CLIENT BRIEFING

QUARTERLY ECONOMIC COMMENTARY | Q2 | 2020

With massive support from the Federal Reserve, the federal government, and the reopening of previously closed businesses, employment in May unexpectedly surged a record 2.5 million. The private sector fared even better, gaining 3.1 million (U.S. Bureau of Labor Statistics).

In his testimony before House committee on June 30, Fed Chief Jerome Powell said “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 is safe to reengage in a broad range of activities.” These words suggest that the Fed will keep interest rates at bay for quite a while.

The strong rebound in stocks since the late-March low is astounding given the economic damage. We believe investors are looking past this year’s hit to corporate profits and are expecting an upturn in 2021. The S&P 500 index of large companies is now down just 4% for the first half of the year, in large part due to a booming technology sector. By comparison, the Russell 2000 index of the smallest-cap US companies lost 13.6% for the same period. Foreign stocks of developed countries fell about 12.7% while emerging market stocks gave back 10.7%

While the COVID-19 shock wreaked havoc on the stock market, it almost broke the bond market – and that is a much more serious issue for the economy. Bond investors scrambled for cash, causing the natural relationship between credit spreads to break down. Many large investors who used borrowed funds to purchase stocks were suddenly forced to sell high quality bonds to cover their positions. It took decisive action from the Fed to help resuscitate the bond market. For the first half of the year, investment grade corporate bonds and government inflation bonds (TIPS) were among the best performing asset classes. They gained about 6% with longer-duration bonds faring even better. Bonds will continue to play an important part in portfolio construction as they help cushion declines in volatile markets.

Buying stocks at market bottoms and selling only when prices are high is difficult, if not impossible. A better strategy is to focus on your investment goals, your risk tolerance and how long you plan to invest. Over the 50-year period ended December 31, 2019, stocks have averaged a 10.59% one-year return (2020 Morningstar, Standard and Poor’s). But you can’t expect that return every year.

We understand the uncertainty facing all of us. We are grappling with an economic and a health care crisis. It’s something none of us have ever faced. We have addressed various issues with you in this commentary. If you have any questions or concerns, let’s have a conversation. That’s what we’re here for and we’d love to hear from you. Stay well and enjoy the summer.

Miller Wealth Advisors

Planning for life. Preparing for a lifetime.

Sources:
-Wall Street Journals US Stocks Outpacing World, 5/31/20
-Horsesmouth: July Letter, 7/1/20
-Valmark: TOPS Quarterly Forum, 7/9/20