Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – AUGUST 1, 2020

Action Figures

For obvious reasons 2020 has, at times, caused us to harken back to youthful days that seemed simpler. We realize that much of the simplicity we experienced was a direct result of our admirable parents taking the complex decisions in life upon their own armor, thereby allowing us to idle away Saturday mornings watching a scholarly cartoon such as *Thundarr the Barbarian* while playing with toys which we affectionately called "our guys."

Our guys were Star Wars action figures. Bunched-up blankets could serve as mountains, seas, or snow forts. We could relive scenes from the famous movies. Or, we might want to incorporate some of the mayhem that Thundarr happened to find in real-time. The point was action. Whether punching, running, jumping, flying, or any of a hundred other things, our figures were in constant action.

And that is just what we find happening today. The fundamental data, or figures, of our economy and corporate lives are in non-stop, roiling flux. But before we jump into the meat of the matter, let us acknowledge that today's action figures don't quite bring the same quaint joy as those of yesteryear. They might, however, if interpreted accurately by policy makers and market participants, prove to be profitable in the long run.

As of this writing, over half of S&P 500 companies have reported their 2Q earnings. Beginning with what is normally considered very good news, 71% of them have beaten analyst expectations for revenues. A full 76% are beating expectations for bottom-line results. However, due to the spring lockdowns and slowed reopening, the revenue growth is clocking in at negative 8% year-over-year. And net income growth is a painful negative 30% year-over-year. Buried within those decreases are ranges of results, with energy companies' sales and earnings plummeting by unholy amounts. Meanwhile, technology companies have seen just a blip in results. YTD stock action mimic these disparate outcomes.

Just as arresting as some of the results from more cyclical industries, are those of the GDP for 2Q. GDP measures the value of all goods and services produced in the economy. It was first officially measured in the U.S. in 1947 as economic data became

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more important. The reading for 2Q 2020 was down 9.5%, by far the worst result in the post WWII era. Ouch.

But all is not terrible. Despite monetization of much of the increased issuance of U.S. debt, interest rates remain accommodative. The Fed is committed to fostering a growth footing. Consumer spending has bounced nicely off the March lows. McDonald's, though only 14% of their dining rooms are open, has returned their sales growth to flat. Recent results from Amazon, Facebook, and Apple were all quite amazing, eclipsing rosy expectations and showing real sustainable growth.

As mentioned in May and June's commentary, technology's share of the investing pie has expanded. Its sector is now worth 40% of the value of the S&P 500, its largest ever. Only in the early 1980's did a sector come to make up that much of the S&P 500. It was energy…

How do we read these numbers and what do we do about them? If we don't ask and attempt to answer this fundamental question, those figures cease being action-packed and instead become listless.

We are, of course, worried about a good many things with regard to the current state of affairs. However, we remain hopeful as we can see a path through the quagmire. Amidst many disagreements, most states have not attempted another full lockdown. In any economy, incentives can be a driving force. Keeping creativity and commerce free is imperative to giving time for our economy and national psyche to heal. Putting temporary, local measures in place is likely more sustainable from an economic standpoint as the most recent data suggest that while cases are jumping, hospitalizations and fatalities, continue to improve.

We expect 3Q to show growth in both GDP and corporate revenues if we can manage to stay partly open. Also, we see golden opportunities for investors who are willing to accept some near-term volatility. Companies and entire industries that are required for the economy of the future are selling at steep discounts.

Conversely, we are having trouble finding high-tech, high-growth companies that justify receiving new investment dollars today. We've elected to continue to hold many

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of them, just trimming here or there. But with any new money we receive today or with proceeds from sales, we are finding better opportunities in unloved sectors.

Bonds. We've long argued that bonds still have a place in portfolios. That is STILL the case today. But we need to be more selective, as the amount of debt outstanding in public and private sectors mushrooms.

Ahh, Thundarr. Ahh, action figures. While it is clear that none of us can go back home, we can still use the actionable figures provided to us on a daily basis to improve the financial state of our homes today and for our posterity.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

Jason Born, CFA
President