. International large-cap stocks represented by the MSCI EAFE Index. U.S. mid-cap stocks represented by the Russell Mid-cap Index. U.S. small-cap stocks represented by the Russell 2000 Index. International small-cap stocks represented by the MSCI EAFE Small-cap Index. Emerging-market stocks represented by the MSCI EM Index. Commodities represented by the S&P GSCI Index. All performance data reported as total return. An index is unmanaged and is not available for direct investment. Performance does not include payment of any expenses, fees or sales charges, which would lower the performance results. The value of investments fluctuates, and investors can lose some or all of their principal. Past performance does not guarantee future results.

U.S. Equity Sector Performance

Total Returns	YTD	1-Year	3-Year	5-Year
Basic Materials	-6.9%	-1.8%	3.9%	5.3%
Communication Services	-0.3%	10.3%	8.6%	7.1%
Consumer Discretionary	7.2%	11.6%	15.3%	13.0%
Consumer Staples	-5.7%	3.1%	5.0%	7.0%
Energy	-35.3%	-36.2%	-12.5%	-8.9%
Financials	-23.6%	-14.9%	0.1%	5.1%
Health Care	-0.8%	10.3%	10.3%	8.0%
Industrials	-14.6%	-9.2%	1.9%	6.7%
Technology	15.0%	34.0%	26.8%	23.2%
Utilities	-11.1%	-1.8%	6.4%	10.0%
S&P 500	**-3.1%**	**6.7%**	**10.7%**	**10.6%**

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