Quarterly Commentary Q2 2020 & 3rd Quarter Outlook

Before we delve into the 2nd Quarter review, we are pleased to announce that we have recently expanded our practice to include Betsy Brennen, CFP®. Betsy is a former colleague from Alex. Brown & Sons, and she has been a good friend to A.G. Campbell Advisory for many years. She brings experience in working with individuals and families with financial planning needs, including insurance and long-term care planning. COVID-19 has had a devastating impact on Seniors living in retirement and assisted living communities, and their families. It has highlighted the importance of having an option in place to support long term care needs at home versus institutional care, as one ages. Our plan is to introduce this new concept and Betsy via tele – or videoconference between now and the end of the year.

The 1st Quarter, marked by the proliferation of the global COVID-19 pandemic, was one of the most unusual and volatile in capital markets history. During the period of February 19 to March 23, the market fell 34%, and this foreshadowed much weaker economic news to come. The weakness was confirmed by historically high unemployment of 14.7%, and over 25 million jobs were lost. The economic freeze was underway. Housing began to lock down with declines in new home starts and permits were non-existent. Commercial banks and mortgage companies began tightening standards and a potential 40% to 50% decline in GDP was being forecast for the second quarter. All of these variables, combined with the impact of daily COVID - 19 contagion and lockdowns, set us up for a major fall in consumer confidence.

The 2nd Quarter, however, showed signs of strong recovery across U.S. and Global equity and fixed income markets. Ironically, despite all the frightening news into the second quarter, the U.S. equity market had its best quarter since 1987. Big technology and the NASDAQ led the way with gains in excess of 30%. The Dow and S&P 500 posted gains just shy of 20%. International and emerging markets participated in the rebound with positive mid-teens performance as well. In terms of fixed income, most of this world was pretty quiet; however, credit spreads got tighter as investment grade corporate debt and high yield prices moved higher. The world was looking for cover and who could blame them?

Recent market performance aside, volatility continues to be the hallmark of the stock market this year. The trade war with China and continued U.S. hot spots of COVID-19, along with nervous anticipation of U.S. election results have illuminated the fact that we are not out of the darkness yet.

As for the second half of 2020, it is our perspective that volatility will still be with us. But, just because the market is more erratic at this time, it doesn't mean that we don't plan to profit by it. We believe that there will likely be a performance 'leadership change' from big technology stocks to those with more long-term value orientation. Therefore, we believe this is the time to use some of the market anxiety to buy more of our favorite blue-chip companies that pay great dividends at lower prices. In particular, we still like the 'Home Depots', banks, and certain other finance companies. We expect that they will profit from 2 things: first, DIY (do it yourself) trends that have emerged during our COVID lockdowns. Second, we believe that as the economy recovers, well-capitalized financial sector companies with attractive valuations will outperform. Thus, we like these areas. In fixed income, we are interested in taking some gains in late July and August and positioning some of these assets in 3-7-year tax free alternatives. Taxes will be going up ultimately, no matter who is elected in November.

Finally, as always, we are grateful for your business and continued loyalty.