Thoughts from the Holy City – June 2020

"It is no use saying 'we are doing our best.' You have got to succeed in doing what is necessary."

- *Winston Churchill*

The equity markets continued to climb higher throughout May as states began to reopen and business owners try to get a grasp of the damage incurred due to Covid-19(C.V.). The unprecedented stimulus response from both fiscal and monetary authorities has helped to buoy expectations that the economy will fully rebound, albeit at a slow pace. There continues to be unrest from the Cv. fallout combined with the most recent civil unrest including riots, looting, and protests. It has been a very tumultuous year so far, but the markets and economy are proving to be more resilient than most anticipated.

Despite the continued headwinds, markets edged higher in May with the S&P 500 gaining 4.53%, the DJIA rising 4.26%, and the NASDAQ continuing is climb higher by 6.75%. Although the S&P 500 is still negative 6% year to date, it has regained key levels while the NASDAQ is closing in on record highs. International markets have also stabilized from the lows of 2020 although they have lagged the domestic markets. Although the equity markets have recouped much of the losses, recent economic data illustrates the damage that Cv. has caused on the underlying economy, especially small businesses, restaurants, and retail.

As is almost always the case, the United States government and central bank have come to the aid of its people and economy, doing whatever is necessary to ensure that the consequences are not so dire that we enter another depression type era. That being said, one could argue that enough has not been done. There are undoubtedly people and their respective businesses that are still suffering from job losses, business closures, and sickness. Despite their swift actions, it has been unsurprisingly declared that the U.S. entered a recession in February. That marks the end of the 128-month long expansion which was the longest in records dating back to 1854. The question that we all ponder is how long is the economic contraction expected to last?

The unemployment report on Friday exemplified the fact that people are getting back to work and that the economy has, likely and hopefully, hit bottom and is starting to recover. This certainly does not mean the U.S. has fully recovered. It is likely going to take several years to fully recover from the depths of the health crisis and the subsequent implications, but it is a glimmer of hope. While the unemployment numbers are concerning, we must keep in mind that because of the PPP loans furloughed workers are still getting paid despite not working. Either wat you look at the numbers, they are declining, and as social distancing guidelines are relaxed, we expect a sharp rebound in economic growth.

Many of the large financial service firms have once again adjusted their year-end price targets for 2020. Raymond James most revision has a base target of 3,111 (-2.78% from the current 3200) and upside target of 3,384 (5.45% from the current 3,200) We believe that the record fiscal and monetary support have proven too powerful versus the economic contraction. The base case revolves around better news on the vaccine for Cv., a reopening of the economy, unprecedented global stimulus, and the likelihood for valuations to remain where they are currently. The upside case of 3,384 for the S&P 500 includes a scenario of a vaccine before year end, a better than expected reopening with no second wave, normalized consumer spending, and better than expected economic conditions given the unprecedented amount of stimulus. There are also downside risks with the scenario including China/US tensions accelerating, a regime change in the White House resulting in an increase in taxes, and a muted recovery due to a resurgence in cases.

The past three months have been a very interesting time for us all as individuals, as well as a country. We have been reminded of the importance of our health, family, and the fragility of life. It has reiterated to me the importance of having a plan in place which can be revisited, adjusted if needed, and a reminder that there will inevitably be ups and downs in the market. We have all been faced with difficult times in history, be it economic, civil unrest, health risks, etc., but we have always come together to succeed in doing what is necessary.

Be Well.

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The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. These international securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. An investment cannot be made in these indexes. It is not possible to invest directly in an index. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

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