CAPSTONE
WEALTH ADVISORS

Outlook on the Markets

MID-YEAR SUMMER 2020 ISSUE

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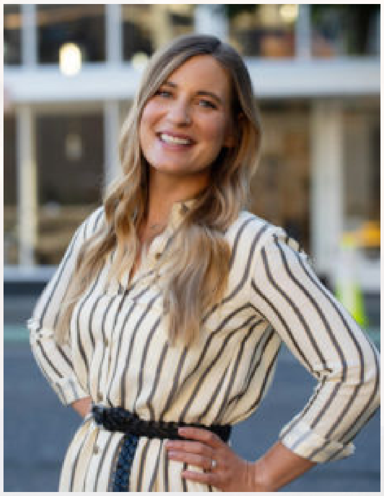

Capstone Wealth Advisors is pleased to release our Mid-Year Outlook on the Markets written entirely by our advisory team. Our outlook is based on our views and philosophies as we see them impacting financial markets, and your money. Current trends, economic indicators and in-depth analysis is at the core of what we do. We monitor and analyze economic trends to help our clients have a clear understanding of the direction the economy is headed and how that impacts your portfolio strategies.

We have five offices throughout the Pacific Northwest, utilizing a team approach to provide continuity for your asset planning needs. Our investment committee meets weekly to discuss current economic events, market trends, asset allocations and more. By using a disciplined and methodical approach to investing, we remove the noise and emotion from your investment portfolio and allow you to focus on the things you love and enjoy most.

Are you ready for the second wave? As the reopening of our economy begins, so do concerns of the second wave of COVID-19 infections. Whether or not a rise in infections ultimately pushes our economy deeper into a recession remains to be seen.

Let's face it, from an economic standpoint things are bad, really bad. Our current economic situation is one of significant complexity. The US unemployment rate reached levels unseen in modern history, entire segments of our economy have been completely shut down, the US Federal Government is pumping trillions of dollars into our economy in an attempt to create stability and to top it all off, we have a major and very polarizing election coming later this year. Put all that together and what do you get? A highly volatile stock market, of course. Larry Kudlow, US National Economic Council Director, described the situation in an interview on CNBC by saying, "This pandemic is like a passing hurricane." The key takeaway from his remarks is the word "passing" – As with all things, this too shall pass and our economy will eventually fully recover, lets not lose sight of that.

The Federal Reserve & US Treasury have been major sources of stability through this pandemic by swiftly providing a "backstop" for stock and bond markets through its massive stimulus and widespread bond buying programs. These measures, in conjunction with additional stimulus measures being passed into law have helped to bridge the gap for individuals and companies through this "passing hurricane."

As the focus shifts from the pandemic to how we get back to what was otherwise a strong economy, we see a dichotomy of reactions in stocks. Some companies like Amazon (one of our largest underlying holdings) are thriving, while other companies are filing for bankruptcy. How does an average investor make sense of all this? The answer is, you shouldn't. Equity markets are currently operating with very little emphasis on fundamental data and instead, trading is largely based on tactical chart patterns or just outright speculation. This is a dangerous environment for average investors who do not understand the different ways financial markets behave. It is far too easy to get wrapped up in the news of the day only to find out that news was wrong, misleading, or you were just too late to act. Having professional asset management and guidance during these times helps to take the guess work and emotion out of the equation, a strategy that has almost always yielded a better result.

Important Market Indicators to Consider

- **The S&P/Case-Shiller Index** reports that national home prices have remained steady and increasing since 2012 with the index sitting at 223.21 in May 2020.

- **The Conference Board Consumer Confidence Index ®** stabilized in May, following a sharp decline in April. The index now stands at 86.6, up from 85.7 in April.

- **The Institute for Supply Management's PMI ® Index** reported at 43.1 in May, demonstrating an increase of 1.6 from the April reading of 41.5. According to Petroleum & Coal Products, Fuel sales demand are beginning to rebound in May as stay-at-home orders are lifted across the country.

- **The National Federation of Independent Business** reported small business labor market deteriorated in May with firms reducing employment by an average of 0.17 workers per firm. Down from April, 6% of owners reported increasing employment an average 3.3 workers per firm. Small businesses are working hard to begin the recovery process from the pandemic and move forward but, many owners were forced to lay off employees as economic activity declines in May.

- **Due to stimulus measures, The Commerce Department** reported that personal income increased $1.97 trillion (10.5 percent) in April. Disposable personal income increased $2.13 trillion (12.9 percent) and consumer spending decreased $1.89 trillion (13.6 percent). The April estimate for personal income and outlays was impacted by the response to the spread of COVID-19, as federal economic recovery payments were distributed, and governments continued with "stay-at-home" orders.

- **The Bureau of Labor Statistics** reports that the official unemployment rate (U-3) seasonally adjusted in May was 13.3 percent. The U-6 unemployment rate, a more comprehensive measure of unemployment, was 21.2 percent which is significantly increased 14 percent from May 2019, a year prior.

- **The U.S. Census Bureau** and the U.S. Bureau of Economic Analysis announced the goods and services deficit was $49.4 billion in April, up $7.1 billion from $42.3 billion in March, revised. The declines in exports and imports that continued in April were, in part, due to the impact of COVID-19, as many businesses were operating at limited capacity or creased operations completely, and the movement of travelers across borders was restricted.

- **CBOE Volatility Index (VIX)** has experienced quite a significant decline from it is 52-week high of 82.69 March 2020 and has experienced quite a bit of volatility since. The index sits at 34.4 in June.

International and Emerging Markets have experienced similar problems – at varying levels – to us in the US. They certainly weren't spared from the effects of COVID-19 and have largely seen declines worse than US equity markets. Additionally, foreign currencies do not have the stability the US dollar commands and because of this, they are a significantly higher risk to investors. Based on the level of risk and volatility in International and Emerging markets vs that of domestic, Large-Cap Growth companies, investing in the international space appears to be a poor risk vs return trade-off and we would recommend investors use extreme caution with this asset class, for now. At some point the current situation may change but for now we are not recommending holding any significant position in this area.

What does all this mean to you and your portfolio? Our team sees market volatility remaining at elevated levels through the summer and into the presidential election this November – expect levels that will likely make the evening news from time to time. Having the right kind of diversification in this market is essential to your overall success. We do not see "traditional" diversification models outperforming through this market and instead see specific asset classes and sectors dominating others. Technology and biotech have been a few of those areas as people communicate and conduct business from home while medical firms race for a cure. We see this area of the market maintaining its momentum for the foreseeable future. Bonds have been another area of strength in our portfolios, while interest rates remain historically low, it appears that until economic certainty returns, this asset class will remain stable. We do favor short and intermediate term bonds vs longer term maturities.

Our team believes the best approach in this market is to be "defensively optimistic" when it comes to your investments – until the eventual economic recovery has clearly gained solid footing. Long-term investors should keep in mind the strength and persistence of the US economy throughout history.

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