



My Views from Wall St. to Center St.

*“Fate whispers to the warrior, ‘You cannot withstand the storm.’
The warrior whispers back, ‘I am the storm.’ “ ~ Unknown*

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When I take a step back from what is happening with the economy and look at the major U.S. market averages, I see incredible disconnect. And I am not alone.

U.S. Gross Domestic Product (GDP), which is the broadest measure of the value of goods and services in the economy, fell at an annual rate of 32.9% in Q2, 2020, the largest decline on record (U.S. BEA data – quarterly data began in 1947). The prior record, a 10% annualized decline, occurred in 1958 and coincided with the Asian Flu pandemic.

The contraction can be blamed on the unusually swift decline in the economy that began in March and quickly accelerated in April. It doesn't take an economist piecing together a complex puzzle to discover the culprit. Simply look at lockdowns designed to slow the spread of COVID-19. They stifled economic activity and threw tens of millions of people out of work.

In April alone, employment fell by a record 20.8 million (St. Louis Federal Reserve). For perspective, 152 million people were employed in February. However, May and June saw significant improvement from these very depressed levels. They generated a record number of jobs in May and June, erasing one-third of March and April's job losses (U.S. BLS data).

We also saw big gains in retail sales following a record decline in April (U.S. Census), as business began to reopen, furloughed employees returned to work, and stimulus money found its way into the economy.

Nevertheless, the economy remains far below its pre-coronavirus state, as evidenced by the steep decline in Q2 GDP. Here's another way to look at the economy with one simple data point. In February, the unemployment rate was at a 50-year low of 3.5%. In June, the jobless rate stood at 11.1% (below April's peak of

14.7%).

Yet the major averages tell a different story.

As July came to a close, the broad based S&P 500 Index turned positive for the year, while the tech-heavy NASDAQ composite is having an impressive year. Some large tech names appear to be insulated from the initial impact of the COVID recession, and investors have taken notice.

The Federal Reserve's massive response to the crisis, coupled with a strong response by the federal government also encouraged buying. In addition, investors may be looking beyond a dismal Q2, both in terms of GDP and profits, and attempting to price in more favorable conditions later in the year and into 2021.

Very Limited Visibility

The recession that began in February (per the National Bureau of Economic Research) appears to have ended in April, which would make it the shortest on record. However, it may be months before the NBER, which is the official arbiter of recessions and expansions, decisively calls the bottom.

I don't want to dismiss May and June's upturn in the economy. It has been encouraging to see economic activity bounce higher and millions return to work. Still, the outlook remains unusually uncertain. As states around the country began to reopen, the number of COVID-19 cases has spiked (Tennessee now has over 110,000 cases and our area has seen a large increase in cases), injecting a new round of uncertainty into the outlook. In order to contain the virus, some states have slowed reopenings and others have implemented new restrictions.

If we look at what is called "high-frequency data", such as air travel through TSA checkpoints, daily restaurant books via OpenTable, and daily requests for directions via Apple Maps, economic progress slowed or stalled in July. These metrics don't correlate perfectly with the economy or larger S&P 500 firms, but they approximate what is happening in the broader economy.

Further, layoffs remain at historically high levels as measured by weekly jobs claims (Dept. of Labor). Yes, a record number of people are going back to work, but layoffs remain high.

The Prescription

The spread of COVID-19 is hampering the recovery and creating a new round of uncertainty. Might this be temporary? Might new cases begin to slow in August and September? Could we see a second wave in the Fall and Winter? There are no clear answers.

Today, the path of the economy is linked to the virus...Hence the unusual degree of uncertainty.

Yet, there has been encouraging news regarding a vaccine. If and when developed and readily available, a vaccine could be just the right prescription that could greatly increase confidence to venture back into restaurants, movie theaters, airplanes and sports arenas.

Fed Chairman Jerome Powell said in prepared remarks in late July, "The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in keeping the virus in check." Social distancing, masks, and all CDC-recommended safety protocols are a step in the right direction. However, a vaccine and/or an effective treatment are probably the best way to enhance mobility and help us move past this difficult chapter in our country's history.

The economy may not be the same when the pandemic is eventually in the rearview mirror, but we are resilient people, we will persevere, and we will adapt.

Multi Asset Diversification

Our Multi Asset Portfolios have performed well during this unprecedented volatile year. Calling it a rollercoaster does not fully capture the experience. As I have written about many times before the pandemic, a bear market was inevitable, but I recognize that the onset of a steep decline can be unnerving. And while the diversification helps cushion the decline it can still be painful.

Most of my conversations I had with you during February, March, and April, you found you had fared better than you “feared” during the decline and recent valuations are showing strong recoveries as broad equity markets have rallied.

Lessons Learned During the Pandemic

I have been a financial advisor for 30 years. Never before have I experienced an event that has impacted the investment community like the COVID-19 pandemic.

The virus, from my perspective produced feelings of helplessness in people. The statistics and mortality models continued to worsen and the situation has lingered on for months. The majority of the population sheltered at home. As if closing business and being cooped up at home were not bad enough, the U.S. soon experienced unprecedented social unrest with coast to coast protests after the killing of George Floyd, some of which devolved into rioting. No one could hide from the chaos and the fear. Life as we knew it had changed forever.

I wrote in my April, “Views” how it had affected me and how I was trying to get past the “heaviness” of it all. I have had some success, but it still is a work in progress.

The following is a list of some of the important lessons I have learned during the pandemic:

- **My clients need me as their ‘trusted financial advisor’ more than ever.**

You need a trusting unbiased relationship. B&H is primarily composed of individuals from the Baby boomer generation – myself included. Although we are savvy and innovative, many Baby boomers seem to become enthralled and overwhelmed by media. Boomers grew up in the era of the 6pm and 11pm evening news. Psychologically, 24/7 real time news reporting loaded with highly charged language, extreme negativity and controversy is difficult for anyone to process, including Baby boomers. Many of my conversations with you during COVID-19 actually had very little to do with the markets and more to do with deciphering the news, putting individual news stories and sound bites into relatable context. Many calls from you were just to talk about “stuff” and wanting to know how myself and my family were doing, as well as the B&H family.

- **Friendships and Family are Priceless.**

Enough said !

- **I have rediscovered my “why”.**

Perhaps the greatest lesson I learned during these troubling times has been to always remember my why. After 30 years in the wealth management business, I believe I had started to forget why I liked...no loved this business so much! I truly enjoy working with people and helping them achieve their dreams.

Clearly I do not do this simply for altruistic reasons, but the relationships myself and the firm have built with you transcends wealth management. So, I believe as I have helped you through this difficult and anxious season, you have also helped me. True relationships are reciprocal. You see, while you were feeling isolated and lonely, so was I. You gave me purpose, passion and a reason to get out of bed in the morning. These types of relationships are priceless.

Be Proactive, Not Reactive

Taking inventory is critical. It's half the battle. Be proactive, not reactive. You may find you are in a much better position than you realized. As always, we are here to help.

I hope you've found this review to be helpful and educational.

I understand the uncertainty facing all of us. We are grappling with economic and health care crisis. It's something none of us have ever faced. I have addressed various issues with you, but I have an open-door policy. If you have any questions or concerns, let's have a conversation. That's what I'm here for.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor.

Jeff

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