FINANCIAL FOCUS

PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

Third Quarter 2020

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QUARTERLY MARKET RECAP

The second quarter market recovery kept going until September, adding additional value to portfolios. September's pullback was both warranted and welcome, as indexes had gotten a bit ahead of themselves and strong gains need consolidation. For the last quarter, the DJIA added 7.63%, the S&P 500 rose 8.47%, the NASDAQ tacked on 11.02%, the Russell 2000 increased 4.60%, and foreign equities gained 5.95%. Early Fed stimulus leveled off, which had driven fixed income gains, but the Barclay's Aggregate Bond Index still managed to edge up 0.65%.

Improving employment conditions cooled their pace of recovery, but still post moderate advances, with the unemployment rate now standing at 8.4%, down from 15%. Inflation is muted and the Fed has made it clear there will be no rate increases for three years (we think it's foolish to base policy that far out on current conditions but they've done it) and they will work toward a 2% inflation rate.

We see minimal risk of contraction due to increased infections leading to more economic restrictions. However, this recession we are now in is by no means through its cycle and the greatest risk is from a reversal of the growth-inducing policies of the last three years that led to the strong pre-pandemic economy.

OUR CURRENT CORONAVIRUS RECESSION STILL HAS A WAY TO GO TO ACHIEVE FULL RECOVERY.

FOR BETTER OR WORSE, GOVERNMENT POLICIES SET THE STAGE FOR ECONOMIC SUCCESS OR FAILURE

It's worth recapping some economic data as we head into the November elections, because the choices we make at the ballot box will determine the economy we'll have.

Our economy was humming on all cylinders prior to the COVID crash and that didn't happen by accident or due to some time-induced cycle. It happened as a result of specific, distinct policies that replaced the previous ones the economy operated under. And it was only interrupted a couple quarters ago because we entered into a self-induced economic coma. We're emerging from that, but success relies on us not reversing those specific policies.

As we've stated many times, an atmosphere of light regulation, low marginal tax rates, stable monetary supply, robust trade and restrained government spending creates a platform for business expansion leading to improved employment conditions and further investment risk-taking. We're not doing well with the government spending, and the robust trade has taken a beating recently, but the two real improvements of the last three years have been in reducing growth-constricting regulations and allowing people and businesses to keep more of their income through stimulative tax rates. The result of this has been strong corporate earnings leading to record stock values, rising GDP, and the best labor market in over 50 years. We already hit new market highs just a month ago, and are barely off them now, and will more quickly recover back to that strong labor market if we stick to those policies.

The Census Bureau recently reported that median household income rose in 2019 by 6.8%, which was the largest increase on record, and more than 50% better than all of the eight years of the previous administration. Further, the bulk of those gains occurred among lower and middle-income earners. Increases for Hispanics were 7.1%, blacks 7.9%, Asians 10.6% and foreign-born workers 8.5% compared to 5.7% for whites. This rising tide lifted all boats, but the smaller ones higher. Labor force participation rose significantly with the total number of Americans with employment earnings increasing 2.2 million. Median earnings for women increased 7.8% and 2.5% for men.

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- Strong economic performance does not happen by accident. It is a direct result of government policies either restricting growth or allowing it to flourish.

The prime-age labor participation rate rose up to 83.1% by January of 2020. When President Obama left office in January of 2017 that stood at 62.8% That's a lot of extra people earning paychecks and not welfare checks. Poverty fell 1.3% to the lowest level since 1959 and declined most for minorities, single mothers and those with disabilities. Family household incomes increased leading to child poverty rates declining to 14.4% from 16.2% in 2018 and 18% in 2016. Last year's child poverty rate decline alone was twice as much as the entirety of the Obama years. Income inequality declined last year with the bottom quintile's share of income rising 2.4% helping lower-earners rise into the middle class.

Government policy changes are what made this happen. Previous obsession with income redistribution and heavy regulations retarded business investment and growth. High corporate taxes trickle down to hurt both workers and shareholders, as companies don't pay taxes – they pass that burden on. Lower tax rates in 2017 stimulated investment in our workforce. And rationalizing taxation of overseas profits encouraged companies to repatriate earnings. Immediate business expensing led to capital investment creating a surge in job creation and productivity gains. Employers competed for workers by offering increased compensation, leading to a pre-pandemic unemployment rate of 3.6%.

Energy deregulation led to a surge in oil and gas production, making America a net exporter of petroleum products, allowing for new freedom to advance our interests in the Middle East and elsewhere, along with providing inexpensive energy to power our economy. Unnecessary and burdensome banking industry regulations were also rolled back spurring lending growth without damaging any financial industry infrastructure.

These policies delivered the as-advertised growth. From the end of 2017 when the laws codifying these policies into place were passed, the economy grew by more than 3%, with spurts of better than 4%. This is almost double the rate of growth in the previous eight years.

The major misstep of the Trump Administration has been on trade, and while some damage was done there, we now have a new North American agreement and a first phase agreement with China that has put those impediments on the back burner, and it doesn't look like further trade squabbles are on the agenda for the next few years. And, we've got to get serious about out-of-control government spending. But the tax rate reductions didn't exacerbate deficits and the public debt. Tax receipts all along into 2020 were at record levels. It's the crazy spending without regard for ever paying it back that is the culprit.

This pandemic will eventually end, perhaps sooner than we think, and the labor markets are recovering nicely. The question before us in this election season is what kind of economy we want when we emerge from this. One of continued growth, or one that slides back into the sluggish period before that?

"When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity."

- President John F. Kennedy

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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