



Third Quarter 2020 Newsletter—July 1, 2020

### **COVID Is Still Present**

The COVID-19 pandemic continues to affect us all. Please take care of yourself and stay vigilant. Follow sensible precautions, such as wearing masks and maintaining appropriate buffer space.

### **Black Lives Matter**

George Floyd was murdered, and Black Lives Matter responded. The BLM website says, "Black Lives Matter is an ideological and political intervention in a world where Black lives are systematically and intentionally targeted for demise. It is an affirmation of Blacks' humanity, our contributions to this society, and our resilience in the face of deadly oppression."

### **Social Justice**

The nation has reawakened to confront and explore deep, real, and painful matters in our present and our history. Through reflection, communication, and action, our nation will grow and evolve. If history can be a guide, this will take time, effort, and commitment. In the end, we will be better and more conscious as a nation.

### **Importance of Financial Planning**

It is apparent to us that financial planning is central to financial success. Because of this, we invested in new, online financial planning software to better serve you. We invite you to check it out.

### **COVID-19 Continues, Shelter in Place Fatigue, Social Justice, and \$5 Trillion in Federal Support and Stimulus**

This quarter powerful factors influenced our financial markets, economy, and consciousness—the ongoing pandemic, sheltering in place fatigue, Black Lives Matter, reawakening as a nation to social justice, and five trillion dollars in federal support and stimulus.

As Americans, we are a strong, resilient, creative, diverse, and forward-looking people. We will move forward as individuals, families, businesses, and a nation. Be encouraged and take heart.

### **Our Continued Mission**

Our goal is to provide you with direction and confidence to help you increase your financial well-being and your peace of mind. We appreciate your trust and the opportunity to work with you. Feel free to reach out to us—we are here to serve you.

### **In Economic News**

The economic shutdown led to a sharp and deep economic recession. The Federal Reserve (Fed) and legislature put historic and heroic measures in place to counteract, in part, the impact of the virus induced economic shutdown. The Fed cut interest rates to zero, backstopped the financial markets, and began a massive buying program. The US legislature's \$2.2 trillion CARES Act sent out stimulus checks, boosted unemployment benefits temporarily, supported mortgage holders, and helped many businesses.

### **What Happened In The Markets?**

The markets shot up sharply during the 2<sup>nd</sup> quarter, with the Dow Jones Industrial growing 17.4%, the S&P 500 increasing 21.4%, and the NASDAQ climbing 33.1%. The aggregate bond market rose 2.4%.

All eleven market sectors moved higher. Consumer discretionary, information technology, materials, energy, and communication services increased more than 20%. Industrial, real estate, health care, and financials popped up double digits, while consumer staples and utilities ticked up.

However, FactSet reported that "For Q2 2020, the estimated [company] earnings decline for the S&P 500 is -43.9%. If -43.9% is the actual decline for the quarter, it will mark the largest year-over-year decline in [S&P 500 corporate] earnings reported by the index since Q4 2008 (-69.1%)." FactSet noted "The forward 12-month price to earnings (P/E) ratio for the S&P 500 is 21.7. This P/E ratio is above the 5-year average (16.9) and above the 10-year average (15.2)." This indicates that stocks are "richly valued" at the moment.

Using a car analogy, the financial plan is the chassis, and the investments power the vehicle forward. A financial plan and investment management together provide you the most benefit.

Financial planning starts with what is coming in and what is going out. Do spend less than you earn. Then count what you have saved and what you owe. Remember to save for a rainy day. Next, what will you need in the future? What needs to be done now to create your desired future? If you do not have a financial plan, or have questions about your financial plan, reach out to us!

#### Where Do We Go from Here?

There is an apparent disconnect between the stock market and the economy. However, the stock market and the economy are two very different animals. The stock market looks ahead and is now is anticipating economic recovery and elections. The economy largely looks backwards and tells us what happened.

Over time, investing in the financial markets has been one of the surest ways to increase your wealth. Even in the face of a fresh market decline, we do not advocate selling because when the markets return to growth, we want you to have the full benefit of their rise.

Patience, vigilance, and preparedness continue to be your most powerful tools.

An increase in company earnings, a decrease in stock prices, or a combination of the two will move this ratio closer to long-term historical averages.

With the Federal Reserve supporting the bond market, bond values and interest rates stabilized and then moved up modestly.

#### **The Crystal Ball – Our Economic and Financial Markets Outlook**

**US Economic Outlook:** In 2020, Kiplinger projects gross domestic product (GDP) will contract by 5.8%. They estimate that business capital spending will be down 10 to 20%. Kiplinger said “[consumer] sales are lopsided and still below pre-crisis levels in most categories. Clothing stores are still at only 37% of their normal, restaurants are at 60%, and most specialized retail is at 75%. There are some categories that have done well because of people staying at home: E-commerce is 25% above normal; grocery stores, 13%; sports and fitness equipment sellers, 3%.” The consumer is the driver of the economy, and Kiplinger did not provide an estimate for consumer retail spending.

**US Financial Market Outlook:** There is a tension in the financial market outlook. The US economy reopening, the Fed backstopping the financial markets, and Congress providing support and stimulus for individuals and businesses collectively undergird the financial markets. On the other hand, history shows us that financial markets retest their lows 8 out 10 times. The markets can pullback, and it is prudent to be prepared for that possibility. Though present conditions are a toss-up, we are confident in the US financial markets in the long-term.

**US Interest Rate Outlook:** The Fed affirmed that interest rates are stable at historical lows. When interest rates rise, bond values fall, and vice versa.

**World Economic Outlook:** The World Bank is projecting a 5.2% decline for world gross domestic product for 2020, “the deepest global recession in eight decades, despite unprecedented policy support.”

**Foreign Markets Outlook:** As emerging and developing markets open, their outlook improves. However, if the US consumer gets shut in again, their outlook will deteriorate. The US dollar weakened this quarter, so US goods and services cost less for foreign purchasers.

**Opportunities Going Forward:** For income, we favor money markets, fixed- and floating-rate preferreds, and investment grade bonds. In the stock market, we see opportunities in technology and infrastructure.

Sincerely,

  
Adam Amante, Founder

  
Ken Nesler, CFP®