The San Diego Foundation
Growing a Vibrant Region

INVESTMENT NARRATIVE
QUARTER ENDING JUNE 30, 2020

The second quarter of 2020 will be remembered as one of the fastest and steepest bounce backs in the market's history, following an equally steep and unprecedented decline in the first quarter. Fiscal and monetary stimulus measures led to the dramatic recovery in global markets, despite rising COVID-19 cases in the U.S. and severe unemployment. Today, the S&P 500 is on the cusp of new all-time highs despite continued uncertainty surrounding COVID-19 and the effect on the real U.S. economy.

U.S. GDP grew at a 9.5% rate year-over-year, after estimates in March were between -15-35%. Most major equity benchmarks were within 15% of all-time highs by the end of the quarter. U.S. equities delivered an incredible comeback, rallying +20.5% in the second quarter, bringing year-to-date performance to -3.1%, and positive +7.5% over the past twelve months.

However, it was not all good news. The Fed's balance sheet grew from $5.3 trillion to $7.1 trillion as it continued to roll out historic stimulus packages. Although the unemployment rate did fall from Q1, the U.S. economy still sits at 11.1% unemployment in June. The federal budget deficit grew significantly due to trillions of dollars in fiscal stimulus. And finally, COVID-19 cases spiked in the U.S. despite other countries witnessing a continued decline. The dichotomy between the stock market and the real economy is at all-time high, given the backdrop of one of the most uncertain economic environments in history.

Endowment

The Endowment portfolio rebounded strongly during the 2nd quarter, up 11.3% while also outpacing the policy index by +2.3%. Over the last 12 months, the rebound brought results back into the positive category, up 2%, also outpacing the Policy Index, down 0.2%. An overweight to U.S. equities was a major contributor, as was strong performance from the Endowment portfolio's fixed income holdings.

Non-Endowment

The Long-Term Portfolio saw a similarly strong rebound. After declining -16.3% for the first quarter, the portfolio was up 14.2% for the second quarter, beating the policy index by 1.2%. Much of the gains here also came from an overweight to the U.S. equity market. Relative performance from the real assets segment of the portfolio also led to meaningful gains.

The Medium-Term Portfolio, which holds only 30% exposure to global stocks, appreciated in the 2nd quarter due to both its stock and fixed income exposure. Any bonds outside of U.S. Treasuries stumbled in the first quarter but roared back as the Federal Reserve stepped in to support the corporate bond market. The Medium-Term Portfolio is now positive for the calendar year, and posted an impressive 5.9% for the 1-year period

The Short-Term Portfolio was up 0.1% during the quarter. With interest rates continuing to historically low levels, it is unlikely this portfolio will generate any substantial rate of return going forward. As a result, The San Diego Foundation is exploring alternative options for its donor base. If you are a donor invested in the Short-Term Portfolio and have any interest in a new portfolio, consisting entirely of fixed income assets, please contact your donor manager.