Cambridge ADVISORS inc.
Investment Managers

Investment Perspective June 2020

Lori L. Liffring, CFA ♦ Michael L. Bridgman, ChFC ♦ Justin S. Anderson, MBA AAMS ♦ Karen K. Benefiel, CMT, CPA
Gaylan C. Abood, Chairman Emeritus

Market Commentary

For stocks, the first quarter of 2020 was the worst quarter since the fourth quarter of 2008. In the second quarter, stocks rebounded strongly and the DJIA had its best quarter since the first quarter of 1987. The large cap stocks in the S&P 500 posted a 20.54% gain in the quarter reducing their year-to-date loss to only -3.08%. Small cap stocks in the Russell 2000 gained 25.42% in the quarter, but were still down -12.98% year-to-date. International stocks also continue to struggle on a year-to-date basis as they are down -11.34% for the period in developed markets even though they were up 14.88% in the second quarter. Emerging market stocks had a gain of 18.08% for the quarter but are still down -9.78% so far this year. Treasury bond yields fell a little more in the second quarter helping the Barclays U.S. Aggregate Bond Index to post a return of 2.90% for the quarter which brought its year-to-date return to 6.14%.

Oil prices have also rebounded and had their best quarter in 30 years. At the end of first quarter, WTI oil was $20.48 per barrel. The price nearly doubled and ended the second quarter at $39.27. However, prices are still down 34% year-to-date. The supply has grown while demand has fallen the most in its history. Although the energy sector gained 30.5% in the second quarter, it is still the worst performing sector on a year-to-date basis with a -35.3% loss for the period. Unfortunately, the outlook for oil prices remains bleak for the rest of the year so the sector will likely continue to underperform and the economies tied to US shale oil production may also suffer.

Financials also continue to underperform with a -23.6% return year-to-date; unlike energy, it did not get much of a boost in second quarter as its return was only 12.2%. The best performing sectors (and the only ones with positive year-to-date performance) have been technology and consumer discretion with returns for the first half of 2020 of 15.0% and 7.2% respectively. Technology will likely continue to do well as it benefits from the trends of working from home and increasing productivity. Consumer discretion may start to falter if incomes fall or lower travel and entertainment spending begin to weigh on stock prices. One reason this sector has held up so well is because Amazon is a large part of it.

The panic selling from first quarter nearly turned into panic buying in second quarter as people were afraid of missing out. Investors seemed to be reacting to the slightly better news coming from the flattening of the curve and reopening of the economy. Although high frequency data such as jobless claims, movie ticket sales, restaurant reservations, and hotel occupancy rates are showing improvement on a week over week and month over month basis, their percentage changes on a year over year basis are still dismal.

Many companies have suspended earnings guidance as they really don't know how COVID-19 and the resulting shutdown, social distancing and new sanitization procedures will affect their profits. According to Zack's, S&P 500 earnings could be down -44% in the second quarter and -24% for the full year of 2020. In 2021, earnings will likely grow because of the easy comparisons to 2020; they may still be below the 2019 level. Smaller companies may be hurt more as their earnings are projected to be down -85% in the second quarter after falling -82% in the first quarter as the shutdown has been more detrimental to them.

The lower earnings mean that at current prices, valuation measures (such as price/earnings ratios) are at elevated levels compared to their recent levels and based on a 25 year average. Stocks have had a mostly "V" shaped recovery so far. If less favorable news comes out—for example, a second wave of the virus, another shutdown, election concerns, or increasing trade tensions—it's possible that fear could return to the markets and stock prices could pull back. Or, even with a lack of negative news, stocks may just move in a sideways trading range until companies see true earnings growth to new highs.

Although stock prices have seen a "V" shaped recovery, economists think it is less likely that the economy will see

2020 Benchmark Rates of Return

Index	Second Quarter	YTD
S&P 500	20.54%	-3.08%
Russell 2000	25.42%	-12.98%
International	14.88%	-11.34%
Fixed Income	2.90%	6.14%
JPMorgan Diversified*	12.69%	-2.70%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET

a similar rebound. Although economies are opening up, the global shutdown was extensive and significant. The reopening is slow and cautious. Things will not likely be back to normal until there is a vaccine or people are no longer fearful. The public is hopeful that a vaccine will be available by early 2021. Until then, social distancing, increased sanitation procedures, reduced travel, and many work-from home measures will continue. The longer this goes on, the harder it will be for some businesses to survive.

US GDP growth was -5.0% in the first quarter. Second quarter GDP will be down significantly more; Strategas Research estimates -33% confirmed by JPMorgan who is estimating -35%. However, as the country reopens, both both firms expect third quarter GDP to jump 20%. Economist Brian Wesbury of First Trust Portfolios thinks the fourth quarter could have another big percentage gain. GDP may not make new highs measured in dollars until late 2021 or 2022. The IMF estimates that 2020 global GDP growth will fall -4.9% in 2020 which is the largest contraction since 1946. It also is projecting 5.4% growth in 2021 which would be the fastest growth since 1964.

More than 47 million Americans have filed for unemployment benefits at some point during the pandemic. Since the shutdown has mostly ended and some employees have been called back to work, continuing claims are now down to around 19-20 million. The unemployment rate peaked at 14.7% in April (higher than the peak in the Great Depression) and landed at 11.1% in June. Brian Wesbury doesn't expect unemployment to fall back below 4% until at least 2023.

When the pandemic hit, policy makers reacted quickly and boldly, spending nearly $3 trillion through fiscal policy. The assets on the Fed's balance sheet are now more than $7 trillion partly due to the securities it is purchasing. It was $4 trillion at the start of the year. Pre-pandemic, the federal budget deficit was projected to be $800 billion but now is estimated at $3.8 trillion this fiscal year. That figure will likely rise as Strategas Research expects Congress to reach a deal for another $1.2 trillion stimulus package by the end of July. Longer term, David Kelly of JPMorgan believes the debt will need to be reduced or there is risk of rising inflation.

Part of the initial stimulus was related to keeping people employed and/or receiving income. Airlines and others who accepted government help agreed not to lay off workers for several months. People on unemployment received an extra $600 per week through July—this resulted in some people earning more on unemployment than they did when they were working. Tax stimulus payments of $1200 were made to individuals who made $75,000 or less or $2400 to couples who had income less than $150,000. Unless extended, these income sources will be ending and/or job losses may occur and consumer spending could slow.

The Federal Reserve cut its benchmark interest rate from 1.50%-1.75%. to 0%-0.25% and it will likely stay at those levels for at least the rest of the year. The 10-year Treasury bond yield fell slightly from 0.70% at the end of March to 0.65% at the end of June. Most analysts do not believe the Fed will raise rates any time soon, maybe not until 2022. The Fed has indicated that it will be patient. It may be difficult to produce an income stream from the fixed income allocation in portfolios for the foreseeable future without extending into higher risk bonds.

Market timing is a difficult strategy and one that is not usually successful over the long term. Not only do you have to know when to get out, but more importantly you have to know when to get back in. It's next to impossible to call a market bottom when it is happening—it's much more visible in hindsight.

Many analysts now think that March was the low for stocks and that we are unlikely to retest those lows. Even so, many analysts also recognize the fragility and how easily investor sentiment could change resulting in a pullback.

Rather than trying to time the market, a better strategy is to align your investment portfolio with your risk tolerance so that you can withstand the risk and not be tempted to sell out when stocks go down. We use the Riskalyze software to help us measure your risk tolerance so we can help ensure you have the appropriate risk in your investments.

If recent movements have made you uneasy, please contact your advisor. We can reassess your risk and your investments to make sure they are in line with one another. Now is an opportune time to reduce the risk in your account if needed because many of the losses in stocks have been recovered. It's also an attractive time to adjust or rebalance to position accounts for future opportunities.

CAMBRIDGE ADVISORS NEWS

We sincerely hope that this newsletter finds you and your families healthy and well. In these unsettling times, we want you to know that we are committed to providing our clients the high quality services and personal attention you have come to rely on. We've spent the last several years updating our technology so we are fully able to work from remote locations if we would need to due to COVID-19 or any other disruption. We can help you access the client portal if you would like to get set up or have forgotten your password.

We appreciate the trust and confidence you place in Cambridge Advisors. You may have friends and family who need our help during this difficult time. Please continue to introduce us to them so we can help them plan for their retirement, preserve their wealth in retirement, and leave a legacy for future generations.

Please do not hesitate to call your advisor if you have any questions or concerns. We are here for you.

Serious about your future