

Q2 2020: A new take on the “Three Rs”

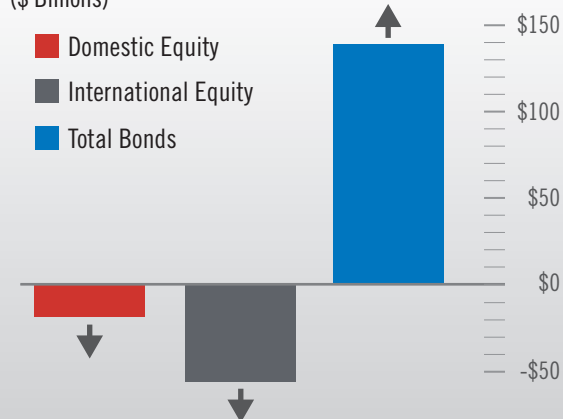
The S&P 500® Index plunged 34% in 33 days, bottoming on March 23. Then it roared back, gaining 39% in the 70 trading days through June 30, making the strongest move off a bear market low in the history of the Index.

Yet, the second quarter saw a mass exodus from equity funds. By fleeing to bonds after the decline was over, investors proved once again to be their own worst enemy.

Since no one could have predicted this year’s historic market decline—nor the historic post-decline advance—we have to stick with what we can know and control.

Q2 2020 Net Inflows—Mutual Funds and ETFs¹

(\$ Billions)



Follow the **Three Rs** to pursue your long-term goals:

- 1 **REBALANCE** portfolios back to your long-term asset allocations.
- 2 **REDEPLOY** excess cash that sat on the sidelines during the rally.
- 3 **RE-EXAMINE** your allocation to passive investments.

Time to Get Active

Median 63-Day Correlation of S&P 500® Stocks to the S&P 500® Index²
7/1/2015–6/30/2020



Correlations have been decreasing, equity volatility has been rising, and yields are in the basement. The days of “set it and forget it” may be over. Differentiated active managers who have produced superior risk-adjusted returns over full market cycles may help build more durable portfolios.

To pursue the long-term returns—with the potential for a smoother ride—consider allocating assets to:

- Global equities, including emerging markets, that many investors have overlooked because of home bias and the sustained performance of U.S. markets
- Credit sectors that may help boost fixed income returns
- Non-correlated strategies that pursue returns independent of favorable stock and bond markets

Performance of a Diversified Portfolio³

Q2 2020

12.7%

After the violent decline in March, most markets rallied strongly during the second quarter.

- Among U.S. equities, small- and mid-cap led the way, with the Russell 2000® gaining 25.4% and the Russell Midcap® Index up 24.6%. The S&P 500® Index returned 20.5%.
- Emerging markets outpaced developed ones, with the MSCI Emerging Markets Index (net) up 18.1%, while the MSCI EAFE® Index (net) gained 14.9%.
- Real estate, as measured by the FTSE Nareit Equity REITs Index, returned 11.8% for the second quarter.
- Oil prices recovered somewhat, leading the Bloomberg Commodity Index to a 5.1% gain.
- As risk assets traded higher, U.S. bonds, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, returned 2.9% and short-term U.S. Treasury Bills were flat.
- Corporate bonds benefited from the risk-on environment, returning 10.2%, as measured by the Bloomberg Barclays U.S. Corporate High Yield Bond Index.

ANNUALIZED RETURNS IN %, as of 6/30/2020

	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Diversified Portfolio	12.73	-5.52	0.43	4.44	4.89	5.93	7.36
S&P 500® Index	20.54	-3.08	7.51	10.73	10.73	12.13	13.99
Russell Midcap® Index	24.61	-9.13	-2.24	5.79	6.76	9.40	12.35
Russell 2000® Index	25.42	-12.98	-6.63	2.01	4.29	7.17	10.50
MSCI EAFE® Index (net)	14.88	-11.34	-5.13	0.81	2.05	3.93	5.73
MSCI Emerging Markets Index (net)	18.08	-9.78	-3.39	1.90	2.86	3.22	3.27
MSCI AC World Ex USA Small Mid Cap Index (net)	21.19	-12.69	-5.13	0.03	2.41	4.38	5.72
Bloomberg Barclays U.S. Aggregate Bond Index	2.90	6.14	8.74	5.32	4.30	3.96	3.83
Bloomberg Barclays U.S. Corporate High Yield Bond Index	10.18	-3.80	0.03	3.33	4.79	4.99	6.68
Credit Suisse Leveraged Loan Index	9.71	-4.76	-2.27	2.13	2.94	3.27	4.34
Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index	0.02	0.49	1.47	1.68	1.12	0.81	0.59
Bloomberg Commodity Index	5.08	-19.40	-17.38	-6.14	-7.69	-8.11	-5.82
FTSE Nareit Equity REITs Index	11.82	-18.71	-13.04	0.03	4.06	5.36	9.05

The Diversified Portfolio assumes the following weights in the following indexes: 20% in the S&P 500®, 10% in the Russell Midcap®, 5% in the Russell 2000®, 10% in the MSCI EAFE®, 5% in the MSCI EM, 5% in the MSCI ACWI Ex USA Small Mid Cap, 20% in the Bloomberg Barclays U.S. Aggregate, 5% in the Bloomberg Barclays U.S. Corporate High Yield Bond, 5% in the Credit Suisse Leveraged Loan, 5% in the Bloomberg Barclays U.S. Treasury Bill 1-3 Month, 5% in the Bloomberg Commodity, and 5% in the FTSE Nareit Equity REITs. Assumes annual rebalancing. Data represents total return for stated period. The Diversified Portfolio is not representative of any Virtus portfolio. Investors should consult their financial professional to identify suitable portfolio allocations. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among different asset classes reduces risk.

Index Definitions—The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Russell Midcap® Index** is a market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **MSCI EAFE® Index (net)** is a free-float-adjusted market-capitalization weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. The index is calculated on a total return basis with net dividends reinvested. The **MSCI Emerging Markets Index (net)** is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with net dividends reinvested. The **MSCI AC World Ex USA Small Mid Cap Index (net)** is a free float-adjusted market capitalization-weighted index that measures mid- and small-cap performance across 22 of 23 Developed Market countries (excluding the U.S.) and 24 Emerging Markets countries. The index is calculated on a total return basis with net dividends reinvested. The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Bloomberg Barclays U.S. Corporate High Yield Bond Index** measures fixed rate non-investment grade debt securities of U.S. corporations, calculated on a total return basis. The **Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. The index is calculated on a total return basis. The **Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible. The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities and represents 22 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc. The **FTSE Nareit Equity REITs Index** is a free-float market capitalization-weighted index measuring equity tax-qualified real estate investment trusts, which meet minimum size and liquidity criteria, that are listed on the New York Stock Exchange, the American Stock Exchange, and the Nasdaq National Market System. The index is calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

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