Inside Views From an Investment Management Leader

UPDATE

July 2020

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Key Offerings:

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- *Proactive investment strategies*
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- *A professional team*
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Distinguishing Values:

- *Passion for excellence*
- *Strategic focus*
- *A disciplined process*
- *Prudent risk management*
- *Comprehensive client care*
- *Superior long-term performance*
- *Sound judgment*
- *Objective Analysis*

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In the News

Check out MACM's new "Beat the Bogey" YouTube Series

If you have't already, check out MACM's new "Beat the Bogey" video series, where we publish fresh and insightful investment content on a regular basis. We sift out truth from the flood of the media's twisted commentary on hot issues facing investors today. Search "Beat the Bogey" on YouTube and look for our "Beat the Bogey" series icon to find our YouTube channel homepage, or use the following link: https://www.youtube.com/channel/UCoHAvcpQWpYvLDE0Vk6RMzw

Economic Review & Outlook

Markets Change Course as Virus Outlook Evolves

Mitchell Anthony
President
Chief Investment Officer

The US economy and financial markets recovered in the second quarter of 2020 as the outlook for Covid 19 evolved. Authorities and regulators across America and the globe introduced and began executing plans for reopening their economies. Texas and Georgia were one of the first to reopen their economies but also the first to back peddle on reopening plans as the virus reemerged and cases accelerated.

Clearly Covid 19 remains out of control despite the fact that the first efforts to control the virus in America were largely successful, however infections in America have reemerged at an alarming rate far above that of Europe and Asia. The death rate which had been tilting steadily lower for the last few months has now shown signs of tilting upward over the last few weeks. Consumers and investors are confused as conflicting views from highly respected experts continue to emerge about the outlook for containing the virus without shutting down the economy again.

After the sharp economic decline that was driven by the governments shutdown of the US economy a modest to moderate rebound in economic activity has occurred as most of America has attempted to reopen. However, the US economy remains severely distressed with many industries still shut down entirely or only partially reopened. The unemployment rate has ballooned and consumer confidence has fallen over 35% from its pre-virus levels.

All areas of consumption in the US economy fell by record levels during March and April 2020. Personal consumption fell by over 18% from peak to trough, but has now rebounded 8% from its lows. (pg. 4, fig. 1) Retail sales from peak to trough fell over 13% (pg. 4, fig. 2) while industrial production declined by over 16 ½% (pg. 4, fig. 3) and remains near its lows for the year. This is notable and concerning. There have been mixed signals across the industrial sector with some areas experiencing substantial declines in orders and production while other areas have only seen some softness in demand. Commercial aircraft production has been hit hard as the outlook for travel remains the worst of almost any industry. Exports of US goods and services has declined by over 32% from its high with no recovery insight yet. New home sales have fallen by over 25% and existing home sales have fallen by 32% to a 10 year low. Manufacturers and builders have had several challenges to deal with including employment problems because of illness and the inability to properly social distance their workers, as well as the inability to forecast demand in this uncertain environment.

The US economy has struggled to reopen given the highly divided views of our leaders as well as our citizens on the outlook for the virus. Quick and fast action by our central bank and Congress have kept money in the pockets of consumers and personal income is actually growing throughout this pandemic. (pg. 4, fig. 4). Because the last economic cycle did not bust but merely was turned off it was easy for companies and industries to think they could turn the lights back on and get right back on the path of growth they had established pre-virus. While some of the past consumption themes are still intact many have been severely damaged - travel and entertainment, and retail consumption of food and services in general. New themes of consumption have emerged that are notable in our economy and our financial markets. They seem to center around working from home, eating and entertaining from home, and manufacturing more in America. They are benefiting companies involved in gaming, takeout food, social media, digital media devices, broadband Internet, and automation equipment for the new manufacturer in America theme. *(cont. on pg. 2)*

Economic Review & Outlook (continued)

(cont. from pg. 1)

Washington, Congress, and the central bank have pledged to stay on the path of providing stimulus where needed to the American economy. Despite this consumer confidence remains quite low however investor confidence has rebounded substantially in an unprecedented manner. Fed funds remains at zero and interest rates are likely to remain low for an extended period of time. Mortgage refinancing is happening at a record pace lowering the cost of housing for American consumers. Congress is readying a second $2 trillion fiscal program as it firmly believes that a second wave of the virus will keep consumers on a path of lower spending, given their employment problems, for an extended period.

The equity markets have rebounded strongly as optimism prevailed over pessimism since the March 23rd lows for the stock market. Recessionary type assets or slow growth assets ended their rally that began in the first quarter but did not selloff despite the optimism that took over in the second quarter. Treasuries remain close to all-time highs in prices and lows in yields. Cash levels remain at close to record levels and gold is at a multi-year high. The equity markets rebounded sharply from their lows with some indexes making new all-time highs. The S&P 500 rebounded 20% in the quarter and 38% from its low on March 23rd. despite this rebound the S&P finished the quarter 4% lower for the year. Conversely MACM equity and balance portfolios made new all-time highs in the second quarter and outperformed the S&P 500 by 500 to 1600 basis points for the first two quarters of 2020. MACM's diversified equity portfolio finished the quarter up 12% year to date and MACM's dynamic growth portfolio finished the quarter up 6.5% year to date, compared to the S&P 500 which was down 4% year to date. Gold advanced 13% in the quarter and is at a multiyear high as the central bank expanded its balance sheet by nearly 75%. The performance of gold has been difficult to understand and correlate to economic activity. The best correlation we have found is to central bank balance sheet changes. When the central bank is monetizing and increasing the size of its balance sheet gold tends to do quite well.

There was mixed returns in real estate thus far in 2020. Prices of residential homes have been flat to a bit lower throughout most parts of the country. Conversely the prices of office buildings and commercial properties have declined substantially as work at home and shop and entertainment from home themes have become rooted into American thinking.

The economic outlook remains challenging and highly dependent upon the path of the virus and governments reaction to the trends with the virus. We continue to believe that the virus will be here for an extended period and change the way Americans live their lives for the next few years. Travel and entertainment will likely remain constrained and as a result consumer services will change course. Further demand for durable goods and industrial products will struggle to meet the trends of the past. Demand for services that allow Americans to work and entertain and eat from home will stay at the forefront of the best part of the economy. We continue to expect negative GDP growth for all of 2020 and only modest growth of 1 to 2% in 2021.

The outlook for financial markets remains bright. In a zero interest rate environment investors will be forced to embrace risk and as a result risk assets will remain at highly valued levels for an extended period of time. Real estate, bonds, and stocks are all highly valued. Equities remain the best valued asset class and equities that have secular growth themes remain the best of the equity sector. Superior earnings growth in technology and healthcare will keep these companies at the forefront of the market. The earnings growth will justify the price to earnings ratios as technology companies leverage the new themes of consumption in America and the globe. The substantial cash that remains on the sidelines will fuel further advances in equities.

We remain cautiously optimistic.

Table 1: Stock & Bond Market Returns *06/30/2020*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	27.7%	23.2%	Small Cap Value (IWN)	19.3%	-17.4%
Large Cap Value (IWD)	14.2%	-8.8%	Small Cap Growth (IWO)	31.0%	3.8%
Europe Asia Far East (EFA)	15.5%	-5.0%	Emerging Markets (EEM)	17.9%	-4.3%
Invest Grade Bonds (LQD)	9.7%	11.6%	High Yield Bonds (HYG)	7.4%	-1.5%
Interm Treasurys (IEF)	0.6%	12.6%	Mortgage Bonds (MBB)	0.8%	5.5%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

Table 2: Real Estate & Commodity Returns *06/30/2020*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	14.0%	-6.8%	DJ Commodity Index (DJP)	6.4%	-20.9%
Int'l Real Estate (IFGL)	7.9%	-16.2%	Goldman Commodity (GSG)	11.5%	-33.7%
NAREIT Residential (REZ)	9.7%	-14.9%	Gold (GLD)	13.0%	25.7%

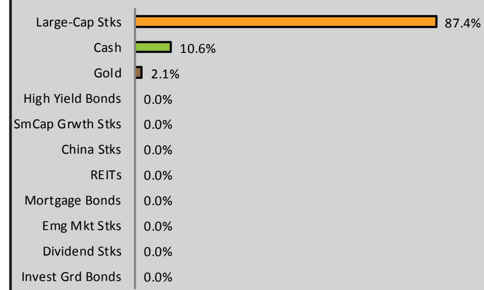
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

MACM Managed Accounts

Growth Portfolios

Dynamic Growth
(Qualified Accounts)

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.

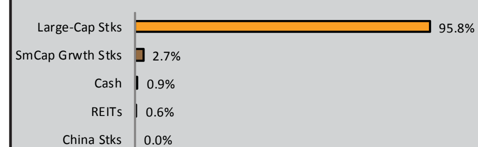


Growth

A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

Diversified Equity

A global, all-cap equity portfolio following economic trends across capitalization and geographic ranges.



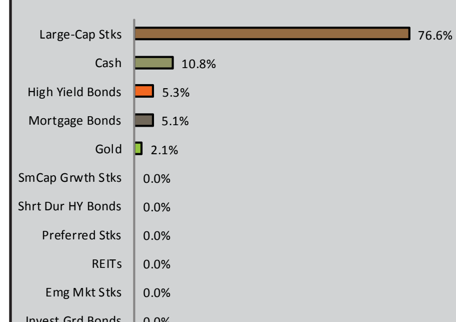
Focused REIT

A portfolio of companies whose primary business is owning and leasing real properties.

Balanced Portfolios

Dynamic Growth & Income
(Qualified Accounts)

A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.



MACM Research Spotlight

Coronavirus: A Check-Up

Much has changed in the span of just three months with respect to the Coronavirus. In our last newsletter, we mulled how a reopening might play out. Indeed, it came to pass somewhat as anticipated, with reopenings happening in phases, largely driven by regional state and county initiatives. The result was a patchwork reopening, with some states, mostly conservative-leaning like Texas, reopening earlier, while other states like California reopened later. Trump's task force provided guidance around infection trends and other benchmarks that were intended to help states guide their reopening, although some states moved ahead without meeting these criteria, in part motivated by populations eager to resume normalcy.

As expected, however, the broad population continued to show caution as we reopened, with only about 50% of consumers indicating a willingness to resume such activities as eating at a restaurant, staying at a hotel, or attending church. Even fewer were interested in things like air travel, where data indicates only about 1/4 as many passengers are travelling now versus the same time last year. Let's now take a look at more recent virus trends, and assess the outlook once more as we move forward.

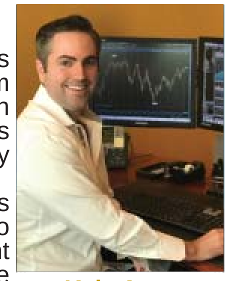
Cases Reaccelerate

While new infections in the US in total were declining as we began a phased reopening, it was not long before cases began to accelerate again. No doubt this was partially a result of increased testing, but the numbers of new infections quickly became hard to ignore. Bars and other enclosed group environments became hotbeds for spreading infection, and states soon moved to close them in an attempt to stem the tide of infections. Unfortunately this seemed to be too little too late, as infections in the US were making new highs by June. New daily cases are now double that of the previous April peak, and are accelerating in more than 75% of all states. Florida, which followed looser protocols similar to other conservative states, has now set the record for new daily cases, even exceeding New York during its peak infection period. Alongside the increase in cases, people have become incrementally less willing to go out and consume.

As a result of the rise in new cases, some states have taken even further steps toward re-closing to help prevent the spread. California recently ordered the closure of virtually all indoor activities, including dining, non-critical office work, and more, in counties that collectively represent about 80% of the state's population. However, it remains unclear what appetite consumers, businesses, and their states will have for re-closure, noting that public outcry against the closures were part of what forced reopening in the first place. Indeed, Florida has already indicated it does not intend to reverse course and re-close, despite being a nationwide leader in new cases.

Shifting Demographics

It's interesting to note that the demographics of those infected as cases reaccelerate seems to have shifted. Perhaps as expected, the newly infected population now skews younger. In Florida, for example, the average age of those infected in March was 65, while now it is 35. There may be several explanations for this. For one, expanded testing has now captured more mild and asymptomatic cases, where previously only the obviously ill were being tested as testing capacity was limited. Knowing the virus has a more severe impact generally on older population, the early skew towards the elderly makes sense. Another explanation is that the more at-risk population is generally taking more precautions now, and has better protected themselves from infection. Meanwhile the younger population has resumed more normal activities and has positioned themselves for increased probability of infection.



Kyle Aron
Senior Analyst

Indeed, the younger average age, and thus lesser vulnerability of those infected, seems to be corroborated somewhat by the lower recent frequency of deaths. While new daily cases are nearly two times that of the previous mid-April peak, daily death counts are still less than half of what they were at that time. This is encouraging. Keeping in mind that it takes time for new cases to translate into actual deaths, we are about at the point in time where the recent surge would be starting to manifest as deaths, and it has not happened yet. To be sure, hospitalizations have increased and deaths ticked up slightly, but a more resilient subset of the population, coupled perhaps with better knowledge and availability of treatment, could keep the death count from spiking. This could bode well for the path of reopening, making the choice for states to remain open somewhat more palatable. Consumption choices would remain more in the hands of consumers, rather than being controlled by state mandate.

The Path Forward & Investment Outlook

It seems likely that the virus will continue to ebb and flow, and the willingness of people to go out and consume along with it. While lesser-risk portions of the population may continue to participate in incrementally more activities, the older portion of the population will likely remain hesitant unless new case trends significantly reverse course. The older population has significant wealth and consumption power, and their lack of meaningful participation in consumption will continue to be impactful. Cyclically sensitive and in-person/experience-based sectors of the market will likely continue to remain under pressure until the light at the end of the tunnel is more clearly visible. More states reversing course on re-opening would only further strain these segments. Well-positioned sectors, however, like those associated with the stay-at-home environment, may continue to thrive. Indeed, strong consumption trends in these segments could endure as the government continues to provide support to both consumers and businesses. As noted earlier in this newsletter, household income actually rose amidst the pandemic to-date as a result of substantial fiscal stimulus.

It is unclear just how far off the light at the end of the tunnel remains. There are currently four vaccine candidates in final Phase III trials, which consist of large-scale human efficacy tests. One of these vaccines, produced by AstraZeneca, is further being supported by Trump's Operation Warp Speed, which provides substantial funding to help the company both complete trials and produce large quantities of the vaccine in advance of results so it is ready to deploy. This vaccine could be approved and available for emergency use as soon as this coming September, with widespread availability likely early next year. However, there is no guarantee that this vaccine will be widely effective and safe, that the population will accept such a hurried vaccine, or that it will be capable of providing long-lasting immunity. We are hopeful the global effort to defeat this virus soon bears fruit, and stand ready to adjust portfolios accordingly.

Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Consumer Disc	36.4%	16.0%
Energy	32.5%	-36.4%
Technology	31.9%	35.2%
Materials	26.0%	-2.3%
Comm Services	21.1%	11.5%
Industrials	17.6%	-9.0%
Healthcare	15.4%	12.3%
Real Estate	13.3%	-5.5%
Financials	12.8%	-14.8%
Consumer Staples	8.6%	3.4%
Utilities	2.9%	-3.9%

2020 Q2: Secular Themes Lead Market Recovery

Markets rebounded swiftly off their March lows as the US Government enacted substantial fiscal support and the Federal Reserve slashed interest rates to near zero. Support measures and news around vaccines aided a substantial rally in beaten down cyclical sectors, but this rally soon faded as the lingering reality of the virus set in. Secular growth segments took over once again, with stay-at-home related sectors like Technology re-emerging as the leaders. Consumer Discretionary and Service sectors, bolstered by names like Amazon and Netflix, also rallied amidst the secular growth leadership, where in many cases the virus has acted as more of a tailwind than a headwind.

Data based upon Russell 1000 Index and GICS sectors. Source: Bloomberg Financial

A Word from our Client Team

Dane May
Client Relations Manager
& Research Analyst

Additional Stimulus Around the Corner?

On March 27th President Trump signed The Coronavirus Aid, Relief, and Economic Security (CARES) Act into law. This $2.2 trillion stimulus package was allocated in three general ways:

1. To provide funding to vulnerable individuals and businesses.
2. To provide funding to government agencies tasked with administering relief and emergency management.
3. To give gave tax cuts and deferrals for individuals and businesses.

This stimulus has helped provide life support for individuals, businesses and government agencies but the funds are quickly dissipating. The extra $600 in weekly unemployment benefits to help consumers ends July 31st. The Paycheck Protection Program (PPP) to help small businesses have likely been spent. So, what comes next? We all know the answer is another rescue package but what will it contain? Below are, in our view, the big-ticket items which the Republicans and Democrats need to come to an agreement on:

- Extended Unemployment Insurance / Return to work bonus
- Aid for distressed industries
- State and Local Aid
- Infrastructure Package
- Stimulus Checks 2.0
- Payroll Tax Cut
- Money for schools to re-open
- Testing and Tracing

Identifying what each party wants is easy but agreeing which ones to prioritize and fund is a difficult process. In May the House (controlled by the Democrats) passed a $3.4 trillion bill (HEROES Act) which will pay for all the above and more. The Senate (controlled by the Republicans) will be proposing a more fiscally conservative package likely in the range of $1 trillion. It is important to note White House officials have hinted they are comfortable with a number in that range. We hope negotiations begin soon as consumers and small businesses who have been hit the hardest are dealing with immense uncertainty about their future.

<u>How could this impact the markets?</u>
Consumer spending is roughly 80% of GDP. Ensuring consumers have money in their pockets and continue to spend is critical. For small businesses, which employ 60 million people, it is vital we provide additional aid to keep them from shutting their doors for good. A lack of additional support in either of these areas could damage consumer and business confidence, our economic outlook and in turn the financial markets.

Economic & Financial Market Charts

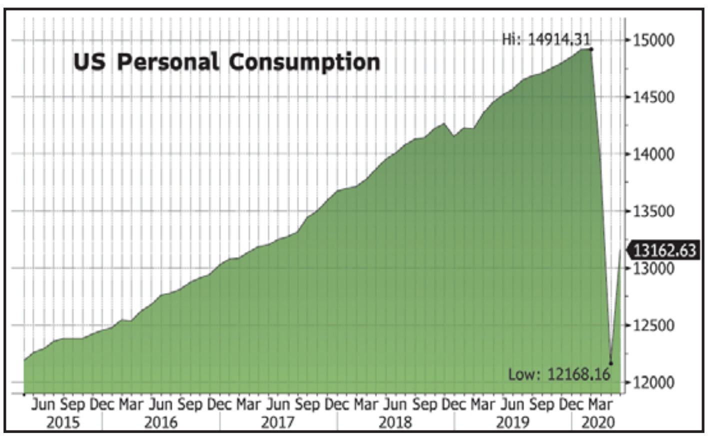


Figure 1 - Source: MACM / Bloomberg Financial
Graph of Personal Consumption showing sharp decline and modest rebound

Figure 2 - Source: MACM / Bloomberg Financial
Graph of Retail Sales showing similar decline and bigger recovery

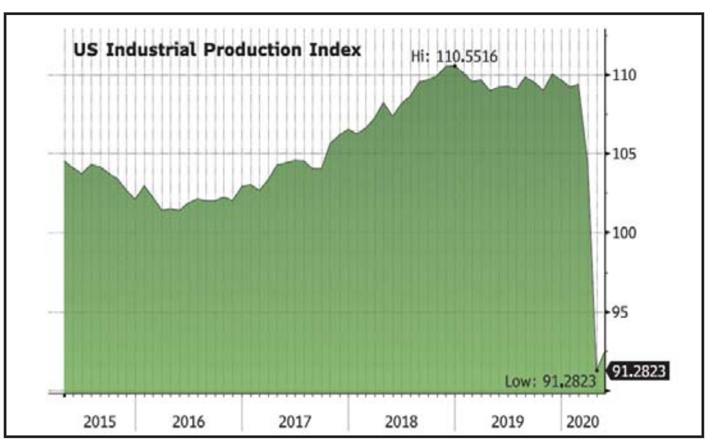


Figure 3 - Source: MACM / Bloomberg Financial
Graph of sizeable decline in Industrial Production with no meaningful rebound

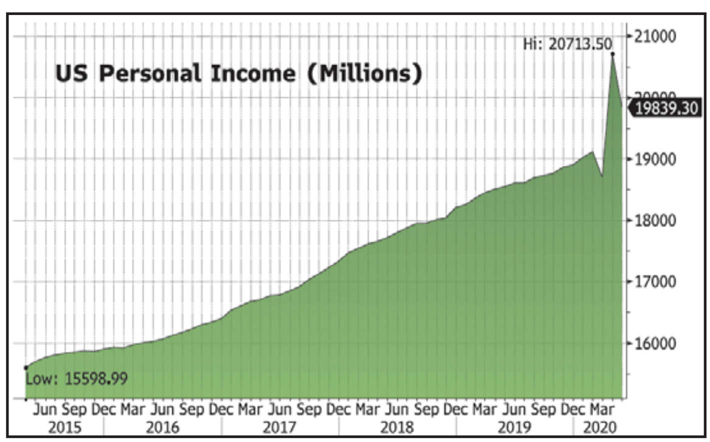


Figure 4 - Source: MACM / Bloomberg Financial
Graph of Personal Income seen increasing throughout the pandemic