While the pandemic has stalled economic activity for much of the first half of the year, any subsequent ongoing recovery will likely take longer than previously anticipated. This reality is surfacing in equity prices, which have flattened out since mid-June after a multi-month run higher. An economic recovery rarely if ever proceeds in a straight line. With a highly correlated interconnection with the pandemic and social distancing measures, economic activity will be less predictable than is the case with traditional inputs. A surge in consumer spending has slowed with the fear of additional delays / restrictions on reopening the economy in select regions/ states. The 3rd and 4th quarter will supply innumerable challenges.

All the while Information Technology continues to march higher as the best performing sector over the last quarter. Taking a longer view, I believe this trend likely to continue. The gradual transition to online personal spending and behavior along with new business models has dramatically accelerated as a result of lock down/ shelter in place orders. It is improbable that recent events have not changed how individuals and businesses will conduct themselves going forward. Disruption can bring change, often positive and efficient. Overall, US equities provided the best percentage gain in over 20 years.

Certainly, recent positive developments have been providing fuel for equity prices. Durable goods orders for items such as automobiles surged in May, following the unprecedented declines of the spring lock down. Consumer spending increased by 8.2% (May), while the service sector as measured by the PMI (purchasing managers index) hit a four-month high in June.

The resurgence of the Covid-19 infection and hospitalization rates in select regions – notably Arizona, Texas California and Florida – is forcing some businesses to ponder reopening plans. Even more dramatic, the re-closure of bars and restaurants in hot spots will be devastating for affected businesses. A continuation of the first wave rather than a second wave, the trends are troubling on many levels. The weakening dollar, a fed balance sheet stretched to 7 Trillion, along with a federal budget deficit that has been driven to extraordinary heights by various stimulus programs all have obvious long term implications. There are calls for additional stimulus, particularly to address municipal and state shortfalls created by lack of tax and other revenue.

The labor report due Thursday is projecting 2.9 million jobs added in June, in addition to the 2.7 million that were produced in May. Meeting or exceeding this estimate would be welcome data. The resumption of infection rates and hospitalizations may dampen some of the June estimates, and impact numbers over the ensuing months. If all goes as projected for June, the net result will be an astounding 12.2% unemployment rate – unimaginable just a bit earlier in the year. There have been misclassifications by survey takers, complicating the unemployment numbers. Add to this troubling mix proposed tariffs on a host of European goods – slated for October. The proposed tariffs would be considerably more prohibitive than a round initiated earlier this year. All in an attempt to halt the 18 billion in EU subsidized financing to Airbus. Boeing finds itself at a global competitive disadvantage, with an estimated loss of 300 aircraft sales given the unlevel playing field. Europe is struggling to bounce back from a devastating period. Additional tariffs will cause more harm than good to a struggling global economy attempting to reemerge. Perhaps not an ideal time to be placing *additional* tariffs or restrictions on any foreign country. Targeting the issue of the sector vs. tariffs on unrelated goods would make more sense. The negotiations with China have fallen out of the news/ are not a current factor, as little progress is expected in the near term.

Equity market valuations are currently stretched given the mid / long term economic outlook. Speculative optimism well defines the current move higher. Interestingly, one of the contributing factors is increased day trading –more fallout / another symptom of the extended shut down. The excess is linked to certain stocks that are heavily traded, particularly by a new contingent of first time traders. Day trading never seems to end well - as it always does seem to end - the fallout being particularly harmful for those who are leveraged and/or utilizing options – and not well informed on the risks.

Please call or email anytime with questions or concerns. Best for a wonderful remainder to the summer. Stay safe, and take good care. Thank you.

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