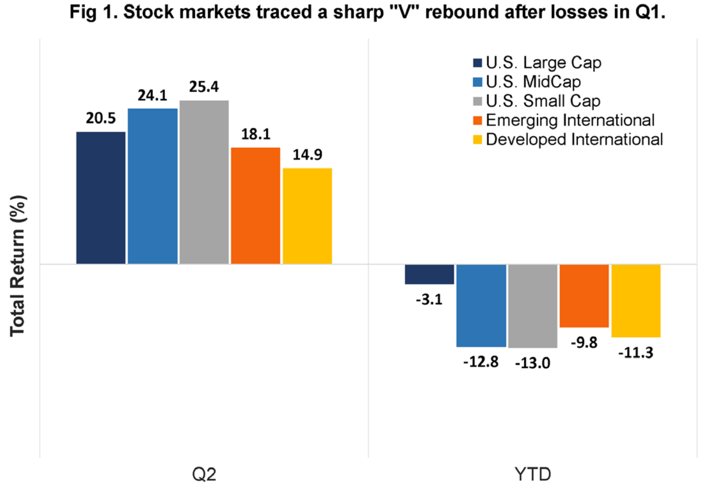
Key Points

- Unprecedented policy support from monetary and fiscal authorities provided needed liquidity for the capital markets and consumers.
- Year to date the U.S. stock market accelerated through the fastest decline and subsequent recovery from a bear market in recent history.
- U.S. and major international stock markets rallied strongly in Q2 and recovered most of the declines suffered at the depths of the Covid-19 panic.
- Encouraged by the Fed's alphabet soup of credit facilities, fixed income investors resumed trading in corporate bonds and other credit markets. Both investment grade and high yield delivered strong returns for investors.
- The capital markets experienced a sharp V-shaped recovery as a result of policy support. The damage of Covid-19 to the broad economy may take much longer to restore to pre-pandemic levels.

A Rally in Stocks and Bonds

After a tumultuous first quarter, risk assets continued their recovery. While some expected the sharp rally in the last few days of the first quarter to falter, prices continued to move higher with only a few pauses. U.S. stock indexes were the top performers, returning over 20%. And just as small and mid-cap stocks led the decline, they also led the subsequent rally (Fig 1.) Year to date equities still have some ground to make up, but the v-shaped recovery in stocks has been impressive.

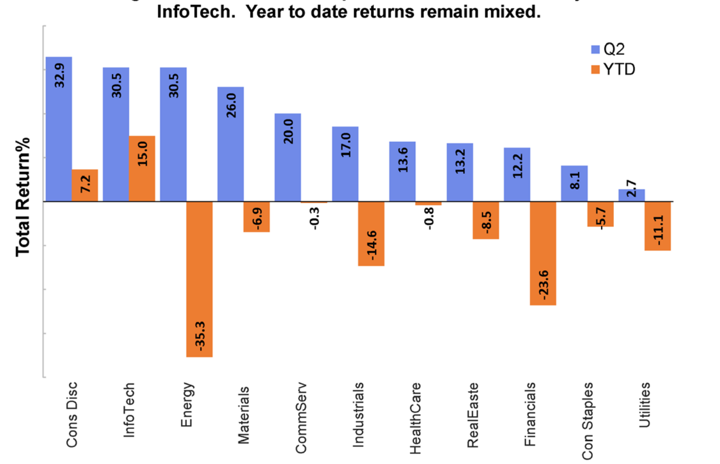
Fig 1. Stock markets traced a sharp "V" rebound after losses in Q1.



Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Under the surface of the broad market, not all sectors have been treated equally. It has continued to be a challenging market for many cyclical value stocks – energy, industrials, and financials have fallen behind the more growth-oriented technology and consumer discretionary sectors (Fig 2.)

Fig 2. All S&P sectors had positive returns in Q2 led by InfoTech. Year to date returns remain mixed.

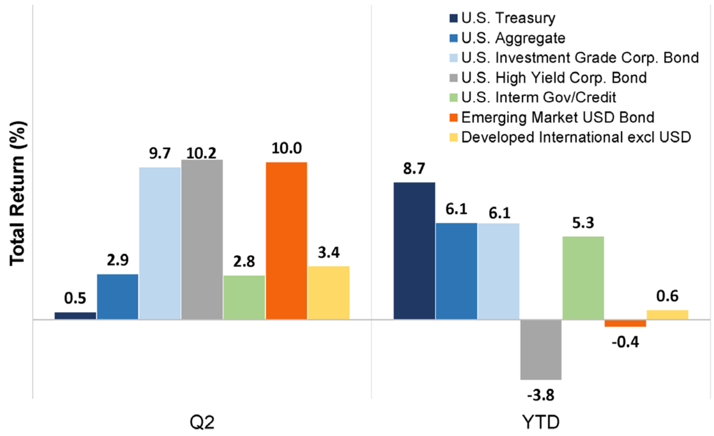


Data Sources: Bloomberg Financial LP, Bangor Savings Bank

In fixed income, risk assets also drove returns. Corporate bonds showed the best returns as both investment grade and high yield bond prices rallied, returning more than 9%. Municipal bonds have also seen price improvement as spreads over

U.S. Treasury yields narrowed. Interest rates were relatively unchanged, and the Treasury market ended the quarter with a modest return of 0.5% (Fig 3.) While rates were relatively stable during the quarter, they remain stubbornly low: from .10% on the short end to .60% for the 10-yr note.

Fig 3. Investment grade and high yield corporate bonds delivered strong performance as Federal Reserve intervention drove prices higher



Data Sources: Bloomberg Financial LP, Bangor Savings Bank

The End of the Recession?

The first quarter of 2020 saw a decline in GDP of 5%. Second-quarter GDP results, due out at the end of July, are expected to be much worse. Most estimates are showing 20%+ declines quarter over quarter. According to the economic cycle dating committee, NBER, the U.S. economy entered the recession in Feb. But the more important question is when do we come out of it?

As states have rolled back lockdown restrictions, businesses that were forced to close have been reopening. Consumers have ventured out and started spending again. As a result, we have seen unemployment levels fall from a peak of almost 15% to 11% in June. Likewise, we have witnessed a dramatic increase in retail sales for both May and June, over 18% and 7.5% respectively. And forward-looking indicators like the ISM Non-Manufacturing Purchasing Managers Index jumped into expansionary territory in June. There is hope that this recession may be sharp and short in duration.

To Mask or Not to Mask

Shutting down the economy in March and April was an expensive proposition for the global economy, but less costly than the loss of life that may have been the alternative. As we begin the process of returning to a slightly modified daily routine, we see COVID-19 cases ramp up here in the United States, which could prove to delay the recovery if states re-introduce lockdowns or if consumers choose to avoid going into public spaces. Unlike lockdowns at the end of the first quarter, where everything shut down concurrently, these COVID-19 outbreaks are occurring and being addressed market by market. Such an approach could soften the economic blow assuming social distancing and proper protocols prevent major outbreaks simultaneously across the country.

Waves On the Lake

As we continue to chart these strange waters, it is clear that progress won't be made overnight. It will take time for the pandemic to run its course, and there will likely be setbacks along the way. It is still early to know what the long term ramifications will be for many businesses. We've seen the boat pass by, but the waves have yet to reach the shore.

The investment team at Bangor Wealth Management remains focused on managing risk and return. This quarter, like many of you, we will be returning to our offices in a safe manner. We will be alternating between weeks in the office and weeks at home to enable social distancing. As always, we are here to help. Should you have questions, please do not hesitate to reach out to your Portfolio Manager or Relationship Manager.