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July 1, 2020

Market Update
Second Quarter, 2020

I hope this update finds you and your loved ones safe and healthy.

The stock market performed very well during the second quarter of 2020. As measured by the S&P 500, the market gained 20%. According to the Wall Street Journal, this was the best quarterly performance that we have seen since the last three months of 1998. Of course, this is a rebound after the steep declines that we saw in February and March.

Many investors have questioned why we have seen the stock market rebound so much while we are in a recession due to the pandemic. These are the main contributors:

- The massive fiscal stimulus passed by Congress (The CARES Act). Unprecedented in size and scope, the legislation was the largest-ever economic stimulus package in U.S. history, amounting to 10% of total U.S. gross domestic product (roughly $1.8 trillion). The bill was much larger than the $831 billion stimulus act passed in 2009 as part of the response to the Great Recession.

- Unprecedented action by the Federal Reserve and central banks worldwide. The Fed has cut interest rates to basically zero, and created backstops in the credit markets to provide additional liquidity, up to an additional $2 trillion. In some fixed income markets, there is no set limit on the amount of credit that can be extended.
- The markets are anticipating a V-shaped recovery as we start to reopen the economy across the nation. It's common for markets to be way ahead of the economy. In fact, according to Argus Research, there have been 11 recessions (not including the one we are in) since World War II. In every case, the markets were going up while in the economic recession. In the current situation, the market has increased by about 39% since the market lows on March 23, 2020.

We are just starting to get economic data that may validate a V-shaped economic recovery. For the month of May, new home sales increased by more than anticipated during the month, rising by 16.6 percent. Expectations had been for a more modest 2.7 percent increase. Personal spending saw the biggest increase on record, rising 8.2%. As of June 20th, initial jobless claims have been declining for 12 straight weeks. We have a long way to go and we are not out of the woods yet, but it is encouraging to see that things may be improving.

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If the market volatility has caught you off guard and you have experienced more anxiety from market volatility than anticipated, let me know. With the rapid market recovery that we've seen, there may be opportunity to sell investments to cover large, unanticipated expenses or rebalance into a more conservative strategy. In most cases though, it's typically best to stick with your investment plan to work towards creating the best long-term outcomes.

I do anticipate the market to remain volatile for the remainder of the year and maybe longer. The market will continue to react to positive and negative news regarding the pandemic. Drama in Washington and upcoming elections will also create more economic uncertainty which will likely create headline risk.

In the next several years, it's likely the economy will fully recover, unemployment should fall dramatically and we will return to "normal" day-to-day activities (I can't wait to watch sports on TV again). All of the economic stimulus I mentioned earlier could create a very strong economic recovery. And I am convinced that because of this pandemic, we will see many medical and technological breakthroughs that will enhance our standard of living going forward. Stay tuned.

We will always remember this time in our history, and likely look back and say "those were tough times, but we got through it and there were better days ahead".

Stay safe and healthy.

Sincerely,

Mike

Mike Ovshak, CFP®
President/Owner