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Issue 112 ***Summer Quarter, 2020***

Wow. What a great quarter. The resilience of the U.S. economy is something truly phenomenal to witness. As we all "battened down the hatches" for Covid-19 by staying home, not eating out, curtailing shopping trips, and not traveling, we evidently remained optimistic and continued building homes and purchasing goods. While the markets aren't fully back, they are close. The trip down for the markets in February and March was ugly, however we can at least breathe a sigh of relief given the rapid recovery. Markets will continue to fluctuate up and down as stocks rarely take a smooth path for long.

Privacy Statement. Enclosed with this report you will find our annual "Privacy" statement as required by the U.S. Securities & Exchange Commission.

Stimulus bill change to Required Minimum Distributions. The rule mandating retirees take their annual RMD (Required Minimum Distribution) from their retirement accounts has changed. No one is required to take an RMD in 2020.

If you wish us to stop your RMD, please call us. Per IRS guidance, if you have already made withdrawals you are able to put them back in your IRA if you wish. But it must be done by August 31, 2020. As always, you may wish to consult your tax preparer as well.

The coming election promises to heighten already elevated domestic tension as evidenced by the recent protests, looting, and civil unrest. Additionally, with nations such as China, Russia, Iran, North Korea, and others pushing their respective agendas, there will always be problems and issues internationally. Furthermore, the Covid-19 pandemic persists.

But despite the ongoing pandemic, one piece of good news continues to be that the U.S. consumer is obviously not tapped out. Americans are creating an economic rebound with apparent optimism for the future as evidenced by surprisingly strong spending.

Typically, sharp economic downturns and recessions are accompanied by worried consumers who defer purchases on durable goods. When serious concerns about the future arise, especially fear over job loss, people don't buy washers and dryers. They don't purchase automobiles, and they don't build new houses. Consumers do however continue to purchase non-durables like medicine, food, and toilet paper (if they could find it). This was very obviously not a typical downturn or recession. Through their purchase habits, the majority of consumers are clearly saying that they are not especially worried about the future, the economy, or their job. Housing starts are remarkably strong — a home is the ultimate "durable" good. The American consumer

seems to be the basis for the powerful market recovery, stronger than anyone we are aware of anticipated.

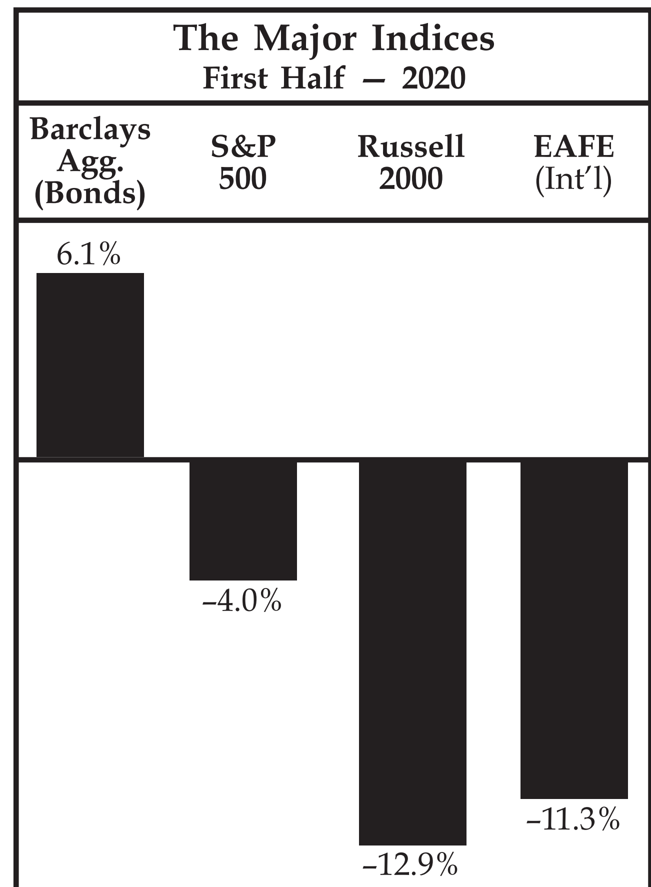
Longer-term factors are more complicated. When will the unrest in the streets of America end? Will a vaccine for Covid-19 be developed? Will future outbreaks of influenza or other diseases create the same panic as Covid-19? Additionally, most market analysts believe that a Biden presidency would be a negative for the stock market with higher taxes and increased regulations which Mr. Biden indicates he embraces. These factors, if he is elected, could indeed prove to be a long-term negative for stock market performance as businesses and consumers attempt to adjust to a significantly different approach to capitalism.

Most analysts credit the more business-friendly policies of President Trump with the improved economic and market performance prior to the pandemic. So the election results are certainly a worry for the market.

As we stated in our last newsletter recalling the old axiom, "The markets climb a wall of worry." It has proven to be very true once again, the market climbed that wall. We are optimistic, but we will be relieved when the elections are in the rear-view mirror and a vaccine for COVID-19 has been developed. This would give market participants less to worry about.

Unfortunately, it appears all politicians spend aggressively. If you look at interest rates, be assured the government will use whatever tools are at their disposal to maintain low interest rates so that the interest on their massive borrowing binges will not swamp our collective boat. Assuming massive amounts of debt slowly devalues the U.S. dollar and diminishes your purchasing power, it will not likely devalue the stock market for many years from now.

Market Review and Forecast. The S&P 500 jumped 20% last quarter, its best quarter since 1988, after plunging 20% the first quarter. It was the first time since 1932 and only the third time ever that stocks had a quarterly gain of 20% or more after a previous quarterly 20% or more fall. As a result, the S&P 500 is only down 4% for 2020 through June 30. The Dow Jones Industrial Average was up 18%, its top quarterly rise since 1987.



Small companies, as represented by the Russell 2000 index, had a superb quarter, up 25.4%. But after their horrendous 31% dive the first quarter they are still down 13% this year. As has been typical for several years, international stocks lagged. The EAFE index gained 14.9%, but has still lost 11% this year.

Our decision last year to more closely correlate performance with the S&P 500 while reducing international and small cap exposure has paid off. We hope you are pleased with the result.

After dropping 34% in five weeks, the S&P 500 rose an incredible 45% from March 23 to June 10 before losing 6% in one day June 11 as the market finally focused on the ever-increasing number of Covid-19 cases, hospitalizations and deaths. `

However, near-zero interest rates, increasing manufacturing activity, lower-than-expected unemployment numbers, rising oil prices, and most-of-all, rapid expansion of the money supply, all contributed to helping stocks move higher last quarter.

Manufacturing numbers for June were stronger than expected. The 52.6 reading (any number over 50 indicates expansion) was much higher than May's 43.1 rating and better than the 49.2 monthly forecast.

The prediction that 3.1 million jobs would be added in June was much lower than the actual 4.8 million that were created. The unemployment rate fell from 13.5% in May to 11.1% last month. It had reached the highest rate since the 1930s at 14.7% in April when 22 million jobs disappeared.

Oil prices nearly doubled last quarter as they rose to almost $40 a barrel. Energy- company stock prices jumped 32% for the quarter but were still down 35% so far this year.

The Fed and the federal government have literally flooded our economy with money. Besides expanding its balance sheet by more than $2 trillion last quarter, the Fed set up the $500 billion Municipal Liquidity Facility May 26 to lend money to state and local governments. Illinois, by far the state that is most in debt, quickly took advantage of it, borrowing $1.2 billion June 5 at 3.82%.

And with the Federal government doling out $2 trillion in record speed through the CARES act, the personal savings rate hit a historic 33% in April according to the U.S. Bureau of Economic Analysis. The previous record savings rate was 17.3% in May 1975. A good chunk of this money buoyed the stock market either indirectly through purchasing good and services, adding to corporate profits, or directly, as many Americans decided to use their "found" money to invest. The investing app Robinhood, with its average user only 31 years of age, opened up 3 million new accounts in the first quarter alone and trading volume for March was double the previous year. The trading mania continued in April with a 50% increase from the previous year.

With inflation non-existent (consumer prices dropped fractionally each month from March to May) and interest rates at the lowest level ever, Uncle Sam increased his debt by $2.62 trillion in 3 months between March 13 and June 11. U.S. citizens now owe $26.06 trillion and counting (a trillion seconds is about 31,500 years). Given the incredible low interest rates now, servicing the debt is not a problem. But it could prove troublesome if and when interest rates move up to more normal levels.

As the pandemic continues, Texas, Arizona, California and Florida were just four of the states that tightened restrictions on their economies. Florida reported more than 10,000 new daily cases the week of July 4 and Miami even closed its beaches.

In spite of these setbacks, stocks rallied 4% the first week of July. The market seems focused (as it usually is) on the future, not

the present. And there is very good news about potential vaccine development but it is optimistic to expect that one will be widely available before year end. Also, given the massive amounts of money created by both the Fed and Uncle Sam, this stock-market rally may push even higher once it is apparent that we can soon return to normal activity. But it is always possible that the market could suffer a significant setback before moving higher.

Interest Rates. The 10-year U.S. treasury bond ended the quarter yielding only 0.66%. As a result, home mortgage interest rates are the lowest ever with 15-year rates at 2.625% and 30-year rates at only 3.125%. Locally, many real-estate agents report the best sellers' market ever.

Low interest rates are good for borrowers and the stock market, but not good for savers. The Fed initiated aggressive zero-interest rate policies with Quantitative Easing (QE) in 2009 and they have continued since. That factor is critical to note as we plan for the future. For the foreseeable future, do not expect higher interest rates for Certificates of Deposit, money markets, or even bonds. The Federal Reserve has created tools to keep interest rates low and you may be assured it will use them.

So who pays the price? The "cost" is borne by retirees living on a fixed income who want safety of their principal and some interest paid to them for the use of their money. It appears that the government has decided since they are completely uninterested and unable to control spending and tighten its belt, retirees and fixed income investors will have to tighten theirs.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.

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