

U.S. ECONOMY UPDATE

The Astor Economic Index® (AEI)

Our proprietary Astor Economic Index stood the same in May. It is at low levels, but not at its minimum. Most economic data is showing some improvement but still well below where they were at the beginning of the year. We are in a situation where we are seeing the suppression effects of the lockdown ease while some secondary effects are still spreading. For example, according to the Bureau of Labor Statistics' household survey, last month 5 million people lost jobs while nearly 8 million gained jobs.

International Environment

Asia and Europe outside the U.K. seem a bit ahead of the U.S. in ending the lockdown. It is too early to make clear conclusions about how sharply the economies are bouncing back. Every country has put in place a different mix of policies to ease economies over the lockdown. *Growth is expected to be negative for 2020 nearly everywhere* according to the IMF's latest World Economic Outlook.

Fed Stance

The Fed is giving support through both rates and its balance sheet. It is buying Treasury bonds as fast as they can be printed, reviving asset support programs dormant since the last recovery and inventing new ways to add liquidity to the financial system. The Fed will be backstopping markets in corporate bonds, treasuries, asset backed securities, municipal bond markets and so called PPP loans issued in conjunction with the Paycheck Protection Program. This note is being written before the Fed's June 10th meeting which is not expected to add significant new support.

Economic Summary

The U.S. economy showed positive signs as reopening began in May, but the level of economic activity is still very low. Most of the data is consistent with modest amounts of renewed activity in May. High frequency data also shows a steady improvement in economic activity.

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ASTOR STRATEGY UPDATE

At Astor, we believe that typically the stronger the economic environment the better equities will perform. We entered 2020 with about average levels of risk. In January, we had stock exposures we believed were consistent with economic growth around average levels. As the economic situation deteriorated in 2020, we reduced exposure to equities and credit.

Astor Dynamic Allocation (ADA)

- At the June meeting the Investment Committee (IC) reduced cash and short-term assets to increase broad based equity exposure somewhat. Our equity exposure remains well below where it has been in recent years.
- In May, our tech positions outperformed the broad market although our equity exposure remained quite low. We had a large exposure to short-term, high-quality fixed income which underperformed the broad fixed income market.

Astor Sector Allocation (ASA)

- Equity exposure in ASA is at low levels of exposure which we expect to last as long as the AEI remains low.
- At the June meeting, the IC did not make any changes to the portfolio.
- At this smaller level of exposure we continue to be concentrated in tech, health care, communications and consumer staples.
- Communications, tech and health care all outperformed the broad market as measured by the S&P 500 in April while consumer staples lagged.

Active Income (AI)

- The investment committee decreased the duration of the portfolio at the June meeting to reflect low risk premiums on offer.
- AI outperformed the aggregate bond market as measured by the Bloomberg Barclays US Aggregate index in May despite having lower duration because of more credit exposure.

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