JULY 2020 MARKET COMMENTARY

Despite the coronavirus pandemic keeping business around the world near a virtual standstill, domestic equity markets completed their best quarter in over 20 years. The Dow Jones jumped 17.8% in its best quarter since the first quarter of 1987 while the Standard and Poor's 500 advanced 19.9% logging its best quarter since the first quarter of 1998. The technology heavy Nasdaq soared 30.6% with its best quarter since the fourth quarter of 1999. Meanwhile, small businesses across the country remain closed, new COVID cases are rising, unemployment remains at 11.1%, manufacturing activity has contracted, retail sales are far below pandemic levels, and when second quarter GDP figures are released later this month it will be confirmed that the US economy is in recession.

The dichotomy of the economy and market performance are being fueled in part due to investor optimism about the partial reopening of economies across the country but most notably by an unprecedented monetary and fiscal stimulus from the Federal Government. As this unprecedented monetary and fiscal stimulus props up equity markets, it has also sent bond markets higher. The benchmark 10-year Treasury yield stood at 0.66% as of the quarter-end (from 1.88% at the beginning of the year). These low yields have implications for fixed income investors and puts further support in the equity markets as some fixed income investors look to dividend stocks and other asset classes as a source of income.

While there is a lot of debate over what the recovery may look like, we believe that the recovery will be strong, but we are not convinced that it will be as quick as markets may be expecting, we think it will be a rocky road, and we don't think that the rising tide will lift all boats evenly. While the government and Federal Reserve are taking necessary action to support markets, we suspect that revenue and profits are likely to remain under pressure for the foreseeable future. While many industries will continue to see growth, it may be a longer road to recovery for restaurants, travel, leisure, and brick and mortar retail. Unemployment may be starting to peak, but as these industries have a potentially slower recovery, it may take employment some time to recover.

There is a strong positive case in ongoing and creative monetary policy, massive fiscal stimulus, and growing optimism. Yet, there are also risks: the now growing number of COVID cases, a disruption in the US/China trade deal as tensions rise, the need for another round of stimulus with bolstered unemployment set to expire at the end of this month, uncertainty around the election cycle and growing social unrest. The risks are balanced, and markets can use any excuse to take a step back. We remain cautious putting new money into the markets for clients.

As always, if you have any questions, please do not hesitate to contact our team. Be safe, be well.

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.