



Market Commentary

June 22, 2020

Dear Investors:

Could it be the upside surprises?

U.S. stock markets have marched higher despite a pandemic, an economic downturn, and social justice protests – and a lot of people have wondered why.

Greg Rosalsky of *Plant Money* spoke with Nobel Prize-winning economist Robert Shiller about, “...the mass psychology of a gazillion buyers and sellers, who each are telling themselves their own stories about why they’re making the trades they’re making.”

Rosalsky and Shiller discussed some narratives that purport to explain recent market performance, including:

- **Quarantine boredom.** Matt Levine of *Bloomberg* has postulated “...a lot of individual investors buy stocks mainly because it’s fun, and that the more fun stocks are, and the less fun everything else is, the more they’ll buy stocks. In a pandemic, when people can’t really leave their house and sports are canceled, there is a lot less fun to be had elsewhere...so people buy more stocks.”
- **Big, publicly-traded companies are safe.** This theory suggests businesses hit hardest by the economic downturn often are not traded on stock exchanges. In a separate article, Rosalsky cited former technology executive Eric Schmidt who wrote, “Gigantic corporations, which have deep pockets, fancy accountants, huge legal teams, and access to international financial markets, are also better equipped to weather shocks than your local hardware store or small manufacturing company.”
- **Don’t fight central banks.** “The Fed is using its unlimited money-printing machine to single-handedly prop up the stock market. ‘The Fed is itself an important narrative,’ Shiller says. In reality, he says the Fed’s magic over the real economy is limited. But its statements clearly move markets, and it has lots of power as a storyteller,” reported Rosalsky.

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On Saturday, Lisa Beilfuss of *Barron's* offered another narrative. She reported:

“...upside economic surprises over the past two weeks – mortgage applications hit the highest level since 2008, retail sales rose at the fastest pace ever, and U.S. businesses added 2.5 million jobs in May instead of cutting an anticipated eight million, to name a few – are even better than they look and offer at least some proof that the stock-market rebound was driven by expectations for improving fundamentals...It's about the magnitude of the surprises versus Wall Street's expectations.”

We don't know which narratives were responsible, but major U.S. stock indices moved higher last week.

Data as of 6/19/20	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.9%	-4.1%	5.9%	8.1%	8.0%	10.8%
Dow Jones Global ex-U.S.	1.8	-10.9	-4.1	-1.1	-0.1	2.1
10-year Treasury Note (Yield Only)	0.7	NA	2.0	2.2	2.3	3.2
Gold (per ounce)	0.1	13.9	29.1	11.6	8.1	3.3
Bloomberg Commodity Index	1.4	-20.2	-17.0	-7.2	-8.4	-7.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT DO YOU THINK? In recent years, we've learned a lot about why investors do the things they do. For instance, we now know investors are not the omniscient, rational decision-makers economists believed them to be. Investors have built-in biases that sometimes cause them make errors in thinking.

One of those biases is known as confirmation bias. Investors (and non-investors) have a tendency to seek data that reinforces their beliefs and ignore data that suggests they're wrong. Recently, sentiment data has been published that supports diverse ideas about the direction of the economy and stock markets. For example:

- **Consumer sentiment was up month-to-month**, suggesting Americans were more optimistic about their personal finances and current economic prospects in June than they were in May. However, sentiment remains down year-to-year and below the baseline, which is consumer sentiment in 1966 (the year the survey began).
- **Investor sentiment was down week-to-week**. Almost one-half of participants (47.8 percent) in the *American Association of Individual Investors (AAII) Sentiment survey* were feeling bearish last week, while one-fourth (24.4 percent) were feeling bullish. The bulls were down 9.9 percent week-to-week, and the bears were up 9.7 percent week-to-week. Some investors consider the *AAII* survey to be a contrarian indicator, meaning they think the survey's prevailing sentiment is incorrect. In this case, contrarians would be bullish.

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- **Money managers think the market is overvalued.** Bank of America surveyed 212 money managers with \$598 billion under management and reported 78 percent think the stock market is pricey. Survey participants indicated the most crowded trades were U.S. technology and growth stocks, reported John Melloy of *CNBC*.

When data supports varied opinions, how can investors avoid mistakes? One of the best ways is to work with an advisor who has a clearly defined process and who will help you develop a plan to meet your financial goals.

Weekly Focus – Think About It

“A public-opinion poll is no substitute for thought.”

--*Warren Buffett, Investor and philanthropist*

Best regards,

SYMPHONY FINANCIAL SERVICES, INC.

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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- * Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
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- * All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

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- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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- * Consult your financial professional before making any investment decision.

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