AUGUST 2020 MARKET UPDATE

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2020 has been an incredibly eventful year in so many ways. As we enter August, it's important we reflect on the year so far, as well as what lies in front of us.

Of course, 2020 will certainly be remembered for the Covid-19 pandemic and the impact it has had on our world. Even though our primary mission is comprehensive planning and overseeing investment portfolios, we equally value the importance of our relationships and how you have been impacted throughout this year. We, like you, are aware of this in human terms and are thoughtful of those who have and continue to experience suffering and loss.

On the financial side, the effects of the pandemic were swift and punishing. Equity markets fell by over a third in just a few weeks, as many parts of the world entered lock down and business ground to a halt. However, there was hope.

Central banks around the world implemented broad stimulus measures designed to stabilize reeling economies. Laptops, phones and tablets previously used for playing games and watching YouTube videos morphed into secure mobile offices and the world moved forward. The global medical infrastructure also joined the fight. In just a few months, many companies around the world developed and shipped millions of diagnostic tests. Additionally, promising candidates for both treatments and vaccines are entering phase three trials.

Of course, we all know the result. Markets powered back through the dislocations. While most asset classes remain down and some modestly up year-to-date, this has not been easy or smooth. There have been setbacks along the way, and there will be more to come. That is often the challenging side of progress.

With a brutal decline followed by a halting partial recovery, what is on the horizon and what happens next? What are the prospects for corporate earnings? What about the looming and contentious election and the impact on investor sentiment and tax rates? Should I adjust my portfolio given all the uncertainty? All of these are great questions and we have some perspective.

Corporate earnings

life sciences companies have been hit the hardest. Companies in technology, and consumer staples have understandably done better. Overall, earnings have exceeded expectations. However, it is important to note that these are new expectations lowered by the pandemic. Still, we are impressed by the resilience of earnings in these difficult times. Of companies reporting through July, 84% exceeded earnings expectations and 69% exceeded revenue expectations. Keep in mind that the earnings being reported now are from the months when our economy was in the deepest throes of the crisis. Are we out of the woods yet? Not by a long shot, but we are encouraged by these numbers.

Taxes

On the state and local level, a trend is already developing. Given the lower revenue and higher expenses relating to the pandemic, pressure to raise taxes is growing. Many governmental entities have already proposed significant increases. While the prospect of higher taxes is not pleasant, it is likely a better option than ignoring the problem and "kicking the can down the road."

There is also concern that federal tax rates may increase due to economic and/or social policy. This might lower household disposable income and lower corporate earnings, causing stock prices to fall. While this is certainly possible, history has shown investment returns can be strong within different tax environments.

Over the past 40 years, the top federal marginal tax rate on individuals has ranged from a low of 28% to a high of 70%. The current rate is 37%. Over that 40-year period, during which rates were both lower and far higher than today, the average inflation-adjusted annual return of the S&P 500 was 8.3%. We certainly are not saying that tax rates don't matter. They do, but history has shown returns can be strong through different tax environments.

The presidential election

As if there wasn't enough on the horizon, a presidential election is right around the corner. We know people are very passionate about the results of the election and rightfully so. The media is full of pundits with their predictions of who the winner might be and suggestions of how to position portfolios as a result.

However, history paints a different picture. Since 1957, there have been 12 sitting presidents. Over those 60-plus years, there is practically no correlation of party in office or presidential approval ratings to stock market returns. Famed investor, Warren Buffett, has done the same math. He said, "The influence of the president is overestimated in relation to investments or business prosperity. As a result, I do not make investment decisions based on who is president or who I think will become president." While we recognize that neither Mr. Buffett nor anyone else is infallible, we do, however, note the opinion and the underlying math.

Should I adjust my portfolio?

On who the future president will be, tax rates and short-term investment returns, we know these are perhaps less important to your investments than some believe. They are also beyond anyone's control. But as mathematically based stewards of wealth, we work at the intersection of what is important and what we can control. That is where true planning begins. With all that is going on in the world, in politics, the market and your life, we are here to listen carefully and adjust as necessary. Of course, keeping in mind that a well-diversified portfolio has traditionally proven successful. Together, we will get through this.

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