FINANCIAL MARKETS UPDATE

June 17, 2020

As the economy reopens, investors are shifting their attention to the shape of a recovery. It is difficult and confusing to connect the dots between public health and safety, a labor market under stress, geopolitical tensions, social unrest, and a rising stock market. While heightened market volatility is expected, relative economic improvement gives a forward-looking reason for the stock market to be optimistic. It might turn out that May was the month of transition.

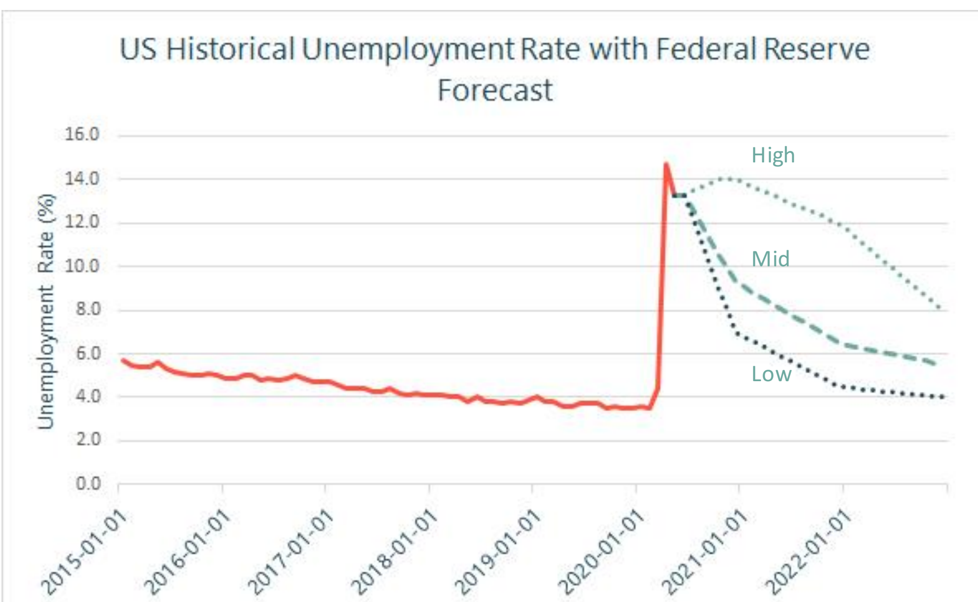
Much of this improvement is due to enormous fiscal stimulus to markets, individuals and businesses. In less than a year, 479 stimulus policy announcements worldwide have been a backstop to economic shutdowns. Zero interest rates, record breaking personal savings rate, higher on-average investor allocations to bonds, and acceleration of re-openings are all contributing to market liquidity -- and prospects for long-term investment into the stock market.

Another wave of infections followed by a new round of lockdowns will undoubtably create more short-term market uncertainty and volatility. However, as the collective impact of increased immunity, public policy containment and drug development is realized, economic data and asset values can continue to improve.

REASSESSING RISK

Stock market investors are reacting to a directional change in forecasts (medical & economic) and have therefore reassessed risk for future growth. The latest unemployment report shows May re-hiring (+1.8 million) and a lower unemployment rate (14.7% down to 13.3%). The Fed forecasts a high, median and low range of unemployment levels to reach 4 – 8% by 2022.

At this rate, it appears as though during this recession, we will not experience unemployment levels during to match a Depression era, as once feared. This is good news, alongside market-based indicators showing global growth is rebounding and strengthening.



Source St. Louis Fed

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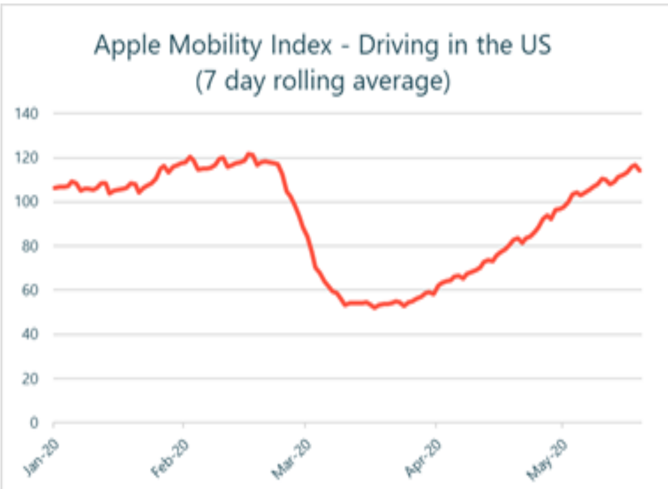
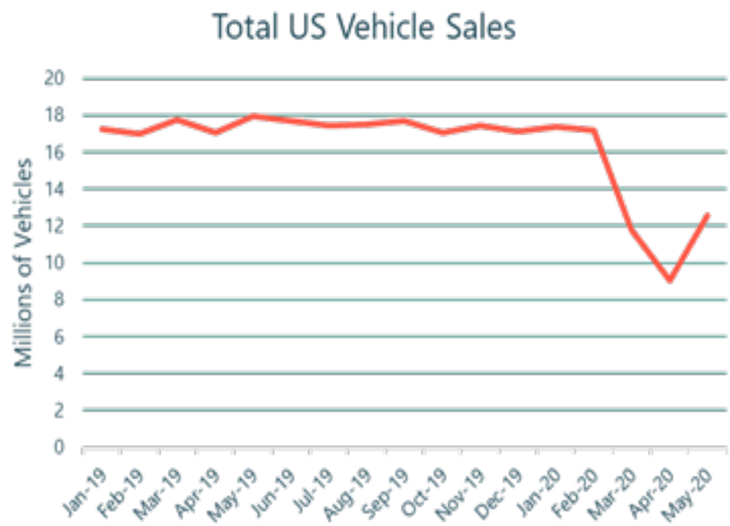
Apple's U.S. Mobility Index that tracks traffic and public mobility is rebounding, as it trends toward pre-lockdown level. Oil prices have also rallied, with oil prices up nearly 5% and future contracts up approximately 20%. US vehicle sales are trending upwards, having surged from 8.6M in April to 12.2M in May. These trends do fit with a recovery.

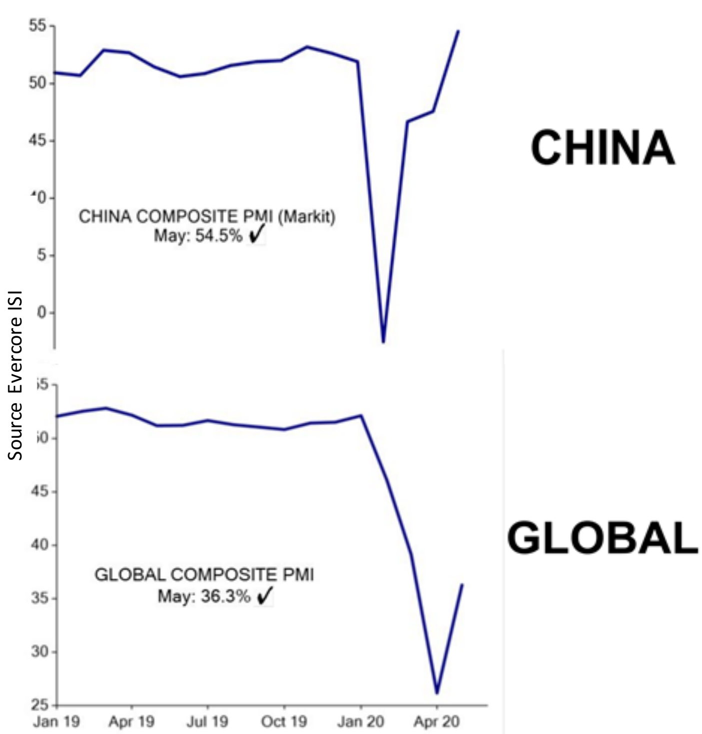


Source: Apple



Source St. Louis Fed

WHAT CHINA'S DATA IS TELLING US



Data from China indicates that production and consumer spending has roared back. Data in China is reported on a delayed timeline, which can be interpreted as a pre-cursor to a strong rebound in the U.S.

The global composite for Purchase Manufacturing Index ("PMI") also improved for May, capturing a positive direction of manufacturing orders.

Global PMI remains in contraction territory, but an uptick for the month could indicate we are moving forward, particularly in China. China's manufacturing index surpassed 50 in May, signifying a return to growth levels.

This is particularly important because China was the first to enter lockdown, and the first to emerge. China's economy restarting is likely benefitting countries and the assets exposed to its growth.

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US MORTGAGE DEMAND SHOWS RECOVERY

Homebuilding surveys provided to us by Evercore ISI show positive trends in homebuilding and home sales activity. Surveys note that house tour traffic is improving, and gross orders for builders have improved broadly over the last several weeks. Mortgage applications have also increased from a year ago.

IN SUMMARY

Recent economic data has been better than expected, though there remains much more ground to recover. Our positive long-term view remains unchanged.

Many data series are improving from depressed levels, and economic activity will likely stay below pre-coronavirus levels throughout 2021. Growth thereafter will likely be slower and more volatile than we expected prior to the crisis. The investor mood has seemingly moved on from responding to dire predictions of doom to optimism, and that's been enough to spark a substantial runup in shares, but shares might drop again. The move upward since March 23 reinforces that attempts at market timing are too difficult to anticipate.

History has shown that during a recovery, market rebounds are concentrated in a few, distinct spurts which makes it near impossible to call the tops and the bottoms. The prudent course of action is to maintain a disciplined asset allocation policy, tested with long-term equity investment process, and individually determined cash reserves.

We continue to apply research and perspective to each and every investment decision. We strive to construct individually balanced diversified portfolios and position those assets to capture long-term growth opportunities. Our track record demonstrates this effort. We are proud of our results and the perspective we have gained in managing our clients' assets for the last 45 years.

Stay safe, stay well!

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