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MARKET COMMENTARY

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Dow Jones Industrial Avg.	25,812.88	Standard and Poor's 500	3100.29
2020 (YTD) -9.6%	2 nd Qtr. +17.8%	2020 (YTD) -4.0%	2 nd Qtr. +20.0%

“The skies look grimly.

And threaten present blusters.” - William Shakespeare, The Winter's Tale

Storm Clouds Gathering – Some early forecasts indicated this year's hurricane season might be much more intense than has been experienced in recent years with as many as three or four major storms impacting several of the usually vulnerable coastal areas of the U.S., particularly in the southeast. These are some of the same areas currently coping with serious Covid-19 outbreaks. Throughout the economy, government entities and businesses are being required to cope with a myriad of challenges making it impossible for many businesses to devise a plan of action allowing them to lift their revenues and earnings back to pre-Covid levels. The resistance and pervasiveness of the virus has diminished the likelihood of a V-shaped economic recovery. The magnitude of the challenge is highlighted by the 33.9 percent decline in gross domestic product (GDP) in the second quarter. Nothing illustrates the degree of decline as much as the precipitous drop in employment levels. According to Cleveland Federal Reserve President Loretta Mester there are almost 18 million unemployed workers, up from six million in February, and this does not include part-time workers who are seeking full time positions or workers who have given up on seeking a job.

Political Deadlock – In an attempt to mitigate the extensive impact the virus has inflicted on the economy, President Trump and the Congress have been attempting to negotiate a mutually satisfactory bill, which will provide additional aid and relief to businesses and families. The negotiations between the Administration (President Trump) and the Congressional Democrats headed by House Leader Nancy Pelosi and Senator Chuck Schumer are at loggerheads. The House leadership began the process by proposing an extensive list of programs with a price tag of \$3,000,000,000,000. (Trillion!). Republican Senate President McConnell countered with his package, which carried a price tag of a mere \$1,000,000,000,000. Keep in mind, these sums are in addition to the initial agreed upon relief legislation totaling three trillion dollars. To help describe the magnitude of such expenditures, imagine “you made a dollar every second. It would take you 32 years to reach \$1 billion. But it would take you *another* 31,000 years before you reached \$1 trillion.” (The Stansberry Digest) The magnitude of fiscal disruption resulting from this virus is almost beyond comprehension and the ultimate cost is difficult to fathom. The Washington establishment appears to have abandoned any sense of fiscal responsibility, and serious budgeting is now regarded as an archaic practice. What is even more disturbing is there's little certainty a vaccine or more effective treatments for the disease will be achieved in the near future.

Now that the Presidential campaign season has arrived, it is doubtful either side will make any concessions, which might be interpreted as a win for their opposing side. If the President loses the contest, this most contentious period will be immediately followed by a lame duck period during which the President and his supporters will be contesting the results because of disputes over the validity of mail-in ballots. If the Democrats lose to Trump and are forced to again retreat and lick their wounds, a period of serious discord will again grip Washington. For the next six months, regardless of the outcome, politics will rule and all other matters needing attention, including virus control, school openings, and the weakened economy will receive nothing but lip service.

Disconnect Between Economy and the Stock Market - Investors are hard pressed to reconcile the dramatic recovery in stock prices in the wake of the Covid related sell-off in March to the halting recovery of the economy. Their consternation can be traced to the juxtaposition of the rapid bounce of stock prices in contrast to the sudden onset of recessionary conditions. This was a result of the decisions of many politicians to shut down wide swaths of the economy in a desperate attempt to halt the spread of the virus. In spite of their actions, which resulted in significant damage to the economy, stocks managed to mount a furious rally led by a handful of high-tech stocks. This unlikely rally was also fueled by the reaffirmed commitment of the Federal Reserve to continue its easy money policy, which has ensured a continuation of very low interest rates.

Risks abound yet prices are near record highs. Each individual portfolio must be reviewed to make sure it is aligned with the owner's objectives. It is a particularly challenging environment for those needing a regular, dependable income stream. Bonds and bank certificates of deposit no longer provide the customary returns retirees have previously enjoyed. Alternative sources are available, yet they universally carry more risk. One investment vehicle receiving more attention is annuities. They can serve a definite role and usually offer an attractive interest rate, yet before any purchase it is necessary to read the fine print and ask the right questions of the sales representative. Another annuity offering, which is attractive to some, is a product whose returns are determined by stock market results. It offers potentially better returns than a fixed annuity but carries greater risk as well. A familiar phrase summarizes our advice regarding these products - "buyer beware". Other investment categories carry similar tradeoffs between risk and returns.

Another way to cope with any shortfalls is to consider principal withdrawals if the annual income flow from interest and dividends plus any realized capital gains are insufficient to cover ordinary monthly expenses. When all else fails, it will be necessary to identify spending cuts. When the economic impact of the virus became evident the federal government immediately passed significant programs to provide relief to businesses and families, but they were short-term in nature and have largely expired. The President and Congress have been attempting to agree upon an additional tranche of aid, however with the elections in a few months political posturing has presented a roadblock. Nevertheless, some relief is likely to be approved within the next few weeks.

What if the Biden-Harris ticket prevails? As things now stand, this ticket appears to be a shoo-in with a near double-digit advantage over President Trump. However, Trump was in a similar underdog position four years ago in his contest with Hillary Clinton and we know how that turned out. Was Hillary a weaker candidate than Joe Biden? Democrats need to avoid taking the result for granted because this will be a campaign like no other. Much of the difference can be attributed to the need to alter the approach to attracting voters because of the impact of the Covid-19 virus. This week's Democrat convention and next week's Republican convention have been cancelled. Both conventions will be "virtual", which means most participants will be watching from home. Neither party is likely to be as successful in "charging up" their base as they would if holding the traditional, large gathering in a major convention center.

More Questions than Answers – Some of the questions needing answers are: Biden or Trump? Ability to quell Covid? More aid for distressed economy? Impact of huge wave of debt? Détente with China? What is required is a steady hand at the tiller and the resolve to adapt as the investment tides change. This may be the most impactful election since Reagan or even FDR.

Remember to vote.

JML