FINANCIAL FOCUS

PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

## Second Quarter 2020

July 1, 2020

## *QUARTERLY MARKET RECAP*

What goes down, must come up! Following the worst quarter on record for the markets, we've witnessed a spectacular recovery. In just five short weeks indexes lost between 30% and 45%. But in only about twelve weeks it was all but erased. For the last quarter, the DJIA recovered 17.77%, the S&P 500 launched 19.95%, the NASDAQ rocketed 30.63%, the Russell 2000 increased 25.00%, and foreign equities gained 16.33%. As dramatic as the first quarter plunge was, so too was this rebound. Fed policy has been a key driver of this and the Barclay's Aggregate Bond Index rose to a 3.05% gain. As we mentioned in our last newsletter, markets do not price current conditions; they look forward to an expectation of economic position two to three quarters down the calendar. As such, today's market behavior is a commentary on the collective investor class's expectation of our economy emerging from its coma and what conditions will be like in the early part of 2021. While it is still beyond dispute that the global economy, and America's along with it, has endured a recession we are just now in, it looks to be short-lived. The two risks the market must address is the chance that the re-opening of the economy will not go quickly enough, or that once re-opened, a second wave of infections will lead to another closure.

*THIS CURRENT CORONAVIRUS RECESSION WILL BE SHORT BUT VERY IMPACTFUL.*

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- Unwinding some of the government's programs in reaction to this economic hit will be difficult.
- Some methods of doing business will be forever changed.

## *AMERICA'S INNOVATIVE AND FLEXIBLE ECONOMIC SYSTEM DID PROVE ITS WORTH IN THIS CRISIS*

During the first quarter's market meltdown we preached keeping a level head while those around us were losing theirs, and that the panic-driven selling would abate and our investments would recover. All of that has turned out to be true, but even we were astonished at the rapidity of that recovery. The major indexes have either gone to new highs, or sit very near all-time highs.

Unemployment remains high, but is improving weekly, as is manufacturing. The greatest risk to a more robust improvement is something we touched on in our last letter. Adding $600 per week to the normal benefit has created conditions whereby many workers are being called back to their jobs, but are refusing to take them because they are now making more money courtesy of the taxpayers to stay home. This is idiotic, but completely predictable – in fact, we did predict it – see our last letter. We've read countless reports going back over a month now where employers are ready to resume operations but their employees won't come in to do the work. Incredibly, the very politicians who insisted on inserting this perversion in the CARES Act are now calling for it to be extended beyond its July 31 expiration date in a subsequent relief package. Could it be that they actually want Americans to be dependent on government?

Further, after the already trillions of dollars doled out in this crisis, even more trillions are being debated, all while the economy is already healing itself at a pace no one would have imagined a few months ago. Might we suggest we allow this to play out before opening the spigots even wider? Is anyone in Washington concerned about the added debt burden and increased intrusion into the private sector? As Ronald Reagan once said, the nearest thing on Earth to eternal life is a government program. He was right.

But with all the disruptions the economic lockdown has created, some conditions will have enduring impact. Zoom meetings, home offices, eliminated commutes and other recent necessities are proving to be effective work techniques that for many employees will continue beyond into a fully reopened economy. Savings in terms of company overhead will add to bottom-line profits and many corporations will not go back to the old model of centralized office space. This will cause formidable disruptions for certain segments, most notably office space related jobs and investments, convention centers, business travel and even the business clothing industries. But as has always been the case with the forces of creative destruction, other new areas of opportunity will emerge to supplant those lost.

Another structural change that has come to the forefront of people's thinking and that has to do with the global supply chain and our lop-sided dependence on sometimes hostile countries as trading partners. There are critical public health and national security items that really should be supplied by only domestic sources or highly-trusted ally countries' companies. This requires a comprehensive strategic plan to address a non-disruptive migration to self-reliance.

The federal government is already working on developing a list of just these types of raw materials, intermediate components, and finished products in crafting a broad-based program of home-grown development. This will create employment opportunities for those coming out of the aforementioned displaced industries, for example redundant commercial real estate brokers and leasing agents.

Other fundamental and permanent shifts in thinking are emerging. Much of the world is not very happy with China at this point. The first case of the virus can be traced in China to November 17, according to the South China Morning Post. Each day new cases were reported by health authorities there but rather than share this information with the rest of the world so we could prepare, Chinese Communist Party officials covered it up and even punished the doctors who reported them, all aided and abetted by the World Health Organization. China vastly underreported their own infection rates, giving the impression the virus was not as deadly as it was. The result was serious time squandered for other governments deprived of taking early precautions, increasing the severe effects on populations. This was not lost on many nations who suffered the most severe outbreaks. To add insult to injury, China then made great theater of riding to the rescue of other countries, notably Italy and other hard-hit European countries, by sending them supplies. But many of those supplies were defective. These countries are not amused.

No one can predict at this juncture how this will play out, but the inherent flexibility and innovation of the free enterprise system will allocate human capital and other resources in a very efficient manner. Further, these new domestic producers will provide opportunity for investors, and entire related sub-industries will sprout up as support.

It seems that world events occasionally occur which disrupt the previous order of things and change forever how we do what we do. The previous one was the travel and security implications of global terrorism. This one happens to be the prospect of health pandemics as this will not be the last one of those. No one knows what the next big disrupting event will be, but due to global integration, communication and immediate information dissemination we can be assured whatever happens will have worldwide effect and not just be isolated to our own country.

*"The future has a way of defying prediction."*

*- Jay Leno*



## ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we've specialized in portfolio management over the last several years, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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