JJ BURNS

2020: 2nd Quarter Summary

“Break up to make up, that's all we do / First you love me then you hate me / That's a game for fools” ***The Stylistics, “Break Up To Make Up”***

The advent of nice weather and the phased ending of some quarantine restrictions have chased the market’s coronavirus blues away. Massive monetary stimulus on the part of the world’s central banks helped, too. Despite unprecedented layoffs and a sharp recession in the quarter, periodic tidbits of good news and vaccine hopes helped fuel strong recoveries in global equity markets. Returns on the rebound were almost as impressive as the previous quarter’s declines.

As we noted last quarter, markets still appear to be ignoring a host of other issues. We also think that Fed chair Powell’s and the U.S. central bank’s responses to the crisis are highly praiseworthy; indeed, many major central banks stepped up quickly and made their ‘deep pockets’ available. Swift action helped control and reverse the sell-off in bonds of all types, and corporations are accessing capital markets at record levels to boost cash reserves. Chair Powell has been clear in a pledge of further market support as well as a need for additional fiscal (Congressional) and medical (i.e. a vaccine) support. It’s also clear that the coronavirus and our response will be the main topic for some time.

Index Returns

as of 6/30/2020

Index	Q2-20	Q1-20	YTD Jun 2020	2019
BbgBarclays US HY 2% Issuer Cap	10.14%	<12.68%>	<3.83%>	14.32%
BbgBarclays Municipal	2.72%	<0.63%>	2.08%	7.54%
BbgBarclays Global Aggregate	2.42%	1.45%	3.90%	8.22%
BbgBarclays US Agg Bond	2.90%	3.15%	6.14%	8.72%
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	21.82%	<20.22%>	<2.81%>	31.43%
Russell 2000 [Small-cap Stocks]	25.42%	<30.61%>	<12.98%>	25.52%
S&P 500	20.54%	<19.60%>	<3.08%>	31.49%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	16.12%	<23.36%>	<11.00%>	21.51%
MSCI EAFE NR [Developed Markets]	14.88%	<22.83%>	<11.34%>	22.01%
MSCI EM NR [Emerging Markets]	18.08%	<23.60%>	<9.78%>	18.42%
REAL ASSETS				
U.S. Dollar	<1.67%>	2.76%	1.04%	0.22%
S&P GSCI Gold Spot	12.77%	4.83%	18.21%	18.87%
Morningstar US Real Asset Index	6.52%	<10.55%>	<4.72%>	9.87%
Bloomberg Commodity	5.08%	<23.29%>	<19.40%>	7.69%
S&P GSCI Crude Oil Spot	91.75%	<66.46%>	<35.69%>	34.46%
S&P United States REIT	11.71%	<26.90%>	<18.34%>	24.45%
S&P Global Ex US REIT	10.97%	<32.32%>	<24.90%>	24.75%

Source: Morningstar, Inc. USD data with dividends and interest

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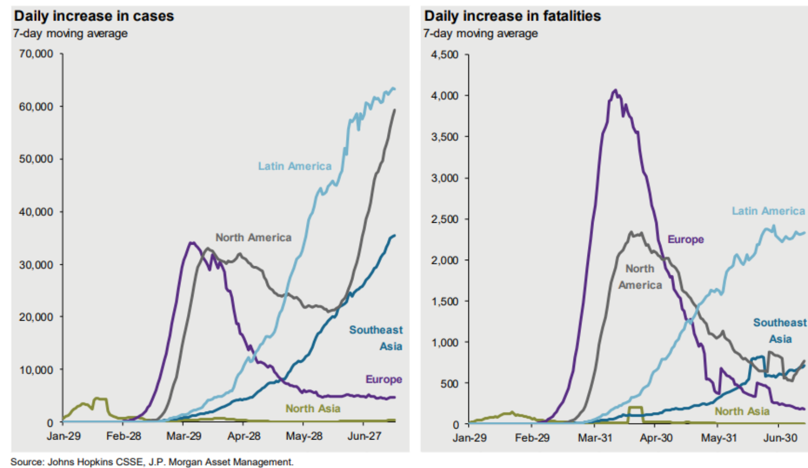
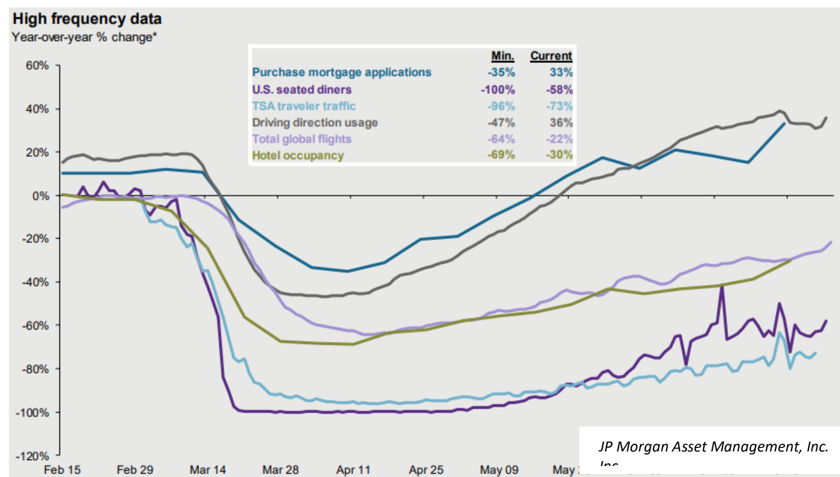
"Come on, baby, let's start anew / 'Cause breaking up is hard to do" ***Neil Sedaka, "Breaking Up Is Hard To Do"***

We are currently besieged with enormous amounts of market, economic and medical data. This is due to the pandemic, of course, but also because of the availability of technology to deliver data. Here are some relevant charts on COVID-19 and our recovery. First, a coronavirus chart through July 10, 2020:



Clearly, some regions are doing better than others in controlling the virus spread and resulting fatalities. Deaths appear to be lagging increases in infections by 2-3 weeks. So, what's causing the increased infection rates? In the U.S., apparently, it's mobility:



We might also ascribe the lack of a unified national response to the virus's persistence as well. There seem to be 50 different U.S. viewpoints on simple things such as wearing a mask and avoiding crowds in public. In the case of Brazil, denying COVID's severity and not taking nation-wide precautions contributed to the spread in a country that does not have the resources to battle the infection. A global, unified approach to combatting COVID might have prevented the rising infections and deaths.

"How can a loser ever win? / Please help me mend my broken heart and let me live again" ***Bee Gees, "How Can You Mend A Broken Heart?"***

We've also been closely following the stunning rebound of the U.S. equity markets, particularly the S&P 500. Coincident with Congressional and Fed bailouts, the market pivoted in its decline for a sharp reversal that recouped some losses. We've also seen what one pundit referred to as the 'disassociation' of the market to the economy: stories of day-traders on the Robinhood platform bidding up stocks contrast with offsetting inflows to money-market funds in a recession. One thing we do see is the dominance of technology names in the rebound. This table highlights the market's focus:

RETURNS of THE TOP 5 HOLDINGS in THE S&P 500 INDEX (through 6/30/20)					
Name	Ticker	Sector	S&P 500 Weight	Price Return YTD 6/30	Contribution to Return
Apple Inc	AAPL	Technology	4.9%	24.2%	1.2%
Microsoft Corp	MSFT	Technology	4.5%	29.0%	1.3%
Amazon.com Inc	AMZN	Consumer Cyclical	3.4%	49.3%	1.7%
Facebook Inc A	FB	Communication Services	1.8%	10.6%	0.2%
Alphabet Inc Class C	GOOG	Communication Services	1.7%	5.7%	0.1%
TOTAL CONTRIBUTION					**4.5%**
S&P 500 Price Return (total Cap.-weighted Index)					**(4.0%)**
S&P 500 Equal Weighted Price Return					**(11.8%)**

SOURCE: JPMorgan Asset Management, Morningstar Inc. Securities listed do NOT represent trade recommendations, and are for illustration only.

We can see that the top FIVE index names (~16% of the index) contributed strong and positive returns in a tumultuous environment. Investors holding these stocks at the beginning of the year are likely pleased but face the dilemma of what to do next. We can also see that the rest of the index did not do as well, and the equal-weight index (mostly large-cap and some mid-cap issues) did not fare as well either. This has given rise to comparisons to the 'Tech Bubble' market of the late 1990s. While we see some relevant comparisons – a focus on a handful of mega-cap tech names – we also think today's popular names are much stronger companies. The technology bubble was primarily focused on the newness of internet access and unrealized assumptions about profitability. Today's technology is quite different with respect to adoption (e.g. profitable online retailing, social media) and 'plumbing,' the hardware and software that enable the connectivity. The lack of strength in the rest of the index is concerning, as a broad economic rebound would ideally be reflected in stock returns across a number of industries and the market-cap spectrum (i.e. include small-cap names as well). We appreciate that owning some of these names might provide gratifying returns, but heavy concentration in any one stock fosters concerns over long-term returns, volatility, potential taxes and the viability of a long-term plan.

"Why, somebody, why people break-up / Oh, turn around and make-up / I just can't see / You'd never do that to me" ***Al Green, "Let's Stay Together"***

The market rebound has clearly given investors a respite while climbing the wall of worry, yet many issues still require some hard thinking and decisions. Here's our brief summary:

- **The coronavirus** – it's still spreading regionally, and a vaccine likely won't be broadly available until 2021. Diagnostic understanding and palliative treatments have improved, but there is no cure or inoculation. A proliferating first wave is occurring, and a second wave is possible. One pundit noted that, as in a horror movie, "The monster is always scariest before you see it," meaning reactions to a second wave may promote a less-severe market decline.

- **The global economy** – is not projected to fully recover until Q3-2021 at the earliest. Some projections are for summer 2022. High unemployment and business bankruptcies still need to be worked through, especially in the U.S. Forecasts are for a slow and rolling global recovery either supported by regional finance strengths or hindered by shortfalls. There are also developing plans for 'reshoring' supply chains, another step away from the globalization that has dominated the past several decades. Finally, we should note that central banks cannot support the world forever…capitalism's 'creative destruction' process will have to begin again at some point.

- **Geopolitics** – we're still fighting all the brushfires that were alight before the pandemic, with tensions between the U.S. and China flaring hotter. The world's largest economy is now tangling with the world's second-largest economy in what's described as a 'decoupling.' An economic cold war with China will have global ramifications in issues involving trade, human rights, technology developments and possibly military conflicts.

- **Stocks** – seem to be poised to do well, particularly U.S. large-cap names. With zero-bound interest rates for the foreseeable future, the 'risk on' trade appears especially attractive. The lack of breadth, in both regional markets and names beyond the 'Fab 5,' is a concern.
- **Bonds and interest rates** – have morphed into a policy tool and, in the case of U.S. Treasurys, a safe-haven asset. No longer sources of stable high-coupon income, bonds still have a place in portfolios, but probably not the one investors think of in a standard '60/40' portfolio.

"Tomorrow looks unsure / Don't leave your destiny to chance / What are you waiting for / The time has come to make your break / Breakout" ***Swing Out Sister, "Breakout"***

First things first: we need to take care of ourselves and our nuclear families. That's a given. We know that this crisis and the changes we discussed above are going to take some time to get us realigned on a growth path. For the near future, we've been given some direction on equity markets and interest rates, and we urge everyone reading this to consider what lies on the path ahead. It may be a time to take a risk in a new venture, to do some delayed financing, or to consider 're-risking' an investment portfolio. We don't think it's time to add lots of individual equity risk in some of the hot names in the market, but now is an excellent opportunity to considering future exposures or actions that may not have been apparent just a few months ago.

Regardless of your path forward, please take the time to think about what's ahead for you and engage with us to assess your financial plan(s) and consider any adjustments for the road further on.

As always, please feel free to contact us with your comments and questions.

-Your Wealth Management Team at JJ Burns & Company

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Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.