



Market Commentary May 11, 2020

Dear Investors:

The stock market is not the economy.

It's an important point to remember when headlines marvel that U.S. stock markets are moving higher while the U.S. economy is contracting. Stock markets are not mindful of the present moment. They are forward-looking, reflecting expectations about what will happen in the months and years to come, explained Mark Hulbert in a *MarketWatch* opinion piece.

In the present moment, the pandemic-induced recession is producing some brutal economic statistics. Lisa Beilfuss of *Barron's* reported the unemployment rate rose to 14.7 percent last week. One-in-five Americans was out of work, and household income might be down 10 percent for the first six months of 2020.

No one is expecting great things from the economy in 2020. *The Conference Board* forecasts the U.S. economy will contract between 3.6 percent and 7.4 percent this year. However, the economy's poor showing doesn't mean stock markets will decline. John Rekenthaler of *Morningstar* explained:

“...neither employment statistics nor GDP [Gross Domestic Product] growth directly affect equity prices. The primary drivers are instead two sets of expectations: 1) future earnings and 2) future interest rates, with the latter being used to discount the former.”

Let's consider earnings. There's not a lot to celebrate in 2020, but the outlook for 2021 is positive. John Butters of *FactSet* reported, “Looking at future quarters, analysts predict a (year-over-year) decline in earnings in the second quarter (-40.6 percent), third quarter (-23.0 percent), and fourth quarter (-11.4 percent) of 2020. However, they also project a return to earnings growth in Q1 2021 (12.2 percent).”

The Federal Reserve is doing all it can to keep interest rates low. However, one of its most potent tools, the fed funds rate, has already been cut to near zero. Rekenthaler wrote:

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“Government intervention is the new and updated version of “The Fed Put”: the idea that the Federal Reserve could always support equity prices, whenever it desired, by cutting short-term interest rates. Those rates are currently at zero, so that game can no longer be played. But the Federal Reserve can continue its newer technique of buying bonds in the open marketplace and flooding the banks with liquidity, and Congress can pass new stimulus bills... Whether such activity will benefit investors more than workers remains to be seen. Thus far, it has.”

Last week, the Standard & Poor’s 500 Index finished up 3.5 percent. The Dow Jones industrial Average gained 2.6 percent. The Nasdaq Composite rose almost 6 percent, putting it in positive territory year-to-date, according to *Barron’s*.

Data as of 5/8/20	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.5%	-9.3%	1.8%	6.9%	6.7%	9.7%
Dow Jones Global ex-U.S.	0.7	-18.7	-12.1	-3.4	-2.5	1.1
10-year Treasury Note (Yield Only)	0.7	NA	2.5	2.4	2.2	3.5
Gold (per ounce)	1.1	11.9	32.6	11.5	7.5	3.6
Bloomberg Commodity Index	2.7	-23.0	-21.1	-8.8	-9.8	-7.1

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.

THE BETTER ANGELS OF OUR NATURE. In his first inaugural address, President Abraham Lincoln urged unity, saying: “We are not enemies, but friends. We must not be enemies. Though passion may have strained it must not break our bonds of affection. The mystic chords of memory, stretching from every battlefield and patriot grave to every living heart and hearthstone all over this broad land, will yet swell the chorus of the Union, when again touched, as surely they will be, by the better angels of our nature.”

During the coronavirus crisis, we have seen remarkable generosity. From first responders manning the front lines, at significant personal risk, to companies and individuals taking actions that help others. Since the virus began to spread, news organizations have been sharing stories about generosity, innovation, and appreciation. Here are a few from *Good News Network* and *The New York Times*:

- A grocery chain is paying to process and package raw milk donated by dairy farmers so the milk can be distributed through food banks and community organizations.
- A Brooklyn landlord waived April rent for everyone living in 18 apartment buildings in an effort to ease tenants’ financial stress.
- California partnered with the Federal Emergency Management Agency (FEMA) to create ‘Great Plates Delivered,’ which pays restaurants to deliver meals to eligible seniors.

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- The elusive street artist Banksy delivered a piece of art, featuring a new superhero – a nurse wearing a mask and a cape – to a British hospital with a thank you note.
- A national hardware store chain bought flowers from nurseries and growers and had them delivered to moms quarantined in nursing homes on Mother’s Day.
- Coronavirus survivors are sharing their blood so the antibodies they’ve developed can be used to save lives.

What acts of kindness and generosity have you seen, read, or heard about?

Weekly Focus – Think About It

“Always do what is right. It will gratify half of mankind and astound the other.”

--Mark Twain, Writer and humorist

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.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* 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.

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- * 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.
- * 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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- * Asset allocation does not ensure a profit or protect against a loss.
- * Consult your financial professional before making any investment decision.

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