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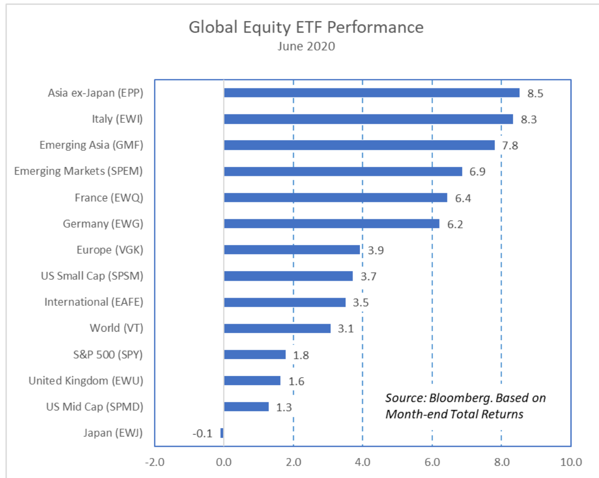
JUNE 2020 CAPITAL MARKET REVIEW

Equity markets around the world built on April and May's advances rallying over 3% for the month. US credit markets led while International fixed income markets also outperformed.



Equity Markets*

International bourses outperformed led by Asia ex-Japan, Italy and Emerging Asia, rallying 8.5%, 8.3% and 7.8% respectively. Japanese equities disappointed, slightly contracted 0.1% in June.

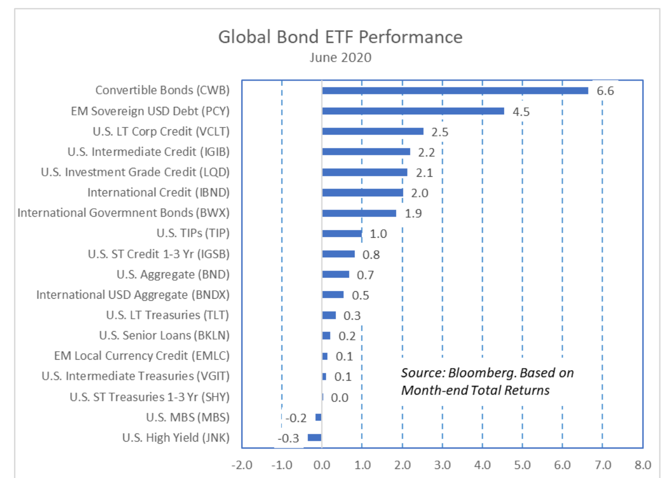
Small Cap US stocks outperformed global equities, posting a 3.7% advance. Mid Cap and Large Cap companies lagged but still posted positive returns of 1.8% and 1.3% for the month.

The United Kingdom joined the underperformers, but still rose 1.6% in June.

Bond Markets*

It was another risk-on month in global bond markets with the exception of US Mortgages and High Yield Bonds, each contracting in June. Convertible Bonds again led, advancing 6.6%, and Emerging Market USD Bonds rallied an impressive 4.5%. Key segments of the US credit markets continued to build on May's gains. Long and Intermediate term US Treasury returns were modestly positive as yields were essentially flat for the month.

The US dollar contracted 0.68% in June, according to the Bloomberg Dollar Spot Index. That helped boost returns in International Credit and Treasuries which rallied 1.2% and 0.9% for the month, outperforming US aggregate bonds.



**The returns cited reflect total return performance of exchange traded funds listed in the corresponding bar charts*

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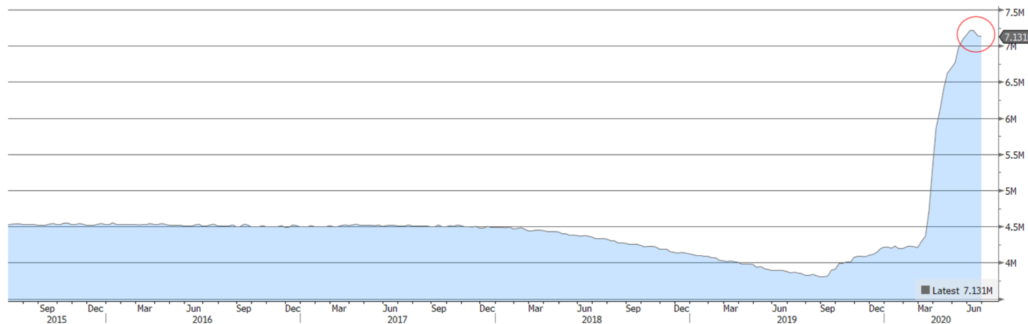
Is the Fed beginning to slow asset purchases?

The US Federal Reserve has used the power of its balance sheet to support key segments of US capital markets since early March. Recently, it began to purchase corporate securities including high yield bonds, a move some view as controversial. However, purchasing investment grade (and below) bonds essentially supports companies and ultimately jobs, and full employment is a critical element of the Fed's mandate. Another beneficial aspect of these purchases is that corporations are making coupon payments and returning principal to the Fed, and that is not necessarily the case with US Treasury purchases. In June, the balance sheet began to shrink, albeit modestly. It peaked at $7.22 trillion on June 10th and currently stands at $7.13 trillion. Following two consecutive weeks of balance sheet declines, stocks have fallen 5.3% as measured by the S&P 500 through June 26. News headlines cite the rise in COVID-19 cases as the reason for recent stock market volatility, but the Fed's purchasing activity is likely a greater fundamental force dictating the direction of asset prices. Is this a pause or the beginning of a monetary policy tightening cycle? The state of the Fed's balance sheet is a critical metric that we will continue to monitor. [Chart courtesy Bloomberg LP © 2020]



See the WCM website for more market commentary or contact us with any questions.

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PORTFOLIO POSITIONING

In terms of overall positioning, we finished the month of June modestly overweight equities due to equity market trends, and underweight fixed income. We remain overweight cash. Within global equities, we are overweight the US and Emerging Markets, and underweight all regions in developed international equity markets. Within fixed income, we are overweight in the US with a preference for mortgages. We have little or no exposure to non-US fixed income depending on the model portfolio series. Our portfolios also maintain lower duration and higher cash than the benchmark.

RISK OUTLOOK

- Economies around the globe are on the path to re-opening, an encouraging sign. But, it remains to be seen how long the fallout will linger. Probably the most critical risk is the sustainability of the US economic and labor market recovery. Will the stimulus simply be enough? We are seeing positive recovery trends in the US labor market, but the world is a long way from full employment. Our concern is *will we be pushing on a string later in the year*?
- Another major risk is the potential for a re-acceleration of virus cases -- the dreaded second wave -- perhaps arriving in the Fall, and presaged by US states that are already experiencing resurgences in virus cases.
- The U.S Federal Reserve balance sheet continues to grow. It has expanded $2.9 trillion since March 4th to $7.1 trillion. However, as mentioned above, recent weeks have seen some tapering. The federal government's fiscal stimulus plan stands at $2.8 trillion. Taken together, we are still approaching nearly $6 trillion of liquidity injected into the US economy. And, we are likely to see even more monetary and fiscal stimulus. Other regions, notably the European Union, are following the US lead.
- Chinese Communist Party aggression in the Asia-Pacific region has loomed for some time but is becoming increasingly overt. Military tension along the border with India, continued human rights violations of dissidents, the press and ethnic minorities, Hong Kong suppression, and a failure to take their measure of responsibility for the COVID-19 pandemic may all contribute to China-related backlash or retaliation. Nearly all Pacific nations have aligned with the US against Chinese aggression. We find it odd that the CCP has chosen a hostile stance during their weakened economic condition at a moment when they need the rest of the world for their own recovery efforts.
- Permanent changes to consumer behavior and global supply chains are likely to evolve over coming months and years which could create further disruption but also opportunity as more sustainable and safe sources of goods and services emerge.

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KEY EVENTS IN JULY

Week 1

- 7/1 Japan: Consumer Confidence
- 7/1 Eurozone: Markit Composite PMI
- 7/1 US: Markit Composite PMI
- 7/1 US: ISM Surveys
- 7/1 US: FOMC Meeting Minutes
- 7/2 China: Caixin Composite PMI
- 7/2 US: Factory and Durable Goods
- 7/2 US: Labor Market Statistics
- 7/3 U.K.: Markit/CIPS Composite PMIs

Week 2

- 7/6 Japan: Household Spending
- 7/6 Eurozone: Retail Sales
- 7/6 US: Markit PMIs
- 7/8 China: PPI & CPI
- 7/9 Japan: PPIs
- 7/9 US: Initial & Continuing Jobless Claims

Week 3

- 7/14 Japan: Industrial Production YoY
- 7/14 Eurozone: Industrial Production
- 7/14 U.K.: GDP & Industrial Production
- 7/15 China: Retail Sales
- 7/15 U.K. CPI, PPI & Retail Prices
- 7/15 US: Industrial Production
- 7/17 Eurozone: Construction Output
- 7/16 US: Initial & Continuing Jobless Claims
- 7/17 US: U of Michigan Sentiment Reports

Week 4

- 7/20 Japan: National CPI
- 7/23 US: Initial & Continuing Jobless Claims
- 7/24 U.K. PMIs
- 7/24 Eurozone: PMIs
- 7/24 US: Markit Composite PMI

Week 5

- 7/26 China: Industrial Profits
- 7/27 US: Durable Goods Orders
- 7/29 US: FOMC Rate Decision
- 7/30 China: PMIs
- 7/30 US: Initial & Continuing Jobless Claims
- 7/30 US: GDP Reports
- 7/30 Eurozone Confidence Surveys

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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in US and longer-established non-US markets.

An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

Portfolios that invest in real estate investment trusts (REITs) are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions.
Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

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ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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