the WealthWATCH℠

LINEWEAVER WealthWATCH℠ CENTER

Economic Outlook

by Jim Lineweaver, CFP®, AIF®

The second quarter of 2020 was one for the history books. COVID-19 caused a global pandemic that led to deaths in more Americans than the wars of Vietnam, Korea, and the Gulf Wars combined, and led to “stay-at-home” mandates that caused a sharp, deep recession in Q2 when nearly 20% of Americans were unemployed.[1] In May and early June, after many thought the curve of new coronavirus cases had been successfully flattened, economic reopening occurred across the country. Within weeks the virus spread, however, and the US entered the July 4th weekend reporting record numbers of new cases of over 50k/day.[1] This is double the rate seen in mid-May with total cases now totaling 2.8m, up from 200k cases at the end of Q1.[1] Reopening plans have been rolled back in many states. Generally, the level of uncertainty regarding the virus is growing, not falling.

Despite this environment, risk assets enjoyed strong rallies throughout the quarter, leading to discussions of the disconnect between Main Street and Wall Street. Backed by massive monetary stimulus from the Federal Reserve, fiscal stimulus from the Treasury, some early success in the reopening and hopes for a vaccine, US stocks had their best quarter since the fourth quarter of 2008.[1] US stocks were again led by the large-cap Technology and other popular growth stocks, leading to concerns of narrowing market leadership that has some resemblance to the dot.com period of the late-90’s.

After falling 35% in a matter of weeks before bottoming in March, the S&P 500 Index gained 20.5% in the quarter, its best quarter since 1998.[1] Reopening was met with early success as a number of economic indicators were better-than-feared in May and June, including two monthly Nonfarm Payroll reports, as the recent report for June showed unemployment levels falling to 11.3% while 4.8m new jobs were filled.[1] Hopes for a V-shaped recovery were also boosted by a strong Retail Sales report in May, [1] leading many to believe the sharp recession that occurred in Q2 could be the shortest on record.

With some progress reportedly being made on several treatments and potential vaccines, many market participants have started pricing risk assets as if the worst of the virus’ impact is over. This was before the onset of what many are calling the “2nd wave” of new coronavirus cases that occurred in mid-June, and before steps had been taken by many states to reverse reopening plans. With expectations that the Federal Reserve will do “whatever it takes” to support the economy and risk assets, investor attention has turned to Congress, as the $600 weekly unemployment benefit from the Federal Government expires on July 31st.[1] The passage of another fiscal stimulus bill is an uncertainty entering Q3, but one that is increasingly likely.

The longest-running bull market in history ended in Q1 of 2020 and the shortest-ever recession likely ended in Q2 of this year. Both led to predictable large gains and losses in equities, leaving large-cap US stocks nearly unchanged for the year. While there are still losses in small-cap stocks and non-US stocks, equities have largely already discounted a strong recovery, though the discovery of a vaccine is probably still not discounted. ***(cont. on page 3.)***

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LETTER FROM THE PRESIDENT

by Jim Lineweaver, CFP®, AIF® President and Founder

Congratulations Class of 2020!

One of the many challenges posed by COVID-19 is the end of the year celebrations for new grads. In the Lineweaver household, this has been especially difficult for my eldest daughter Tori, who graduated this year from Miami of Ohio! Kathy, myself, as well as Tyler and Delaney, could not be more proud of Tori and her success. I was lucky enough to have her join me for two of our weekly Financial Quarterback℠ segments, to talk about financial concerns and strategies that all new grads should consider.

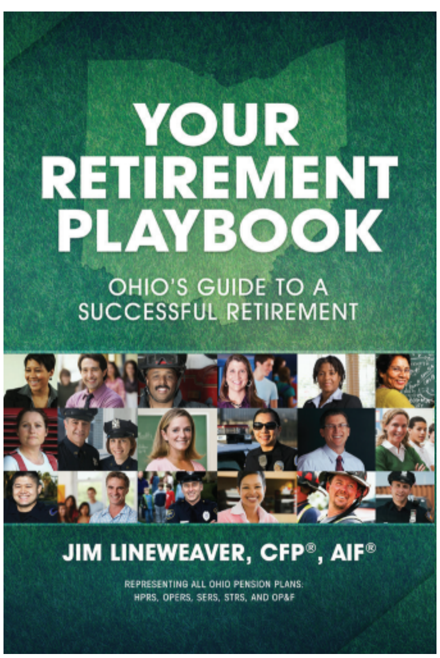
The first thing Tori and I talked about is that choosing the right benefits is an important first step. Some new graduates might be able to stay on their parents' health insurance until the age of 26, which can help save on some of the initial costs. If not, make sure to look over all the options to find the right insurance that fits your needs and budget. Many jobs will also give you options when it comes to life insurance and disability. When you're young something such as disability or life insurance doesn't strike you as important, but you have to be prepared for unexpected circumstances. It's critical to protect your most valuable asset, your ability to earn an income.

We also talked about how important it is to set up your 401(k) or IRA, maximizing and matching contributions. Compounding can help your money grow faster! Also, establishing and using credit responsibly, paying bills on time every time, is critical for future purchases like a car or a house!

I want to take this time to congratulate all new graduates, and while our show (and our newsletter) usually deals with retirement planning and strategies, we know that many of you have kids or grandkids who you want to set up for success, and so both shows will be on our website and social media for you to share. Congratulations to all the classes of 2020!

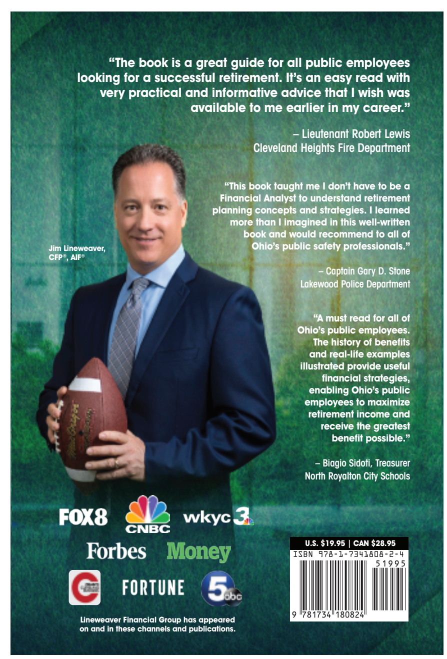
Jim & Tori on the Financial Quarterback Show

"Every moment is a fresh beginning." - T.S. Elliott



Coming Soon!

Keep an eye out for Jim's new book, *Your Retirement Playbook*. Written in easy to understand language, this book is geared towards all state pension plans including police, fire and other municipal employees to help them have a successful retirement!



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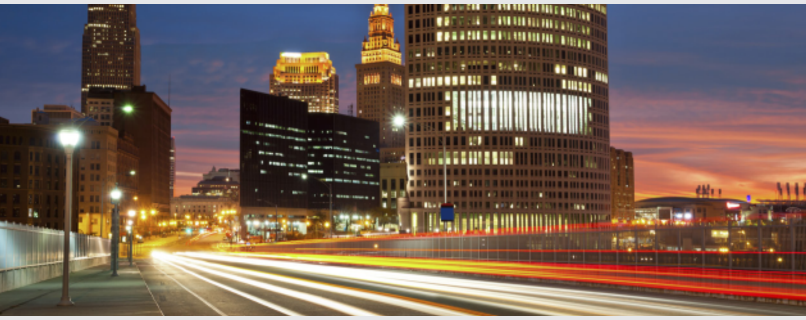
This strikes us as very optimistic. Stocks are expensive and risks are higher now than pre-COVID (more debt, fewer earnings, more uncertainty), but many market pundits feel investors have little choice but to own equities in a zero-interest rate environment where credit spreads are near record lows. We would expect a sharp rally in stocks should a vaccine be announced in the back half of the year, but short of that, we expect future gains to be modest given the starting point of high valuation.



HEALTHWATCH

Are you currently taking probiotics to improve your gut health? New research from the American Gastronenterological Association is showing that it might not be as helpful as we are led to believe.

Since researchers started to learn more about our gut bacteria, or microbiome, probiotics have become more popular. Yogurt and dietary supplements contain certain bacteria and yeast, which are organisms found in probiotics. Depending on your location, you can find probiotics sold over the counter or by prescription.

Since probiotics are not considered drugs in the United States, they aren't regulated in the same way as other pharmaceutical products. This can lead to an increase in misleading information and has acted as a barrier to scientific research when it comes to how helpful probiotics actually are.

For example, research has found there isn't enough evidence that suggests the use of probiotics to treat Crohn's disease, ulcerative colitis or IBS. The American Gastronenterological Association told some people to consider stopping probiotics because of the limited evidence we have that it's helpful for those specific diseases.

It's always important to consult your doctor when you decide to start taking a probiotic if you have a compromised immune system. When taking probiotics, the tiny microbes inside can actually lead to infection. When consulting with your doctor this question might not have simple answers, as the research on probiotics isn't geared towards treating or preventing diseases.

https://www.cnn.com/2020/06/09/health/probiotics-new-us-guidelines-wellness/index.htmw

ECONOMIC COMMENTARY

Summer 2020

Summer is here: Making lemonade out of lemons

The great poet Ralph Waldo Emerson famously wrote, "Do what we can, summer will have its flies." As we head into the summer months, this mood may best describe nervous investors who recently experienced large bouts of market volatility due to the spread of the coronavirus. The S&P 500 Index fell 34% from its all-time high reached on February 19 to its low on March 23. While it has recovered since then, we are seeing global economic activity reflects the implementation of mandatory "shelter-in-place" policies.

Simultaneously, extreme moves in the oil market — with West Texas Intermediate (WTI) oil futures prices at one point trading in negative territory due to fears of oversupply — caused additional distress in markets.

Globally, central banks and governments stepped up to provide unprecedented levels of stimulus measures on both the monetary policy and fiscal fronts. We see three investment implications from this stimulus. First, we would like to maintain core benchmark holdings and rebalance selectively into risk assets such as credits. Second, we see coupon income as critical in a low-yield world and prefer allocations to corporate credit and even select equity industries. Finally, we would maintain resilient portfolios by focusing on U.S. equities and diversifying perceived safe havens, such as U.S. Treasuries.

Investor risk sentiment began to improve in line with reduced market volatility as a result of policy actions. We see evidence in the high level of dispersion at the industry and country levels as investors refocus on the idiosyncratic stories of each area. Interestingly, megatrends also remain in focus, with infrastructure being one area that is arising frequently in client discussions as a contender for further stimulus measures, especially given its high fiscal multiplier effect and the broad bipartisan support it enjoys.

Meanwhile, our view on momentum has decidedly improved this quarter while we remain cautiously optimistic on the economy. Although recent headlines have warned of a looming global recession, our regime indicator remains in slowdown and we'd need to see growth closer toward zero in order to move to a more negative sentiment.

Blackrock Investment Directions Summer 2020

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EMPLOYEE SPOTLIGHT

Preston Ptak

Preston is the newest member of the Lineweaver Financial Team! He will be assisting with trading, research and help in supporting our investment committee as a financial analyst.

Preston joins us with a background from Huntington and Charles Schwab. He graduated from Bowling Green State University with a bachelor's in Spanish and Sociology in 2010. In 2017 he finished his MBA at Cleveland State University. He lives in Copley with his fiancé. He enjoys reading, exercise/fitness, travel, time with friends and family, and always a great movie.

Trivia:

The month of July was originally called Quintillis. The month was changed to honor Roman General Julius Caesar after his passing. They decided to rename his birth month, Quintillis, to what we now know as July.

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