

Stocks keep looking forward

In general, the stock market is a gauge on future economic and corporate earnings growth. That has never been more evident than right now. In the last two months, the S&P 500 has rallied over 35%, while at the same time we're seeing negative economic numbers posted daily. 38,000,000 people have filed for unemployment in that time, retail sales are down 15% and U.S. GDP may be down 40% in the current quarter. Stocks anticipated these numbers back in March, when the markets dropped 35% in the span of a month.

Now, stocks are pricing in the reopening and economic recovery in the second half of 2020. Not all sectors are participating, but if the markets are correct, the future is looking better. Clearly the market is also reacting to trillions of dollars in stimulus provided by global governments and central banks. This should provide a cushion for the markets if the reopening doesn't go as smoothly as expected.

Country	Central Bank Potential Liquidity Injection		New Government Fiscal Stimulus	
	US\$ trillions	GDP %	US\$ trillions	GDP %
United States	\$ 6.21	29.0%	\$ 3.30	15.4%
World	\$ 10.43	12.0%	\$ 10.03	11.6%

Source: JPM Economic Research 5/6/2020

Market Returns

Source: Morningstar Direct data as of May 31, 2020

Asset Class	Index	Total Return 1 Month	Total Return YTD	Total Return 1 Year	Annualized 3 Year	Annualized 5 Year
Global Equities:	Diversified Equity Benchmark*	4.73	-8.33	7.06	7.03	7.09
Domestic Equities:	S&P 500 (Large Cap)	4.76	-4.97	12.84	10.23	9.86
	Russell 2000 (Small Cap)	6.51	-15.95	-3.44	1.98	3.72
International Equities:	MSCI EAFE (Developed)	4.35	-14.26	-2.81	-0.37	0.79
	MSCI Emerging Market	0.77	-15.96	-4.39	-0.15	0.88
Fixed income:	Barclays Intermediate U.S. Gov't/Credit	0.76	4.63	7.60	4.15	3.21
	Barclays Muni Short-Interm 1-10 Years	2.48	1.65	3.69	2.82	2.67
	Barclays Global Intermediate	0.32	1.67	3.56	2.08	2.24

Digital Assets in your Estate Plan

The majority of us like all things new and digital these days. There are the various rewards programs, the round ups for investing, subscription sites for clothes or beauty supplies, subscription sites for the dog, document storage, phone back up storage, recipes and social media. The list goes on and on. However, have you ever considered what would happen to these accounts when you pass away?

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High Valuations Merit Caution

While the market as a whole has risen dramatically, this has come at a time when many companies are projected to earn less. These factors have led to some sectors of the market exhibiting abnormally high valuations. U.S. equities (large, mid, and small) are trading at large premiums relative to their historic valuations. This can be seen in the table with small cap stocks trading at the highest premium of 59.2% more expensive than their average valuation over the past 15 years. The valuations premiums are primarily due to the depressed earnings expected over the next year.

Not only have the equity markets become expensive, but relations with China and the US seem to be deteriorating quickly. COVID-19 still remains a risk until a vaccine is produced, of which the timeline is still unknown and a workable vaccine is not a guarantee. A reemergence of the virus could send our economy into another lockdown and potentially an economic tailspin.

The net result of the environment we currently face is that we are holding less stock and maintaining higher percentages in cash, alternatives, and fixed income to protect clients on the chance that some of these risks materialize.

Please see important disclosures on the next page.

Stock Market Valuations

Equities	May 2020 P/E	P/E Premium 15-Yr Avg
S&P 500 Large-Cap	21.66	48.0%
S&P 500 Mid-Cap	21.64	37.3%
S&P 500 Small-Cap	26.52	59.2%

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Sources:

Bloomberg, Morningstar, FactSet, Crandall Pierce

*Benchmark consists of Russell 3000 (76%), MSCI ACWI ex US (20%) and FTSE EPRA/NAREIT Global (4%)

Index Definitions:

Barclays Global Intermediate: Index that measures global investment grade debt from 24 local currency markets, including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Barclays Intermediate US Government/Credit Index: a broad-based flagship benchmark that includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities, within a 2-10 year maturity range.

Barclays Municipal Short-Intermediate 1-10 Years: Index that measures the performance of US municipal bonds with time to maturity of between one and ten years.

FTSE EPRA/NAREIT Global: an index used to track the performance of listed real estate companies and REITS in both developed and emerging markets.

MSCI ACWI ex US: an index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. With 2,136 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

MSCI EAFE - Developed International: created to reflect the performance of small- to large-cap stocks across the developed regions of Europe, Australasia, and the Far East (EAFE). The index was developed by Morgan Stanley Capital International (MSCI) in 1969 and lists 926 stocks from 21 countries in the EAFE.

MSCI EM - Emerging Markets: an index used to measure equity market performance in global emerging markets, consisting of 23 economies including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

Russell Indices: The Russell 3000 is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S. traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 2000 index measures the performance of approximately 2,000 of the smallest companies in the Russell 3000 index.

S&P Indices: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. Other popular indices include the S&P MidCap 400, which represents the mid-cap range of companies and the S&P SmallCap 600, which represents small-cap companies. The S&P 1000 is a combination of the S&P 400 and 600, representing the small and mid-cap market. The S&P 500, S&P MidCap 400 and S&P SmallCap 600 combine to create a U.S. all-capitalization index known as the S&P Composite 1500.

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