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All the main 5 asset classes were down in Q1 and all are smartly up in Q2 in an unpredicted recovery. Year to date the 5 asset classes are all lagging but surprisingly less than what one would anticipate seeing the impact of Covid.

One would also expect that the economy, the financial markets, and the political system would interact seamlessly like a well-oiled machine; in reality the three seem to be running a “three legged” race – trying to reach the same goal but with clumsy results.

Unsurprisingly, our main research objective for the past 4 months has been to understand the impact of Covid. Despite lots of analysis, there are few clear answers and even fewer reliable actions that can be taken. But, all said and done, I remain biased towards a brighter outlook, though I know that not everyone shares this perspective. And, I have long learned to be a sensible Contrarian. It seems to pay off.

We did re-balance client portfolios this year but kept them diversified across the 5 main asset classes, with less emphasis on commodities which are economy-sensitive. We are also skeptical about Bonds, BUT, do think that very short, high-quality bonds are a good place to park cash (which, for us, is currently at slightly higher levels than normal - In case clients need money).

We are comfortable with our investment process and feel that sticking to it is the better alternative.

Key Dates/Data Releases

7/1: PMI Manufacturing Index, ISM Manufacturing Index

7/2: Employment situation,

NAVIGATING A PANDEMIC - Q2 2020 MARKET REVIEW

The Markets (second quarter through June 30, 2020)

Stocks rebounded from a dismal March by posting their best monthly returns since 1987, as investors were encouraged by the expectation of additional government stimulus programs and hope that the economy would be reopening soon. The Paycheck Protection Program and Health Care Enhancement Act replenished the Paycheck Protection Program, providing funding for additional small business loans, and offered financial support to hospitals, while increasing the availability of more virus testing. The Federal Reserve added trillions of dollars in funds to its lending programs. Crude oil prices rose nearly 30.0% despite collapsing into negative territory on April 20. A few states began easing lockdown restrictions and reopening a range of businesses. While there were plenty of ups and downs in the market during the month, April closed with each of the *international trade in goods and services*

7/6: ISM Non-Manufacturing Index

7/7: JOLTS

7/10: Producer Price Index, Treasury budget

7/14: Consumer Price Index

7/15: Import and export prices, industrial production

7/16: Retail sales

7/17: Housing starts

7/22: Existing home sales

7/24: New home sales

7/27: Durable goods orders

7/29: International trade in goods, FOMC statement

7/30: GDP

7/31: Personal income and outlays

benchmark indexes listed here climbing notably higher. The Nasdaq gained 15.45%, followed by the Russell 2000, the S&P 500, the Dow, and the Global Dow.

In May, investors continued to rally to stocks as more states and foreign countries eased restrictions put in place in response to the COVID-19 pandemic. The economy continued to stagger, however. The unemployment rate reached its highest level since the Great Depression while claims for unemployment insurance pushed past 25 million. On the other hand, news of possible breakthroughs in the treatment of COVID-19 cases and the development of a vaccine for the virus provided optimism for investors. Once again, the Nasdaq led the way, advancing 6.75% by the close of May. The Russell 2000 gained 6.36%, followed by the S&P 500, the Dow, and the Global Dow.

June was a month of drastic highs and lows for stocks. For example, the Dow climbed 6.8% in the first week of the month, then fell 5.5% in the second week. However, by the close of June, each of the indexes listed here posted gains with the tech holdings of the Nasdaq leading the way, up nearly 6.0% from its May closing value.

The second quarter of 2020 notched the best quarterly performance since 1998, with each of the benchmark indexes making sizeable gains over their historically poor first-quarter tallies. However, much of the second-quarter growth in the stock market and economy is more of a bounce back from a dismal March and April, when pandemic-related lockdowns and restrictions virtually shut down the economy. Nevertheless, stocks rose as investors focused on favorable economic data and the possibility of further government stimulus, despite rising virus cases and tepid trade relations with China. Of the benchmark indexes listed here, the Nasdaq again proved the strongest, soaring more than 30.0% for the quarter, followed by the small caps of the Russell 2000, which gained 25.0%. The large caps of the S&P 500 and the Dow closed the second quarter up nearly 20.0% while the Global Dow vaulted ahead by more than 14.0%.

Year to date, the Nasdaq remains the only index well ahead of its 2019 year-end closing value. While still in the red, the S&P 500 is within 5.0 percentage points of last year's final mark, followed by the Dow, the Global Dow, and the Russell 2000.

By the close of trading on June 30, the price of crude oil (WTI) continued to climb, closing at $39.35 per barrel, ahead of the May 29 price of $35.34 per barrel. The national average retail regular gasoline price was $2.129 per gallon on June 22, up from the May 25 selling price of $1.960 but $0.525 less than a year ago. The price of gold finished June at $1,798.80 per ounce, slightly higher than its May 29 closing value of $1,745.80 per ounce.

Stock Market Indexes

Market/Index	2019 Close	As of June 30	Monthly Change	Quarterly Change	YTD Change
DJIA	28,538.44	25,812.88	1.69%	17.77%	-9.55%
Nasdaq	8,972.60	10,058.77	5.99%	30.63%	12.11%
S&P 500	3,230.78	3,100.29	1.84%	19.95%	-4.04%
Russell 2000	1,668.47	1,441.37	3.40%	25.00%	-13.61%
Global Dow	3,251.24	2,821.05	2.59%	14.23%	-13.23%
Fed. Funds	1.50%-1.75%	0.00%-0.25%	0 bps	0 bps	-150 bps
10-year Treasuries	1.91%	0.66%	2 bps	3 bps	-125 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- **Employment:** Employment rose by a stunning 2.5 million in May after falling 20.6

million in April. Notable job gains occurred in leisure and hospitality, construction, education and health services, and retail trade. The unemployment rate dropped 1.4 percentage points to 13.3% for the month as the number of unemployed persons dropped by close to 2.1 million to 21.0 million. Improvements in the labor market reflected a limited resumption of economic activity that had been curtailed in March and April due to the COVID-19 pandemic and efforts to contain it. While these numbers are better, put in perspective, the unemployment rate and number of unemployed persons are up 9.8 percentage points and 15.2 million, respectively, since February. In May, average hourly earnings fell by $0.29 to $29.75, primarily due to job gains among lower-paid workers. Average hourly earnings increased by 6.7% over the last 12 months ended in May. The average workweek rose by 0.5 hour to 34.7 hours in May. The labor participation rate for May was 60.8% (60.2% in April). The employment-population ratio was 52.8% last month, 1.5 percentage points ahead of April's figure.
- Claims for unemployment insurance reached historic levels in May, spiking to more than 25.0 million. The rate for insured unemployment claims also reached an historic high of 17.2%. Since the initial impact of the virus in mid-March, nearly 47.5 million initial claims for unemployment benefits have been filed. For the week ended June 13, the number of those receiving unemployment insurance benefits decreased to 19.522, and the rate for insured unemployment claims fell to 13.4%.

- **FOMC/interest rates:** The Federal Open Market Committee held its regularly scheduled meeting in early June and unanimously voted to hold the target range for the federal funds rate at its current 0.00%-0.25%. According to the Committee, the ongoing public health crisis caused by the COVID-19 pandemic will weigh heavily on economic activity, employment, and inflation in the near term, while posing considerable risks to the economic outlook over the medium term. The FOMC expects to maintain this rate until it is confident the economy has weathered the recent events, which according to its projections, will run through the year 2022. In addition, the Fed announced that it will be increasing, at least at the current pace, holdings of Treasuries and residential and commercial mortgage-backed securities.

- **GDP/budget:** According to the third and final estimate for the first-quarter gross domestic product, the economy decelerated at an annualized rate of 5.0%. Consumer spending was a big drag, falling 6.8%, reeling from the initial effects of the COVID-19 pandemic. Fixed investment fell 1.3% in the first quarter (-0.6% in the fourth quarter), and nonresidential fixed investment dropped 6.4% in the first quarter, compared to a 2.4% decline in the prior quarter. Net exports were down 9.0%, and imports sank 15.7%. Consumer prices advanced at a rate of 1.3% in the first quarter, comparable to the fourth quarter (1.4%).
- The Treasury budget deficit came in smaller than expected in May. Nevertheless, the deficit, at $398.8 billion, was nearly twice as high as the deficit for May 2019. Through the first eight months of fiscal 2020, the deficit is $1.880 trillion, nearly 91.0% greater than the deficit over the same period in fiscal 2019. So far this fiscal year, outlays are 29.4% above the 2019 figure, while receipts are 11.2% lower.

- **Inflation/consumer spending:** According to the Personal Income and Outlays report for May (released June 26), personal income and disposable (after-tax) personal income fell 4.2% and 4.9%, respectively. This followed April increases of 10.8% (personal income) and 13.1% (disposable personal income). The decrease in personal income last month is largely attributable to a reduction in federal government payments from recovery programs initiated due to the pandemic. Consumers ramped up their spending in May, as personal consumption expenditures increased 8.2%, after falling 12.6% in April. Inflation remains muted as prices for consumer goods and services rose a scant 0.1% in May after falling 0.5% the previous month. For the past 12 months, consumer prices are up a mere 0.5%.
- Deflation is trending at the consumer level. The Consumer Price Index slid 0.1% in May, marking the third consecutive monthly decrease, which hasn't happened in the 63-year history of this index. Year to date, consumer prices are up 0.1%. Excluding food and energy, prices also fell 0.1% last month. Energy prices

dropped 1.8% in May for the fifth straight monthly decline. Transportation services are down 3.6%, and air fares plunged 4.9% in May after cascading 15.2% and 12.6% in April and March, respectively. On the other hand, consumer prices for food edged up 0.7% and medical care services rose 0.6% in May.

- Prices producers receive for goods and services rebounded from a dismal April, climbing 0.4% in May. Year to date, producer prices are down 0.8%, however. In May, energy prices climbed 4.5% after falling 19.0% in April and 6.7% in March. Food prices shot up by 6.0% last month, although trade services fell 0.8%.

- **Housing:** Sales of existing homes plunged in May while sales of new single-family homes soared. Existing home sales fell 9.7% in May after falling 17.8% in April. Over the last 12 months, existing home sales are down 26.6%. Sales of existing single-family homes plunged 9.4% last month and are off 24.8% from a year ago. The median existing-home price in May was $284,600 ($286,800 in April). Unsold inventory of existing homes represents a 4.8-month supply at the current sales pace, up from 4.0 months in April. Sales of new single-family homes vaulted 16.6% in May following a slight 0.8% drop in April. The median sales price of new houses sold in May was $317,900 ($303,000 in April). The average sales price was $368,800 ($352,300 in April). May's inventory of new single-family homes for sale represents a supply of 5.6 months at the current sales pace.

- **Manufacturing:** Following April's dismal report, industrial production increased 1.4% in May. Manufacturing, which had fallen 15.5% the prior month, pushed ahead 3.8% in May. However, total industrial production in May was 15.4% below its pre-pandemic level in February. Compared to May 2019, industrial production is down 15.3%, while manufacturing is off by 16.5% over the same 12-month period. Mining and utilities fell 6.8% and 2.3%, respectively, in May.
- New orders for durable goods followed April's 18.1% decline by advancing 15.8% in May. Transportation equipment drove the increase, surging ahead by 80.7% last month. However, excluding transportation, new orders increased 4.0%. For the year, new orders for durable goods have fallen 13.6%. New orders for nondefense capital goods (manufactured assets used by businesses to produce consumer goods) jumped ahead 27.1% in May, also driven primarily by a jump in transportation.

- **Imports and exports:** May saw energy prices swing higher, driving import prices up 1.0% after falling 2.6% in April. Imported crude oil prices advanced 31.7% last month after dropping 36.9% in April. Excluding fuel, import prices ticked up 0.1% in May. Since May 2019, import prices have declined 6.0%. The price index for U.S. exports rose 0.5% in May following a 3.3% drop the previous month.
- The international trade in goods deficit was $74.3 billion in May, up $3.6 billion from April. Exports of goods for May were $90.1 billion, $5.5 billion less than April exports. Imports of goods for May were $164.4 billion, $1.9 billion less than April imports.
- The latest information on international trade in goods and services, out June 4, is for April and shows that the goods and services trade deficit increased by $7.1 billion, or 16.7%. April exports were $38.9 billion, or 20.5%, less than March exports. April imports were $31.8 billion, or 13.7%, less than March imports. Year to date, the goods and services deficit sits at $168.5 billion, a decrease of $26.0 billion, or 13.4%, from the same period in 2019.

- **International markets:** Global markets rebounded in the second quarter on the heels of fiscal stimulus, easing of restrictions, and interest rates at 0% and below. By the end of March, world stocks had lost about 35.0% from their year-end highs. By the end of June, these same markets are within 10.0% of February's record highs. A spike in new virus cases could send world markets reeling again. While inflation remains muted in the United States, prices are slowly escalating in Europe, where longer-range forecasts see inflation rising to 1.0% — close to its highest level since early March. In Asia, the Nikkei 225 is up about 2.0% for the month, the Shanghai Composite Index has gained 2.2% for the month, and the Hang Seng Index has climbed nearly 5.0%.

- **Consumer confidence:** The Conference Board Consumer Confidence Index®

was little changed in May, coming in at 86.6, slightly above April's 85.7 reading. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — decreased from 73.0 to 71.1. However, the Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, improved from 94.3 in April to 96.9 last month.

Eye on the Month Ahead

While the stock market has pushed forward, indicators did not suggest the economy is on the upswing. As states ease restrictions and businesses reopen, the economy should begin the slow process of recovery. However, increases in the number of reported virus cases may prompt the imposition of restrictions, at least in some states, which could impact economic growth.

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. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.