

July 2020

I read the other day that Thursday July 2 is World UFO Day. Given all the twists and turns we've had so far this year, I'm not sure if anyone would really be surprised if aliens did show up! If they do, I might just ask them to take me with them wherever they are going! By the time you receive this, I may be off on my galactic travels.

The markets staged an amazing recovery in the last few months. For clients who have been invested since the beginning of the year, this recovery means that your portfolio is in much better shape than it was on March 31. The equity markets hit their low on March 24 and have since rebounded roughly forty percent. While that does not bring equity markets back into positive territory for the year, it is a welcome improvement. This fast market action is also why we are very reluctant to try to time the markets, as some of the best market returns happen on the heels of the worst ones and can happen in large and fast moves. Your returns for the most recent quarter and year-to-date are included in your report.

It is very difficult to predict what may happen in the coming months, but there are some things about which we as investors need to be aware. First, the Covid-19 virus hit the U.S. in late February and did not really shut the economy down until mid-March. The result is that business earnings and economic reports for the first quarter ended March 31 were worse than originally expected, but not horrible since businesses were open for most of the quarter. First quarter Gross Domestic Product (GDP), a measure of economic growth, was down about -5%. Second quarter results (April 1-June 30) are simply going to be terrible. The economy was in full lockdown mode and many businesses had to close their doors. The result will be that as we move into the earnings and economic reporting season in the next few weeks, there will be some reports that are shocking by normal historical standards. Second quarter GDP is expected to decline -25-30%. However, "the markets" (i.e. investors around the world) know this and are looking past these dismal results from the immediate past and on to much better expectations for the future. The markets may seize on the news of the day and react with increased volatility, then regain their focus on the future and continue their march forward. Be prepared for a bumpy ride.

Next, our recovery from Covid-19 will not take a straight path. We seem to be seeing a resurgence of the virus over the last few weeks. Only time will tell if this resurgence will result in a large increase in hospitalizations or deaths and what the response will be from states and communities around the country. In Florida and Texas, bars have been closed again and restaurants restricted on their capacity. Economic challenges will continue for many as it will be difficult for businesses to plan in a start/stop world and bring employees back to work.

Our belief is that the quick recovery in the markets has been the result of several things. First, there has been massive federal stimulus added to the economy through direct payments to taxpayers, extended and increased unemployment support for those out of work, forgivable loans to businesses, and huge intervention by the Federal Reserve to stabilize many segments of the markets. Next, there has been significant progress against the virus itself as hot spots like New York and others have cooled down and hospital systems around the country seem much better prepared to deal with surges in new cases. There has also been progress in treatment methods and potential vaccines. Markets assimilate all this information and look forward to better days ahead. Markets are leading indicators, looking out many

months and even years to try to determine what the world will look like as people and businesses get back on their feet late in 2020 and through 2021 and beyond. By then it is likely that we will have a vaccine and things will be getting back to “normal”.

We are moving out of a fabulous second quarter 2020. We understand that there will likely be bad news reported in coming weeks about the negative impacts on companies, the economy, and workers that the last several months of lockdown have caused. We also understand that the virus will not disappear quickly or quietly. Yet we also believe that we are on the slow road to recovery and to a solution to this virus. Markets may trade in a range (up some, down again, then up again) for some months to come, then begin to find more sound footing as we make progress in keeping people well and getting people back to work.

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