LUTHER KING CAPITAL MANAGEMENT
301 COMMERCE STREET, SUITE 1600
FORT WORTH, TEXAS 76102
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METRO 817/429-6256 FAX 817/332-4630

July 17, 2020

Dr. Greta Zeimetz
Executive Vice President
AAPL
800 Fournier Street
Fort Worth, TX 76102

Dear Greta:

Enclosed with this letter you will find the American Association of Professional Landman investment appraisals for the period ending June 30, 2020. This includes a listing of current holdings, recent transactions, asset mix, dividends, and portfolio yield. The summary page following delineates pertinent financial data for each portfolio.

Decisive actions from both the Federal Reserve and Administration in regards to system liquidity, interest rate levels, unemployment benefits, and small business assistance were critical to the rebound in publicly traded stocks during the second quarter. Many corporations saw their business models tested as widespread closures impacted employment and economic activity.

The overall stock market recovery was a relief but much needs to be done to ensure sound footing for many businesses and individuals. In the short term, overall corporate profits will be under a great deal of pressure for numerous industries and companies. There is no question many will not be able to reengage for some time and the return to previous levels of profitability may not be achieved for an extended time. Our conversations with corporate managements of your holdings have been insightful and left us comfortable with their ability to work through financial issues created by this unique crisis.

In the second quarter we estimate corporate profits will decline 35-45%, improve sequentially thereafter, and be down about 25% for the full year. In the short term the commentary from managements when second quarter earnings are released will be important to the directional movement around stock prices. Low interest rate levels are an important support for the stock market, particularly given the high relative historic yields generated from stocks. Recent events are generating economic and company specific changes and our investments are changing accordingly. We remain focused on the core tenets of our investment strategy and have opportunistically introduced new holdings to your portfolio.

Additional thoughts regarding the economy and capital market environment are more fully discussed in the "Second Quarter 2020 Review," which is enclosed along with a copy of our Privacy Notice, ADV Part 2A, Form CRS and Brochure Supplement. Please contact me if you have any questions or comments regarding the enclosed material or our investment strategy.

Sincerely,

Paul W. Greenwell
Vice President-Principal

PWG/tlm
Enclosures

cc: Mr. Harold Carter
Mr. Don Clark
Ms. Amanda Johnson

AAPL LANDMAN
INVESTMENT PORTFOLIOS
June 30, 2020

ASSET ALLOCATION

	Market Value	Equities	% of Portfolio	Fixed Income	% of Portfolio
AAPL Operating Cash Custody	$ 30,999,374	$ 22,470,993	72.5	$7,572,976	24.4
AAPL Education Foundation Revocable Trust	4,204,317	3,050,819	72.6	921,379	21.9
Landman Scholarship Trust	7,613,121	5,517,220	72.5	1,728,607	22.7
NAPE Expo Charities Fund	1,115,399	866,581	77.7	212,437	19.0

*INVESTMENT PERFORMANCE**

	SECOND QUARTER			YEAR-TO-DATE		
	Total Portfolio (04/01/20 - 06/30/20)	Equities Only (04/01/20 - 06/30/20)	Standard & Poor's 500 Index (04/01/20 - 06/30/20)	Total Portfolio (01/01/20 - 06/30/20)	Equities Only (01/01/20 - 06/30/20)	Standard & Poor's 500 Index (01/01/20 - 06/30/20)
AAPL Operating Cash Custody	17.3 %	23.5 %	20.5 %	(2.6) %	(4.3) %	(3.1) %
AAPL Education Foundation Revocable Trust	17.2	23.5	20.5	(3.4)	(5.3)	(3.1)
Landman Scholarship Trust	17.3	23.6	20.5	(2.6)	(4.3)	(3.1)
NAPE Expo Charities Fund *(Inception Date: 07/10/2019)*	18.0	23.0	20.5	(3.7)	(5.1)	(3.1)

* *Investment performance results are gross of investment management fees and include realized and unrealized gains and losses and dividends and interest.*

Quarterly Statement

AAPL Operating Cash Custody

Quarterly Statement: 06/30/2020

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AAPL Operating Cash Custody

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	955,404.33	955,404.33	3.1	860	0.1
Total Cash Equivalents	**955,404.33**	**955,404.33**	**3.1**	**860**	**0.1**
Equities					
COMMUNICATION SERVICES	1,346,500.60	1,667,920.20	5.4	26,000	1.6
CONSUMER DISCRETIONARY	887,020.10	2,872,552.00	9.3	28,896	1.0
CONSUMER STAPLES	605,326.74	877,231.50	2.8	24,802	2.8
ENERGY	709,835.19	590,935.00	1.9	26,310	4.5
FINANCIALS	1,785,269.20	2,175,975.35	7.0	93,219	4.3
HEALTH CARE	2,247,256.45	5,917,428.50	19.1	29,568	0.5
INDUSTRIALS	1,062,405.49	2,511,634.75	8.1	43,290	1.7
INFORMATION TECHNOLOGY	2,008,317.02	3,919,526.00	12.6	24,368	0.6
MATERIALS	1,065,524.03	1,918,950.00	6.2	32,280	1.7
Total Equities	**11,717,454.82**	**22,452,153.30**	**72.4**	**328,733**	**1.5**
Fixed Income					
MUTUAL FUNDS - BONDS	7,235,568.48	7,572,976.05	24.4	26,488	0.3
Total Fixed Income	**7,235,568.48**	**7,572,976.05**	**24.4**	**26,488**	**0.3**
TOTAL INVESTMENTS	**$19,908,427.63**	**$30,980,533.68**	**99.9%**	**$356,081**	**1.1%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**18,840.00**	**0.1**		
TOTAL PORTFOLIO		**$30,999,373.68**	**100.0%**		

Quarterly Statement

AAPL Education Foundation Revocable Trust

Quarterly Statement: 06/30/2020

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AAPL Education Foundation Revocable Trust

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	232,119.42	232,119.42	5.5	209	0.1
Total Cash Equivalents	**232,119.42**	**232,119.42**	**5.5**	**209**	**0.1**
Equities					
COMMUNICATION SERVICES	161,723.19	185,393.88	4.4	3,744	2.0
CONSUMER DISCRETIONARY	154,836.87	403,354.40	9.6	3,720	0.9
CONSUMER STAPLES	73,440.88	102,001.00	2.4	2,994	2.9
ENERGY	116,258.00	92,857.00	2.2	4,512	4.9
FINANCIALS	267,189.51	307,271.00	7.3	13,360	4.3
HEALTH CARE	322,828.65	800,071.00	19.0	4,240	0.5
INDUSTRIALS	186,857.55	342,239.00	8.1	6,434	1.9
INFORMATION TECHNOLOGY	306,068.27	574,086.50	13.7	3,632	0.6
MATERIALS	139,220.28	240,917.00	5.7	4,040	1.7
Total Equities	**1,728,423.20**	**3,048,190.78**	**72.5**	**46,676**	**1.5**
Fixed Income					
MUTUAL FUNDS - BONDS	885,655.57	921,379.12	21.9	3,223	0.3
Total Fixed Income	**885,655.57**	**921,379.12**	**21.9**	**3,223**	**0.3**
TOTAL INVESTMENTS	**$2,846,198.19**	**$4,201,689.32**	**99.9%**	**$50,108**	**1.2%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**2,628.00**	**0.1**		
TOTAL PORTFOLIO		**$4,204,317.32**	**100.0%**		

Quarterly Statement

Landman Scholarship Trust

Quarterly Statement: 06/30/2020

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Landman Scholarship Trust

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	367,293.73	367,293.73	4.8	331	0.1
Total Cash Equivalents	**367,293.73**	**367,293.73**	**4.8**	**331**	**0.1**
Equities					
COMMUNICATION SERVICES	299,797.97	365,965.04	4.8	7,280	2.0
CONSUMER DISCRETIONARY	263,333.13	751,276.30	9.9	7,488	1.0
CONSUMER STAPLES	174,166.95	241,142.00	3.2	7,029	2.9
ENERGY	195,059.85	162,802.00	2.1	7,842	4.8
FINANCIALS	436,493.07	518,192.50	6.8	21,822	4.2
HEALTH CARE	523,391.96	1,379,435.50	18.1	7,166	0.5
INDUSTRIALS	259,337.82	579,373.75	7.6	10,615	1.8
INFORMATION TECHNOLOGY	532,382.78	1,042,427.00	13.7	6,816	0.7
MATERIALS	272,746.12	471,901.00	6.2	8,068	1.7
Total Equities	**2,956,709.65**	**5,512,515.09**	**72.4**	**84,126**	**1.5**
Fixed Income					
MUTUAL FUNDS - BONDS	1,707,899.51	1,728,607.13	22.7	6,046	0.3
Total Fixed Income	**1,707,899.51**	**1,728,607.13**	**22.7**	**6,046**	**0.3**
TOTAL INVESTMENTS	**$5,031,902.89**	**$7,608,415.95**	**99.9%**	**$90,503**	**1.2%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**4,705.00**	**0.1**		
TOTAL PORTFOLIO		**$7,613,120.95**	**100.0%**		

Quarterly Statement

NAPE Expo Charities Fund

Quarterly Statement: 06/30/2020

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NAPE Expo Charities Fund

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	36,382.13	36,382.13	3.3	33	0.1
Total Cash Equivalents	**36,382.13**	**36,382.13**	**3.3**	**33**	**0.1**
Equities					
COMMUNICATION SERVICES	84,064.74	81,767.50	7.3	1,456	1.8
CONSUMER DISCRETIONARY	97,566.98	100,204.30	9.0	1,080	1.1
CONSUMER STAPLES	32,455.50	31,796.00	2.9	930	2.9
ENERGY	25,010.00	17,846.00	1.6	1,032	5.8
FINANCIALS	107,646.22	80,387.90	7.2	3,452	4.3
HEALTH CARE	189,235.77	215,007.25	19.3	1,032	0.5
INDUSTRIALS	89,584.87	91,944.75	8.2	1,721	1.9
INFORMATION TECHNOLOGY	135,719.82	155,833.00	14.0	1,080	0.7
MATERIALS	82,640.33	90,973.75	8.2	1,567	1.7
Total Equities	**843,924.23**	**865,760.45**	**77.6**	**13,350**	**1.5**
Fixed Income					
MUTUAL FUNDS - BONDS	206,355.42	212,436.60	19.0	743	0.3
Total Fixed Income	**206,355.42**	**212,436.60**	**19.0**	**743**	**0.3**
TOTAL INVESTMENTS	**$1,086,661.78**	**$1,114,579.18**	**99.9%**	**$14,125**	**1.3%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**820.25**	**0.1**		
TOTAL PORTFOLIO		**$1,115,399.43**	**100.0%**		

LKCM FUNDS

LKCM Fixed Income Fund

March 31, 2020

Fund Facts

CUSIP:	501885404	**Investment Objective:**	The Fund seeks current income.
Ticker Symbol:	LKFIX	**Managers:**	Joan M. Maynard, Scot C. Hollmann, CFA, CIC, Mark L. Johnson, CFA, CIC
Inception Date:	12/30/1997		
Minimum Investment:	$2,000	**Web:**	www.lkcmfunds.com
Portfolio Turnover Rate*	11%	**Phone:**	1-800-688-LKCM

LKCM Fixed Income Fund

About The Adviser

Luther King Capital Management Corporation was founded in 1979 and provides investment management services to investment companies, employee benefit plans, endowments, foundations, pension and profit sharing plans, trusts, estates, and high net-worth individuals.

Portfolio Managers

Joan M. Maynard is the lead portfolio manager of the LKCM Fixed Income Fund and oversees the investment team responsible for the LKCM Fixed Income Fund. Ms. Maynard joined Luther King Capital Management in 1986 and serves as Principal, Vice President and Portfolio Manager.

Scot C. Hollmann, CFA, CIC, is a member of the investment team reponsible for the LKCM Fixed Income Fund. Mr. Hollmann joined Luther King Capital Management in 1983 and serves as Principal, Vice President and Portfolio Manager.

Mark L. Johnson, CFA, CIC, is a member of the investment team responsible for the LKCM Fixed Income Fund. Mr. Johnson joined Luther King Capital Management in 2002 and serves as Principal, Vice President and Portfolio Manager.

Contact us at
1-800-688-LKCM
www.lkcmfunds.com

Performance

Returns as of 03/31/20

	Expense Ratio					Average Annual Total Returns			
	Net[1]	**Gross**	**3 Month**	**YTD**	**1YR**	**3YR**	**5YR**	**10YR**	**Since Incept 12/30/97**
LKCM Fixed Income Fund	0.50%	0.78%	-0.76%	-0.76%	3.05%	2.55%	2.10%	2.71%	4.17%
Bloomberg Barclays Interm. Gov/Credit Bond Index			2.40%	2.40%	6.88%	3.79%	2.76%	3.14%	4.53%
Lipper Short Intermediate Invest. Grade Debt Funds Indx			-0.74%	-0.74%	2.65%	2.28%	1.92%	2.55%	3.83%

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Fund performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 1-800-688-LKCM. The fund imposes a 1.00% redemption fee on shares held less than 30 days, and if reflected, the fee would reduce the performance shown.

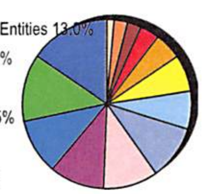
Top Ten Holdings**

			(% of Net Assets)
Danaher Corp.	3.35%	09/15/25	2.08%
Enterprise Products Operating, LLC	3.75%	02/15/25	1.97%
Amazon.com, Inc.	2.50%	11/29/22	1.86%
Emerson Electric Co.	3.15%	06/01/25	1.84%
Bristol-Myers Squibb Co.	3.63%	05/15/24	1.82%
Thermo Fisher Scientific, Inc.	4.15%	02/01/24	1.75%
Burlington Northern Santa Fe, LLC	3.00%	03/15/23	1.74%
Oracle Corp.	3.25%	11/15/27	1.68%
Trimble Inc.	4.15%	06/15/23	1.65%
Family Dollar Stores, Inc.	5.00%	02/01/21	1.61%

**Excludes Cash and Equivalents.

The composition of the Fund's holdings and sector weightings are subject to change and are not recommendations to buy or sell any securities.

Sector Weightings



Fixed Income Quality Distribution

	(% of Net Assets as of 03/31/20)
BBB	33.7%
AA	32.6%
A	28.2%
BB	1.9%
B	0.9%
Non-Rated	0.0%

Portfolio Composition

	(% of Net Assets)
Fixed Income	97.3%
Cash Equivalents	2.7%

*Fiscal year to date from 1/1/20 to 03/31/20.

The fixed income quality distribution uses the Standard and Poor's scale. Bond ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'C' ("junk"), which is the lowest grade.

The Funds' investment objectives, risks, charges, and expenses must be considered carefully before investing. The Funds' summary and statutory prospectuses contain this and other important information about the Funds. Please read the summary and statutory prospectuses carefully before investing. To obtain a hardcopy, please call 1-800-688-LKCM. Read carefully before investing.

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities.

[1]Expense ratios above are as December 31, 2018, the Fund's prior fiscal year end, as reported in the Fund's current prospectus. Luther King Capital Management has contractually agreed to waive all or a portion of its management fee and/or reimburse the Fund through May 1, 2021 to maintain designated expense ratios. Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced. Investment performance for the last quarter is based upon the net expense ratio.

The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is an unmanaged market value weighted index measuring both the principal price changes of, and income provided by, the underlying universe of securities that comprise the index. The Lipper Short Intermediate Investment-Grade Debt Funds Index is an unmanaged index generally considered representative of short intermediate investment grade mutual funds tracked by Lipper, Inc. You cannot invest directly in an index.

The Fund is distributed by Quasar Distributors, LLC.

LUTHER KING CAPITAL MANAGEMENT

SECOND QUARTER 2020 REVIEW

The COVID-19 pandemic is causing tremendous human and economic hardships both domestically and globally. The measures taken to protect public health have induced a sharp decline in economic activity and a surge in job losses, which directly impacts consumer spending. The lowest unemployment rate in a half a century soared to a postwar high of 14.7% in April. The disruptions to economic activity materially tightened financial conditions and impaired the flow of credit to households and businesses. The Federal Reserve, in response to tightening financial conditions, quickly lowered its policy interest rate to near zero in March and took extraordinary measures to bolster the flow of credit to households, businesses, and communities. As a result of this monetary policy response, financial conditions have improved considerably alongside the flow of capital within the economy.

The scale and breadth of the fiscal policy response to the pandemic is equally critical. The costs of doing too little include lost wages, fewer jobs, and deteriorating job skills. The people most vulnerable to the adverse effects of a recession are those who already faced barriers to economic opportunity, including low-income workers. While the recession caused significant dislocations in the labor market, the degree to which these disruptions are permanent or temporary largely hinges on the appropriate fiscal response. Fortunately, the U.S. has the fiscal capacity to undertake large scale spending. While there are naturally times to be concerned about growing the national debt, as the former chairman of President George W. Bush's Council of Economic Advisers, Gregory Mankiw, recently quipped, "This is not one of them."

Thus far, the unprecedented monetary and fiscal response to the pandemic has been sufficient to bolster investor confidence that the recession is likely to be as brief as it is deep. This optimistic investor outlook is evident in the 20.5% appreciation in the Standard & Poor's 500 Index in the second quarter. However, it is difficult to recall a time when the general level of uncertainty has been as great as it is today. This uncertainty is clearly evident in the wide range of economic forecasts across public and private sector economists. The breadth of potential outcomes is driven by the record speed of economic change and policy responses. Additionally, the pandemic is undermining the reliability of certain economic data, particularly survey-based data of businesses and households as noted by the Bureau of Labor Statistics. Finally, epidemiological outcomes will significantly influence the rate of business reopening, which has a profound impact on economic output. With the lack of visibility into these fundamental assumptions in economic models, there remains high dispersion and low confidence in traditional economic forecasts.

ECONOMY

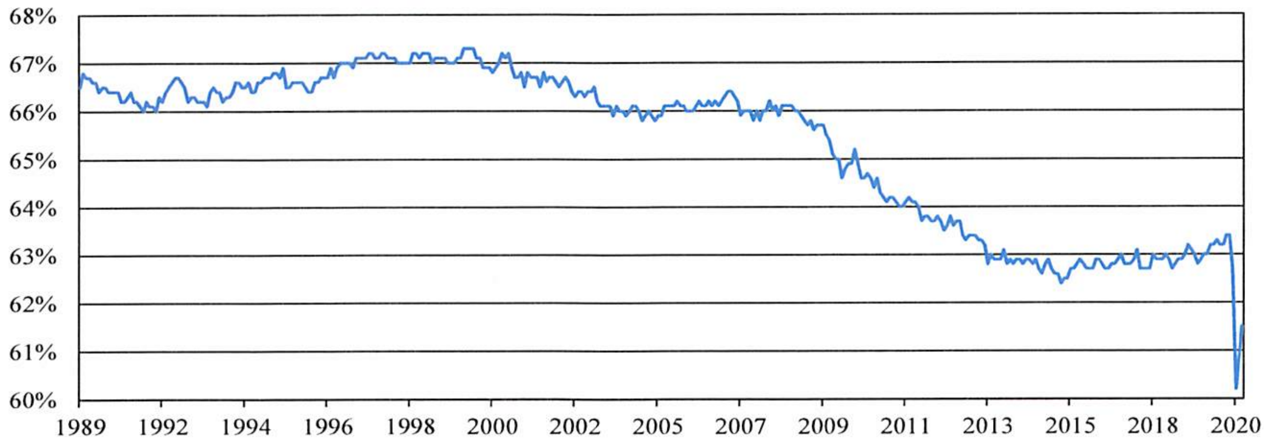
The enormity of the fiscal and monetary policy response to the unfolding financial crisis was critical to stabilizing the economy and mitigating the financial toll for consumers. Policymakers have thus far been successful in preventing a liquidity crisis from becoming a solvency crisis, which should temper the longer-term economic damage caused by the pandemic. In a liquidity crisis, otherwise healthy firms collapse because they do not have access to credit to meet current obligations. A solvency crisis, on the other hand, is when a firm's liabilities are greater than its assets; such as the collapse of Lehman Brothers in 2008. The immediate risk to the economy is that a liquidity crisis can precipitate a solvency crisis if left unaddressed.

Fortunately, the Federal Reserve quickly recognized the impending need for businesses, households, and communities to have readily available access to credit. The central bank launched a series of nine initiatives ranging from purchasing corporate bonds to providing payroll loans to small businesses to supporting municipalities through a special lending program. While the Federal Reserve's actions have thus far been successful in preventing an initial rash of insolvencies, there will inevitably be a rise in the number of bankruptcies during the second half of the year. Small businesses, which employ nearly one half of the American workforce, will likely be disproportionately impacted by bankruptcies.

The severity of the current economic contraction guarantees that there will initially be one or two quarters of very strong economic data when business operations resume. This is indeed what many recent economic data series, such as manufacturing, new business orders, and improvement in jobless claims, reflect. However, beyond the initial sharp rebound in business activity, the pace of the recovery will likely become more fraught.

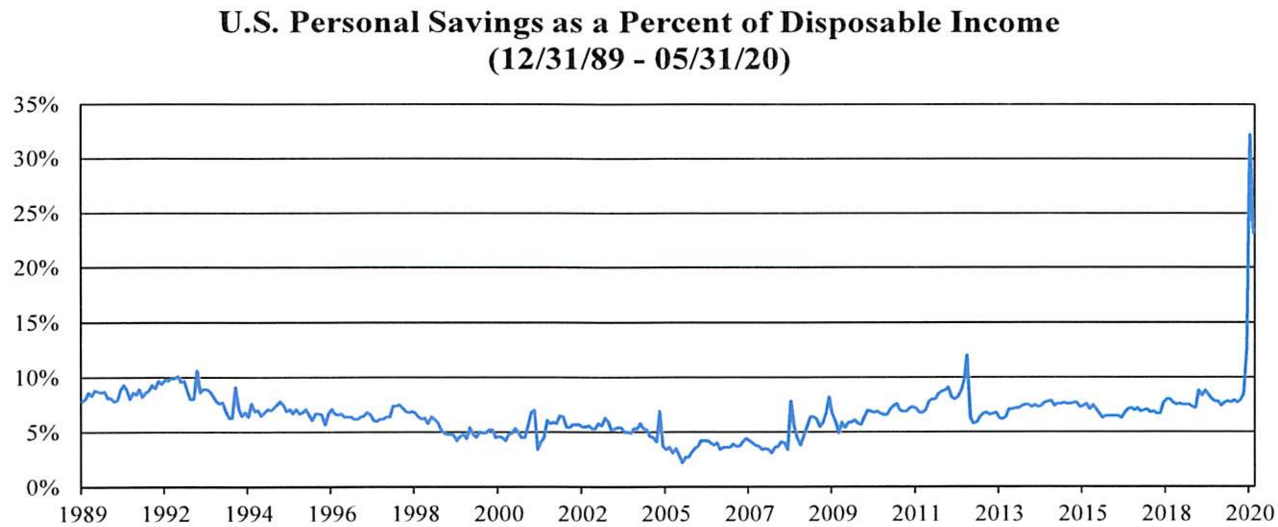
Economies expand at their potential in the long-run, which is dictated by the growth in labor force and productivity. Therefore, the character of job losses is important as it has implications for potential economic growth. Job losses that prove to be only temporary will enable workers to more quickly reengage with the labor force. If, however, a large portion of the job losses are permanent, potential economic growth over the long-term is diminished. A window into this labor force dynamic is the participation rate which measures the percentage of the population aged 16 and over that are employed or actively seeking work, and this measure has plunged as a result of the recent unprecedented job losses. If job losses are permanent in nature, this should lead to a rise in discouraged workers who give up seeking new employment and leave the work force, depressing both the labor force participation rate and potentially economic growth rates.

U.S. Labor Force Participation Rate
(12/31/89 - 06/30/20)



Source: Bureau of Labor Statistics

The Southern part of the U.S. now battles with record high new COVID-19 cases in response to easing social restrictions to enable businesses, including restaurants and bars, to reopen in some fashion. If more businesses are able to reopen in the second half of the year, consumers have ample cash to spend. The personal savings rate rocketed from 8.2% during February to a record high of 33.0% during April as savings jumped $1.4 trillion to $6.1 trillion, which includes transfer payments from the federal government such as the supplemental $600/week in unemployment benefits. Whether consumers received paychecks or government support, their purchases were severely limited by the lockdowns, contributing to the amassing of formidable cash reserves. The financial aid has allowed households to pay their rent and service their debt, shielding landlords, banks, and many specialty lenders from pressure. There is the potential for consumer savings to translate into pent-up demand as the economy continues to reopen for business.

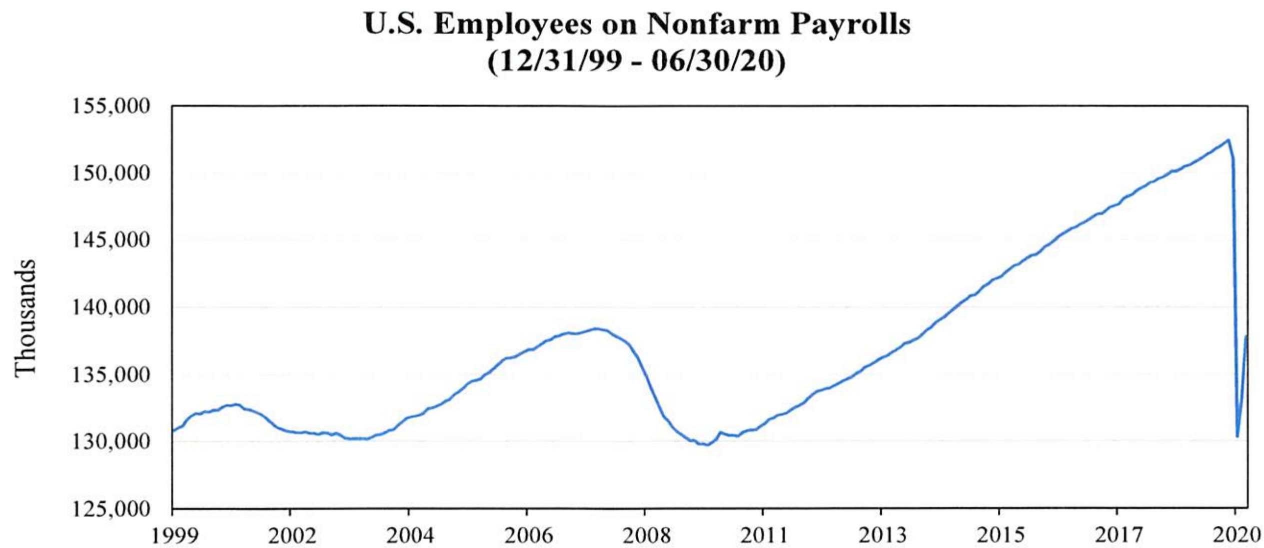


Source: Bureau of Economic Analysis

We believe a sustained economic recovery is unfolding as the result of massive monetary and fiscal stimulus, the healing in the credit markets, and improvement in long-term growth drivers such as housing and technology spending. The pace of the economic recovery will largely depend on the ability to safely reopen the doors for commerce. Fortunately, biomedical research is marshalling resources on an unprecedented scale in the pursuit of both therapeutics and a vaccine which will clearly have an impact on the future trajectory of the economy.

CAPITAL MARKETS

The immediate collapse in economic activity short-circuited the normal business cycle. Fluctuations in the business cycle are distinct changes in the rate of growth in economic activity, particularly changes in three key cycles – the corporate profits cycle, the credit cycle, and the inventory cycle – as well as changes in monetary and fiscal policy. Charted over time, these distinct cycles appear as a series of long waves. Driven by the influence of the business cycle on employment, historic employment data is emblematic of the familiar wave pattern of the business cycle. As the chart on the following page illustrates, the economy traversed the gap from mid-cycle expansion to recession in a matter of weeks rather than the more traditional multi-quarter timeline as measured by the labor market.

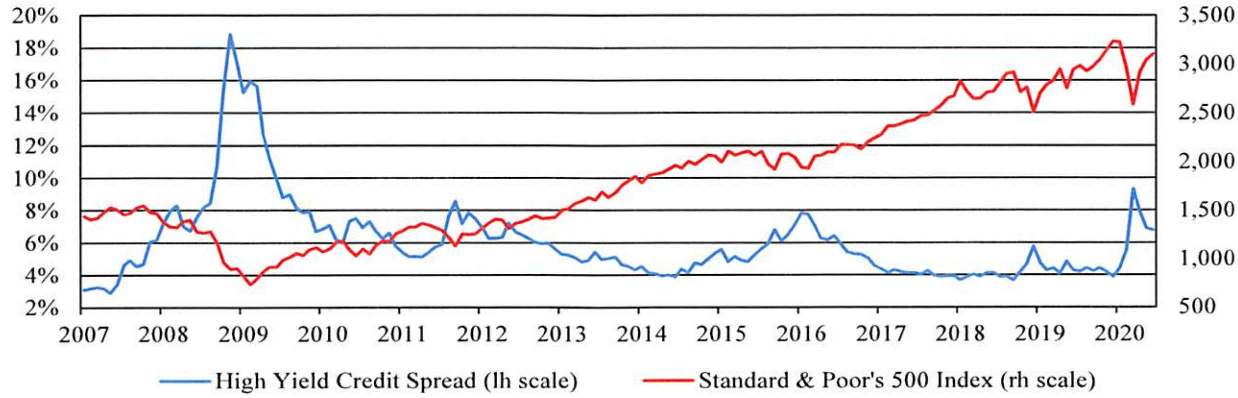


Source: Bureau of Economic Analysis

In response to the end of the business cycle, the equity market fell 34.0% in twenty-three trading days during February and March, marking the quickest bear market entry in the postwar period. Although the equity market was quick to enter a bear market, generally defined as a greater than 20% decline, it only stayed in bear market territory for seven trading days. By June 3rd, the Standard & Poor's 500 Index had appreciated 37.7% over 50 trade days, marking the greatest 50-day rally for the benchmark index since 1957 when the index was expanded from 90 constituents to 500. Interestingly, the previous seven largest 50-day rallies each saw the benchmark higher one year later.

Much of the responsibility for the sharp reversal in equity prices beginning in late March was the result of what transpired in the credit market. In many international markets, particularly in Europe, credit flows to large corporations primarily through the banks. In contrast, large domestic corporations primarily access credit through the issuance of bonds. The interest rate corporations must pay to entice investors to hold their debt is often measured against a Treasury yield with a comparable maturity. The credit spread is the difference between these two rates and is very sensitive to investors' perception of default risk, among other factors. Credit spreads are elemental for equity investors for two primary reasons. First, credit spreads directly impact the availability and cost of debt capital for firms. Second, credit spreads are a proxy for the appropriate discount rate for calculating the present value of future corporate cash flows, which is in our opinion the cornerstone of equity valuation. As credit spreads widen, and the discount rate rises, the present value of future corporate cash flows falls. The chart below illustrates the link between credit spreads, in this case a benchmark of high yield corporate bond spreads, and the equity market as represented by the Standard & Poor's 500 Index.

Standard & Poor's 500 Index
& High Yield Credit Spreads
(01/31/07 - 06/30/20)



Note: Credit Spread Index is the Bloomberg Barclays U.S. Corporate High Yield Average Option Adjusted Spread
Source: Bloomberg

Based in part on lessons learned from the Great Financial Crisis, the Federal Reserve understands that sufficiently large liquidity and credit support can materially stem the widening of credit spreads. The central bank even launched several novel measures among the nine initiatives it announced on March 23rd to support liquidity and credit availability. Among the extensive new measures was the establishment of two facilities to support credit to large employers – the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds. The Federal Reserve, for the first time in its history, committed to purchasing corporate bonds up to a total of $750 billion. On June 28th, the central bank released a list of 794 companies whose newly issued corporate bonds it will purchase as the sole investor in the coming months as an effort to keep borrowing costs low and availability of capital flowing. Among the companies on the list were Apple, Coca-Cola, ExxonMobil, IBM, McDonald's, and Walmart.

Prior to the Federal Reserve's announcement of its extraordinary measures to maintain the flow of credit to households, corporations, and communities in late March, it had already lowered its key benchmark interest rate to near zero. Further, the Federal Reserve expanded its balance sheet by $2.8 trillion since March 2nd largely through the purchase of Treasury securities in order to maintain very low interest rates on government bonds. The combination of very low Treasury interest rates and low credit spreads means that corporate dividend yields are also very competitive in the eyes of investors. For example, on the first of May Coca-Cola issued a bond due in on the first of June 2026 with a coupon of 1.45%, substantially below the company's dividend yield of 3.60%. Coca-Cola has paid a dividend each year since 1920 and has increased its annual dividend for fifty-eight consecutive years. We believe investors have been drawn back into equities in part due to the lack of alternatives for swelling cash balances and the relatively paltry returns available in the bond market.

While it is only July, investors are likely to soon turn their attention to the November elections. Although seemingly around the corner, four months is a relatively long-time in the current environment. The Standard & Poor's 500 Index may be a better indicator than election polls as we approach the election. Generally, if the equity market is higher in the three-months immediately preceding the election, the incumbent party has won, and if stocks are lower in the three-month period, the opposition party has won. This has been true in every presidential election since 1984 and 87% of the time since 1928.

CONCLUSION

The virus pandemic ended the longest economic expansion on record, but the recession that ended it may be the shortest on record. The economy peaked in February and fell into a severe recession as a result of state governors' lockdown orders to impose social distancing. The slow reopening of the economy since mid-May has already resulted in a large upswing in data series such as gasoline consumption and electricity usage, which are near real-time proxies for economic activity.

The Federal Reserve is trying to ensure that credit continues to flow to households and businesses during this difficult time and that the financial system does not amplify the shock to the economy. Fiscal policies aimed at limiting the permanent damage to the economy have been enacted so that when the pandemic recedes, the economy is positioned to supply goods and services to meet demand. Following a sharp rebound in economic activity from a very low level, the shape of the extended economic recovery will depend a great deal on progress to combat the coronavirus. We believe the companies that you own are financially strong and will emerge from this economic and health crisis well-positioned to compete as the economy begins its recovery.

*FINANCIAL MARKET TOTAL RETURN**

	Second Quarter 2020	Six Months Ending 06/30/20	One Year Ending 06/30/20	Annualized Return Two Years Ending 06/30/20	Annualized Return Three Years Ending 06/30/20	Annualized Return Five Years Ending 06/30/20
Standard & Poor's 500 Index	20.54%	(3.08%)	7.51%	8.95%	10.73%	10.73%
Russell 2000 Index	25.42%	(12.98%)	(6.63%)	(4.98%)	2.01%	4.29%
Value Line Composite Index	25.47%	(19.00%)	(15.29%)	(10.05%)	(3.47%)	(0.46%)
Dow Jones Industrial Average	18.51%	(8.43%)	(0.54%)	5.64%	9.08%	10.62%
NASDAQ (OTC) Composite	30.95%	12.74%	27.05%	16.99%	19.18%	16.42%
Bloomberg Barclays Capital Gov't/Credit Intermediate Bond Index	2.80%	5.27%	7.11%	7.02%	4.42%	3.46%

** Total Return Includes Income*

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