



SECOND QUARTER 2020 ECONOMIC AND FINANCIAL MARKETS REVIEW

After the fastest decline of 30% or more in history occurred during the first quarter, the stock market staged an impressive rally during the second quarter. The stock market rebound off the March 23rd low began when the Federal Reserve Board and Congress provided much-needed aid to the financial system and the economy, which suffered the swiftest downturn since the Great Depression. The rally gained further momentum due to optimism over potential COVID-19 treatments and vaccines, and on hopes that the economic problems caused by the coronavirus would be short-lived. Despite this rebound, the S&P 500 Index finished the first half of the year down 4.04%, while the Dow Jones Industrial Average finished down 9.55%. The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index increased by 5.28% during the first half of 2020.

In anticipation of significant economic damage caused by the coronavirus, the Federal Reserve Board issued its first emergency rate cut since the 2008 financial crisis, quickly lowering interest rates by 1.50% to near-zero. They also revived emergency monetary stimulus programs created during the financial crisis and initiated new programs to supply liquidity to the financial system. This included a facility to purchase not only government bonds with printed money, as they had done in the past, but also to buy investment-grade and high-yield corporate bonds as well as municipal bonds; all of this in an unlimited amount. These aggressive actions by the Fed gave confidence to investors that they would not allow a recession caused by the pandemic to become a financial crisis. With interest rates on bonds, CDs, and money market funds once again near zero, investors were not left with many investment options other than equities, which at least provide a potential future return on investment. In the meantime, Congress passed an enormous economic relief bill called the CARES Act to support individuals, businesses, and entire industries.

Due to these interventions, the Fed and Congress were able to stop a financial panic and start a stock market rebound. However, for a long-term stock market and economic recovery, there likely needs to be a more permanent solution to the coronavirus. This would make businesses confident enough to re-hire employees and consumers confident enough to spend money more consistently. This is why practically every clinical trial for a potential treatment or vaccine that seems favorable is met with positive momentum by stock traders.

Despite hopes for a quick resolution to the pandemic, recent optimism over healing the global economy quickly may turn out to be premature. Meaningful economic figures continue to worsen, and potential medical advances have not yet proven to be completely helpful fighting the coronavirus in the short-term. Investors may begin to realize that without a vaccine, the virus could linger for an extended period, and the economy could suffer for longer than initially anticipated. Investors may also become more concerned about the recent increase in infections in certain parts of the country, and a potential new outbreak of the coronavirus in the fall, which could create the need for new quarantines and also further economic problems. In the meantime, unemployment recently rose from a 50-year low to a 90-year high in the span of two months while GDP has contracted severely. While some investors expect a “V-shaped” economic recovery, it could be that a “U-shaped” or a “W-shaped” recovery may be more realistic.

There are several other issues that bear watching during the second half of this year. For example, the relationship between the United States and China has grown more fractured recently. Last year, China and the U.S. entered into a partial agreement to solve their two-year trade war. However, due to additional strife between the two leading economic powers on issues related to the coronavirus and Chinese control over Hong Kong, many are skeptical that these trade negotiations will advance to a more permanent solution. Additionally, on the heels of nationwide protests calling for social justice reform, the country is rapidly approaching what promises to be an impassioned November election.

During this volatile time, large companies have continued to outperform small companies, and domestic stocks are generally outperforming foreign stocks. Specifically, the strongest performers continue to be large company technology stocks that stand to benefit from a “new economy” where more business and social connecting is done virtually. These companies have significantly outperformed corporations in other industries, such as energy, travel, leisure, retail, and financials.

We expect these types of large-company stocks that have strong balance sheets and strong growth potential to continue to outperform small companies that may not have the financial capacity to sustain this deep recession. With interest rates on Treasury bonds at the lowest levels in history, we expect stocks that pay reliable dividends to become essential for long-term, income-oriented investors. We also continue to believe that political and economic uncertainty is positive for gold’s investment prospects looking forward.

We will continue to diligently monitor ongoing health, economic, political, and financial market conditions. In the meantime, please contact us if you have any questions regarding your investment portfolio or the financial markets in general.

** Index returns were obtained from the Wall St. Journal and Bloomberg Barclays on July 1, 2020.*

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Our firm applied for and received a loan from the Payroll Protection Program in April of 2020. We felt this was a prudent course of action as we had recently completed an expansion of our office and engaged in other large capital expenditures. Once received, the funds were used to pay salaries of our team members. As we have complied with all requirements regarding use of the loan funds, we anticipate obtaining loan forgiveness. Please contact the office if you have any questions.