

## The Archvest Advantage Q2 2020 Newsletter

July, 2020

### The Market Whipsaw

As we keep saying, these are unprecedented times. Q1 was the worst first quarter we've participated in since the Great Financial Crisis in 2008, followed by the best Q2 since 1987. The S&P 500 and the Dow closed the quarter up a staggering 20.5% and 18.3%, respectively. Yet for the year, the market is still negative, down -3.1% and -8.4%.

Despite the strong Q2 in large-cap stocks, many asset classes are still down double-digits for the year. Small-cap stocks, real estate, and international equities have all lagged in performance. As a result, diversified portfolios have underperformed large-cap stocks year-to-date.

We believe the strong Q2 large-cap stock performance is directly linked to the stimulus by Congress and the Fed. The government is responding to the COVID-19 economic crisis in true Keynesian economic fashion, adding over \$3.25 trillion in fiscal and monetary stimulus to the economy. (Keynesian economics is an economic theory that advocates increasing government expenditures to offset lower demand to stimulate the economy.) This cannot continue as the healthcare crisis cannot be resolved through economic stimulus; the health solution must come first for us to see any type of sustained economic recovery. The numbers are dire, according to the latest estimate from the Atlanta Fed's forecast, the second-quarter GDP will decline by 35% on an annualized level.

Clearly, there has been a decoupling between stock prices and the economy. The current official unemployment rate is 11%, as measured by U3; however, the real unemployment figures are much worse. The U6 unemployment, which includes discouraged workers, marginally attached workers, and those that are part-time for economic reasons, is a better measurement of unemployment in today's economy. That U6 unemployment rate is 18%!

History tells us that when entering a recession, it takes roughly three years for companies to return to pre-recession earnings levels, not just a matter of months. Thus, we are highly skeptical of the recent rise in stock prices. The list of companies filing for Chapter 11 bankruptcy is growing, recent filings by Hertz, Latam Airlines, Frontier Communications, and retailers like Brooks Brothers, New York & Co., J. Crew and J. C. Penney is not a good sign of the things to come. In recent years, companies have piled on the debt in search of higher earnings through financial engineering rather than the growth of the business. We spoke about this in our Q1 2018 newsletter and noted that the consequences could be dire.

### What Now?

As we look to the months ahead, we see headlines surrounding COVID-19 and policy responses

to the economic data as being the main drivers of the market. Given the recent rise of COVID-19 cases, states and counties are in for another round of shutdowns. Without additional stimulus or extension of unemployment benefits, coupled with the first wave of forbearance ending in October, these are the ingredients of a perfect storm that will add more pressure to the stock and credit markets. The market may test or exceed the March 2020 lows. Interest rates should remain low; the Fed announced that they see rates staying near 0% through the end of 2022. Thus we expect the 10-year treasury rate to remain at less than 1%. This risk-free rate is generally an indication of the returns to come and the 10-year treasury is signaling that future returns will be low given the current high market valuations.

We recommend you to save cash, build your reserves, avoid consumer debt, and be more conservatively invested in this environment. These steps will help you minimize economic damage; this is the time to be concerned about the return of capital rather than the return on capital.

## COVID-19 Update

Archvest employees will continue to work remotely and plan to reopen our business with Phase 3 businesses to comply with county health regulations. We will continue to hold all client meetings remotely until further notice to keep everyone safe. Our number one priority is everyone's safety.

We know that this COVID-19 crisis has impacted everyone. If you or anyone you know is experiencing difficulties, please reach out to our office. We may have resources to help or point one in the right direction. There are programs coming online weekly to assist those in need; we are doing our best to keep apprised of the programs available and ever-changing rules.

Additionally, we have set up a direct program to assist those experiencing food insecurities. If you or anyone you know is in need of food assistance, please contact us at [covid19help@archvestwa.com](mailto:covid19help@archvestwa.com).

A very buff man once said the self-made man is a myth. He shared his story:

"I came over here with absolutely nothing. I had \$20 in the pocket and some sweaty clothes in a gym bag. But let me tell you, I had this one little apartment, and on Thanksgiving, the bodybuilders from Gold's Gym came to my apartment, and they brought me pillows, dishes, silverware, all of the things I didn't have. None of us can make it alone. None of us. Not even the guy that is talking to you right now, who was the greatest bodybuilder of all time. Not even me, that has been the Terminator and went back in time to save the human race. Not even me that fought, and that killed predators with his bare hands.

I always tell people that you can call me anything that you want, but don't ever, ever call me a self-made man. It gives the wrong impression that we can do it alone. None of us can. The whole concept of the self-made man or woman is a myth. I would have never made it in my life without the help. So this is why I don't believe in a self-made man. Why I want you to understand that is because as soon as you understand that you are here because of a lot of help, then you also understand that now it's time to help others. That's what this is all about."

Know that you're not alone and we're here to help.

### Housekeeping Items

Mortgage rates are continuing to tumble, creating an opportunity to refinance your mortgage. If your mortgage rate is above 3.50%, it's worth considering refinancing. We are happy to help you shop around and review the best solution for your circumstances.

As we wrap up the 2019 tax season, please remember to send us a copy of your tax return for our records.

We appreciate the confidence you have placed in us to work alongside you regarding your planning needs. Be sure to follow us on Facebook, LinkedIn and Twitter as well as our RSS feed to stay up to date on what we're reading and thinking.

THE  
*Archvest Team*