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John R. Taylor, Jr.
President & CEO

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Quarterly Market Review: April – June 2020 (July of 2020 update)

Dear Client,

Emotions, optimism, and momentum are all extremely powerful. What better example than what we have seen since the middle of March. So, we feel it is important to once again remind ourselves that; t*he economy is not the market and the market is not the economy*.

Stocks in the second quarter 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. Despite the gloomy news on the economic and pandemic fronts, stocks continued to post gains in July. Investors continued to trust equities despite the gross domestic product falling nearly 33.0% in the second quarter, mixed quarterly corporate earnings results, emerging pandemic hot spots, growing unemployment claims, and ongoing turmoil between the United States and China.

On the positive side, 4.8 million new jobs were added in June and another 1.8 million in July. The housing sector surged, and industrial production continued to rebound. Energy stocks, which had plunged in May, rebounded in June and continued to keep pace in July. By the close of trading on July 31, the price of crude oil (CL=F) rose to $40.41 per barrel, after collapsing into negative territory on April 20. Several companies have also made announcements of progress toward either treatments or a vaccine and continue to work at an exhausting pace.

In addition, we are very pleased with the results of the rebalancing and tactical adjustments we made to your portfolios over this past quarter. We did not panic during the sell off and took advantage where we could to improve your asset-allocation and positioning going forward. As we had anticipated, the markets have rebounded and, in some cases, reached new highs. Though this is wonderful to see, it has happened much faster than anyone expected and is likely to lead to continued volatility.

With this in mind, we continue to see some very formidable challenges and volatility ahead. One would anticipate that the markets have an increased likelihood of pulling back before the end of the year. The COVID-19 pandemic continues to dominate nearly every aspect of life. Some states are seeing the number of reported cases soar and have considered (and, in a few cases, enacted) partial lockdowns. State and local communities around the country are in a last-minute struggle to decide whether to have students come back or stay remote. Many employers are still deciding how to move forward with working remotely while others are simply struggling to reopen. If this was not already exciting enough, let's add the coming election to the equation.

However, investors continue 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.

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.

Stock Market Indexes 6-31-2020

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-yr 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.

Stock Market Indexes 7-31-2020

Market/Index	2019 Close	Prior Month	As of July 31	Month Change	YTD Change
DJIA	28,538.44	25,812.88	26,428.32	2.38%	-7.39%
Nasdaq	8,972.60	10,058.77	10,745.27	6.82%	19.76%
S&P 500	3,230.78	3,100.29	3,271.12	5.51%	1.25%
Russell 2000	1,668.47	1,441.37	1,480.43	2.71%	-11.27%
Global Dow	3,251.24	2,821.05	2,920.53	3.53%	-10.17%
Fed. Funds	1.50%-1.75%	0.00%-0.25%	0.00%-0.25%	0 bps	-150 bps
10-year Treasuries	1.91%	0.66%	0.53%	-13 bps	-138 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 increased by 4.8 million in June after adding 2.5 million jobs in May. Notable job gains occurred in leisure and hospitality, education and health services, retail trade, manufacturing, and professional and business services. The unemployment rate dropped 2.2 percentage points to 11.1% for the month as the number of unemployed persons dropped by 3.2 million to 17.8 million. Although unemployment fell in May and June, the jobless rate and the number of unemployed are up by 7.6 percentage points and 12.0 million, respectively, since February. In June, average hourly earnings fell for the second consecutive month, decreasing by $0.35 to $29.37, primarily due to job gains among lower-paid workers. Average hourly earnings increased by 5.0% over the last 12 months ended in June. The average work week decreased by 0.2 hour to 34.5 hours in June. The labor participation rate for June increased 0.7 percentage point to 61.5%. The employment-population ratio rose by 1.8 percentage points to 54.6% last month.

- Claims for unemployment insurance began to drop in June and July following May's historic levels. Nevertheless, as of July 18, there were over 17 million workers still receiving unemployment insurance. The insured unemployment rate was 11.6% as of July 18. The largest increases in initial claims for the week ended July 18 were in Louisiana (+5,728), Virginia (+5,654), California (+4,680), Tennessee (+3,713), and Alabama (+3,113). During the week ending July 11, 46 states reported 12,413,322 individuals claiming Pandemic Unemployment Assistance benefits, and 46 states reported 1,055,098 individuals claiming Pandemic Emergency Unemployment Compensation benefits.
- **FOMC/interest rates:** The Federal Open Market Committee held its regularly scheduled meeting at the end of July and unanimously voted to hold the target range for the federal funds rate at its current 0.00%-0.25%. Although the FOMC

noted that economic activity and employment have picked up somewhat in recent months, they remain well below their levels at the beginning of the year. It was also noted that the ongoing public health crisis caused by the COVID-19 pandemic will weigh heavily on economic activity, employment, and inflation in the near term. The FOMC expects to maintain this rate until it is confident the economy has weathered the recent events. The FOMC isn't scheduled to meet again until September.

- **GDP/budget:** According to the advance estimate for the second-quarter gross domestic product, the economy decelerated at an annualized rate of 32.9%. The GDP decreased 5.0% in the first quarter. Stay-at-home orders issued in March and April in response to the COVID-19 pandemic greatly impacted the economy. Consumer spending was a big drag, falling 34.6%, reeling from the initial effects of the COVID-19 pandemic. Fixed investment fell 29.9% in the second quarter (-1.4% in the first quarter), and nonresidential fixed investment dropped 27.0% in the second quarter, compared to a 6.4% decline in the prior quarter. Exports were down 64.1%, and imports sank 53.74%. Nondefense government expenditures increased 39.7% due to stimulus spending programs initiated in response to the pandemic.
- The Treasury budget deficit may have come in smaller than expected in May, but it surged in June. The deficit was $864.1 billion, exceeding the June 2019 budget deficit by nearly $855 billion. Government spending reached $1.1 trillion in June. Through the first nine months of fiscal 2020, the deficit is $2.74 trillion. Over the same period for the previous fiscal year, the budget deficit was $744.1 billion.
- **Inflation/consumer spending:** According to the Personal Income and Outlays report for June, personal income and disposable (after-tax) personal income fell 1.1% and 1.4%, respectively. This followed May's decreases of 4.4% (personal income) and 5.1% (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 June, as personal consumption expenditures increased 5.6% after climbing 8.5% in May. Inflation remains muted as prices for consumer goods and services rose a scant 0.8% in June after creeping ahead 0.1% the previous month. For the past 12 months, consumer prices are up a mere 0.8%.
- Following three consecutive monthly declines, consumer prices rose 0.6% in June, according to the Consumer Price Index. Year to date, consumer prices are up 0.6%. Gasoline prices surged in June, climbing 12.3%. Excluding food and energy, consumer prices increased 0.2% for June and 1.2% over the last 12 months.
- Prices that producers receive for goods and services declined 0.2% in June after climbing 0.4% in May. Year to date, producer prices are down 0.8%. In June, the decrease in overall producer prices was driven by a 0.3% decline in prices for services. Producer prices for goods rose 0.2%.
- **Housing:** The housing sector posted strong sales numbers in June. Sales of existing homes jumped 20.7% last month after plunging in May and April. Over the 12 months ended in June, existing home sales are down 11.3% (-26.6% for the 12 months ended in May). The median existing-home price in June was $295,300 ($284,600 in May). Unsold inventory of existing homes represents a 4.0-month supply at the current sales pace, down from 4.8 months in May. Sales of existing single-family homes vaulted 19.9% in June over the previous month, but are off 9.9% from a year ago. After climbing 16.6% in May, sales of new single-family homes surged again in June, increasing 13.8% for the month. The median sales price of new houses sold in June was $329,200 ($317,900 in May). The average sales price was $384,700 ($368,800 in May). June's inventory of new single-family homes for sale represents a supply of 4.7 months at the current sales pace.
- **Manufacturing:** Total industrial production rose 5.4% in June after increasing 1.4% in May; even so, it remained 10.9% below its pre-pandemic February level. For the second quarter as a whole, the index fell at an annual rate of 42.6%, its largest quarterly decrease since the industrial sector retrenched after World War II. Manufacturing output climbed 7.2% in June, as all major industries posted increases. The largest gain, 105.0%, was registered by motor vehicles and parts, while factory production elsewhere rose 3.9%. Mining production fell 2.9%, and the output of utilities increased 4.2%. Total industrial production was 10.8% lower in June than it was a year earlier.
- New orders for durable goods followed May's 15.1% increase by climbing 7.3% in June. Transportation equipment, up for two consecutive months, again drove the June increase, surging ahead by 20.0%. Excluding transportation, new orders increased 3.3%. Excluding defense, new orders increased 9.2%.
- **Imports and exports:** The price index for U.S. imports rose 1.4% in June, following a 0.8% increase in May. Both the June and May advances were driven by rising fuel prices. U.S. export prices also increased 1.4% in June, after advancing 0.4% the previous month. Year to date, import prices are down 3.8%, while export prices have fallen 4.4%.
- The international trade in goods deficit was $70.6 billion in June, down $4.6 billion from $75.3 billion in May. Exports of goods for June were $102.6 billion, $12.5 billion more than May exports. Imports of goods for June were $173.2 billion, $7.9 billion more than May imports. Exports of motor vehicles increased 144% in June over May. Imports of motor vehicles climbed 108% in June.
- The latest information on international trade in goods and services, out July 2, is for May and shows that the goods and services trade deficit was $54.6 billion, an increase of $4.8 billion, or 9.7% over the April deficit. May exports were $6.6 billion, or 4.4% less than April exports. May imports were $1.8 billion, or 0.9% less than April imports. Year to date, the goods and services deficit sits at $223.4 billion, a decrease of $23.3 billion, or 9.1%, from the same period in 2019.
- **International markets:** After much haggling, European Union leaders agreed to a historic $858 billion recovery fund to help rebuild EU economies decimated by the pandemic. The stimulus is much needed, particularly after eurozone gross domestic product fell 40.3% in the second quarter, pushing Europe into recession territory. British stocks fell in July as the FTSE 100 lost roughly 3.0%. The Hang Seng Index declined nearly 1.7% for the month. China's gross domestic product rebounded from the initial impact of the COVID-19 virus, expanding 11.5% in the second quarter after falling 9.8% in the first quarter.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® decreased in July after increasing in June. The index stands at 92.6, down from 98.3 in June. The Present Situation Index — based on consumers' assessment of

current business and labor market conditions — improved from 86.7 to 94.2. However, the Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, decreased from 106.1 in June to 91.5 last month.

So, while the 2nd quarter proved positive and hopeful, we should not be surprised if markets are off by the end of the year. While we currently prefer US Stocks to International, Large Cap Stocks to Small, and Government Bonds to Corporate, we will examine these preferences and the positions that you hold on an ongoing basis and make changes accordingly.
There is much yet to be resolved. However, looking back at 2019 performance and keeping in mind that our investments are for the long term, we are more than comfortable with our current positions.

We hope that you have been able to enjoy your summer and are anticipating the upcoming Labor Day holiday. As always, please call with any questions or concerns.

Warmest regards,

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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. 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.

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