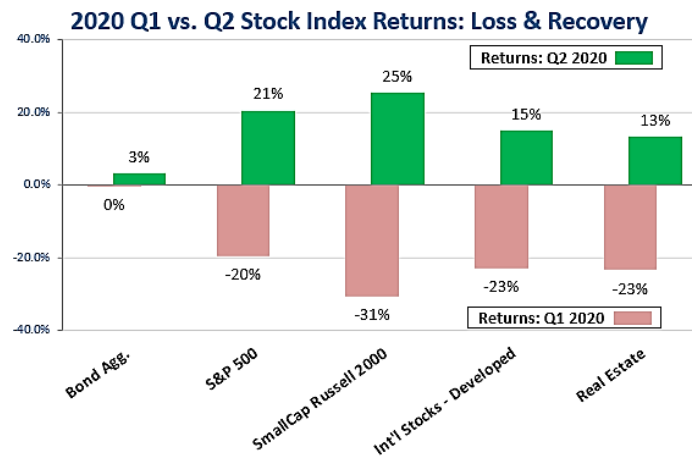


Q3 2020 – Market Overview Newsletter

The first half of 2020 will be remembered as extraordinary, commonly referring to new terms like “Social Distancing” and “Flattening the Curve”! Stay at home orders and social distancing measures brought about by the pandemic plunged the U.S. into a fast and deep recession. Political tensions continue to rise with the upcoming election looming and ongoing nationwide unrest in the wake of the killing of George Floyd. However through this historic first half of 2020, massive government stimulus has softened the negative impacts of the recession and despite a sharp bear market move in stocks through February and March, the U.S. stock market staged an incredible recovery during the second quarter.

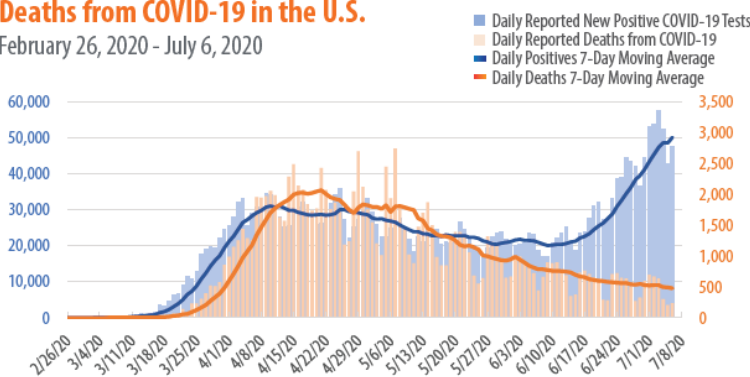
The recession is a tale of two sides. Many businesses and workers are suffering from the impact of the pandemic while others are thriving due to the sociological change in consumers. The current consumer reliance and demand on various technology interfaces (e.g. Amazon, grocery delivery, Netflix, and Zoom), have allowed many companies to flourish. Amazingly, with many parts of the economy at a relative standstill, stocks moved higher in the second quarter and the S&P 500 index soared 21% having its biggest one-quarter surge since 1998. However, the recovery in stocks is not widespread and returns vary greatly by sector. Of the 10 sectors in the S&P 500 index, only two have positive returns year-to-date with technology leading the charge at over 15%. The S&P 500 is predominantly comprised of large-cap U.S. stocks, and is not always an accurate depiction of the overall stock market or a diversified portfolio. But the current divide between winners and losers creates an opportunity for active managers.

Not all capital markets have recovered as rapidly as the S&P 500. International stocks for instance, declined 23% in the first quarter and recovered only 15% in the second quarter. The variation in performance and the significant strength in the U.S. dollar add to the argument that international stocks remain attractive relative to U.S. stocks. If international currencies strengthen compared to the U.S. dollar, international stocks generally are rewarded.



Daily Reported New Positive COVID-19 Tests vs. Daily Reported Deaths from COVID-19 in the U.S.

February 26, 2020 - July 6, 2020



Source: Covidtracking.com

Although the U.S. stock market seems to have priced in a quick recovery and is already looking forward to 2021, the pandemic is not over. In recent weeks there has been an increase in reported positive COVID-19 cases. While any life lost is tragic, the mortality rate fortunately has not seen a similar increase (see graph). Where we go from here is dependent on the pandemic, but the consensus view is that we will not have another economic shutdown like we experienced in March, April, and May.

The U.S. economy has begun to show signs of improvement as stay-at-home orders ease and many businesses reopen. The unemployment rate hit a staggering 14.7% in April before recovering to an 11.1% unemployment rate as of June 30th and is projected to fall below 10% by year-end. As Federal Reserve Chairman Jerome Powell said when testifying in front of the House Financial Services Committee, “Output and employment remain far below their pre-pandemic levels. The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus. A full recovery is unlikely until people are confident that it safe to reengage in a broad range of activities”. It is widely expected there will be additional stimulus, furthering government support to minimize the impact of the pandemic recession.

The U.S. is not faring as well as other countries in containing the virus, yet the U.S. stock market (measured by the S&P 500 index) has nearly fully recovered. This remarkable recovery leaves many investors to wonder if the stock market at these levels are sustainable or if we will see another correction. Predicting the direction of the market in the short-term is difficult, but it is likely the markets are at vulnerable levels and will become increasingly volatile if the number of coronavirus cases keep rising or if some proposed virus treatments and vaccines fail. Although the timing of an available vaccine is unknown, all scientists and epidemiologist do believe a vaccine is forthcoming. The economy will fully recover towards prosperity again. “Time in the market is more important than timing the market”.

-LS

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A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP).

The unemployment rate percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy which is usually accompanied by higher inflation rate and may call for increase in interest rates.

The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

International investing involves special risks, including, but not limited to, the possibility of substantial volatility due to currency fluctuation and political uncertainties. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

S&P 500 Index: an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The securities represented in this index may experience loss of invested principal and are subject to investment risk.