The beginning to 2020 was much more than a whirlwind.

This mid-year report underscores the fact that in January and February, the US economy was humming. The stock market climbed to one of its highest points only to dive straight down once the news of Covid-19 was confirmed. Some wondered if it would resurface, but it did.

If you felt like you were totally caught up in the pressing news surrounding this deadly virus, you are not alone. Much of the attention from the media and Wall Street shifted dramatically from investment forecasts to survival. And honestly, those who tried to forecast what, when, and how the market would respond to Covid-19 were drastically wrong.

The one thing that is certain is the toll that the coronavirus outbreak had on the global economy. Within a short breadth of time, it reaped financial devastation—closing the borders to many countries and leaving us holding our portfolios and wondering when we would hit the bottom so we could begin to climb again.

Despite the government's best efforts to contain the virus, the number of cases continued to rise each day. In the wake of the virus, successful companies and businesses were left empty and silent for days as America stayed home and waited.

An unprecedented government stimulus was put into place to reverse the financial fallout and change the market outlook. It helped put a different face on the pandemic, but was it enough?

We witnessed the steepest and quickest bear market—a 35% decline in five weeks, which was followed by the best 50-day performance ever; a rocket right back up to highs. March to June was a perfect picture of a "V" bottom on the financial chart.

With a pandemic and an election upon us, we're bracing for volatility. My advice remains the same in all markets: employ a disciplined rules-based active strategy.

But then light flowed in from above as the stock market began to recover leaving many forecasters scratching their heads because they were also looking at record unemployment numbers, souring bankruptcy filings, and the mere fact the Covid-19 virus is still spreading!

While the economy has stabilized some, it's uncertain whether the recovery will be rapid or prolonged. The jobless numbers still look bleak and remain at this level for a longer than normal period of time. Couple this with the rise in protests, violence, and the lack of improvement in unemployment-insurance claims and you see that the job market has yet to heal.

In a webinar, David Kelly, chief global strategist at JPMorgan Asset Management said, **"If ever there was a year that needed a mid-year review, it is this."**

Investors need faith when it comes to profitability. Corporate earnings were not great during the first quarter, and they were dismal during the second. The question that is in front of us now is whether profits recover enough by 2021, or will the nation's recovery take longer?

The virus is still with us, and we may not have a vaccine until late in the year or until 2021. All of this plays into how the market reacts and, we have a presidential election to go through. Normally, this is a time when political campaigns click into high gear, but this is not the case this year. Social distancing has dramatically changed the look and face of our country.

Typically, and honestly, regardless of who you support, presidential election years are good for the stock market. For example, in 17 of the past 20 presidential-election years the S&P 500 has advanced.

While it appears that the stock market has recouped the losses from the first half of the year, it's important to note this is not fully reflective of the economy. Financial markets usually are forward-looking, reflecting what the future may hold.

The economy is far from recovered, but **the news is not all gloomy.** We are adding jobs back—4.8 million, and though unemployment remains above 11%, recovery is impressing investors.

Another reason for optimism is this: consumers have cash that could be placed back into the economy or the stock market. Recently, the *Wall Street Journal* stated that investors are holding a record amount of cash with nearly $5 trillion in money market funds! This could set the stage for a huge monetary stimulus.

Even though the second half of 2020 is shaping up to be one of the more challenging, there will be periods for discerning investors to take many opportunities. **My advice: be sure to hold to your course and remain steady in your investments.** No impulse buying or trading. If Covid-19 is too much of a concern for you, let's talk.

The following report will add explanation about today's market environment.

Sincerely,

H. Cokie B.

Cokie Berenyi
Alphavest President/CEO

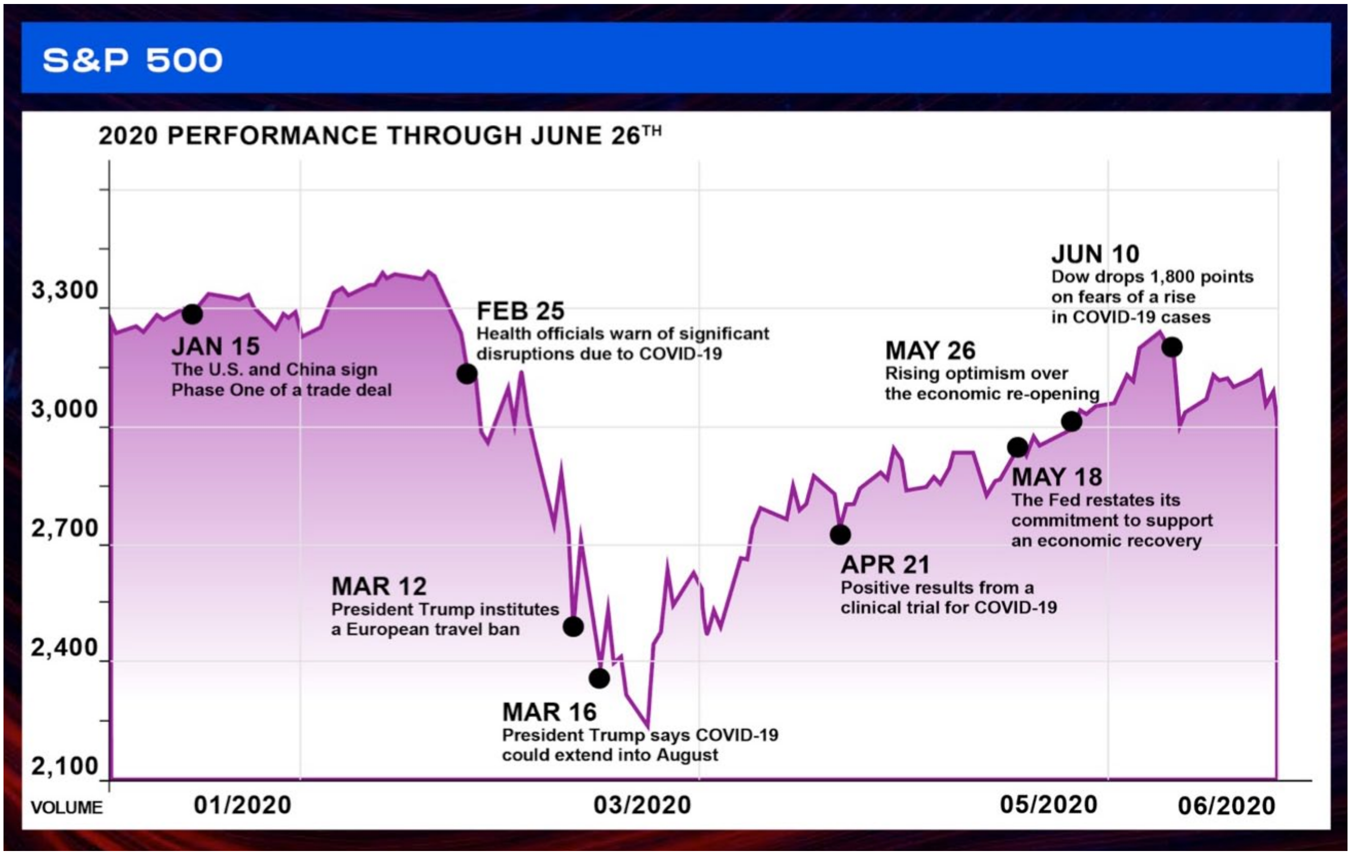
P.S. Join me and the investment committee for a **live interactive discussion at 6 pm EST on August 25**.

Mid-Year Update | One goal is to discuss factors that influenced market performance during the first half of 2020, then address the underlying fundamentals.

It is impossible to cover everything that's happened over these past few months. Yet, focusing on some key developments will help give a clearer picture of today's markets.

Here's a review of some key economic fundamentals, and what could lie ahead in the second half. This broad view is designed to help you stay informed — and give you a better understanding of some of the perspectives guiding our investing process.

Let's begin by reviewing how the stock market performed during the first half of 2020. This is a snapshot of the S&P 500 Index performance for the first six months of 2020. The S&P 500 Index tracks the market capitalization of 500 large domestic stocks. The index also is viewed as a common benchmark for analyzing the performance of the U.S. economy. The S&P ended 2019 at 3,231. At the end of June, 2020, it closed near 3,075.



Let's look at some key events that affected stock performance in the first half. Keep in mind this was an extremely volatile period, which reminded us all that the return and principal value of stock prices will fluctuate as market conditions change.

As the new year began, stocks marched higher in January and February, lifted by the completion of a Phase One trade deal between the U.S. and China, a monetary policy engineered to stimulate economic activity and growth. As you know, the market narrative changed quickly when the COVID-19 outbreak spread throughout China.

As it grew, the Chinese economy was devastated. U.S. markets remained unfazed until February, when health officials announced what was quickly becoming a world pandemic and would likely have a widespread impact. In March, stocks swung wildly on news of economic contraction, the rise in domestic infections, general uncertainty regarding how far the economy might fall, and how long the pandemic might last.

The stock market moved higher in April as investors evaluated corporate earnings and some troubling economic data. Gains accelerated after April 21 on news of positive results from a clinical trial investigating a treatment for COVID-19. When the Federal Reserve restated its commitment to do whatever would be necessary to support an economic recovery, stocks notched another solid gain on May 18.

On May 26, the day following Memorial Day weekend, stocks surged due to rising optimism over economic re-opening, reported declines in new COVID-19 cases, and further news surrounding the development of a potential vaccine.

In early June, however, the optimism, which had driven stock prices higher those past several weeks, wanned; and on June 10, the Dow dropped 1,800 points on reports of a jump in COVID-19 cases, which sparked worries of a second wave slowing the economic recovery.

1. CNBC.com, January 15, 2020 https://www.cnbc.com/2020/01/15/trump-and-china-sign-phase-one-trade-agreement.html
2. NYTimes.com, February 25, 2020 https://www.nytimes.com/2020/02/25/health/coronavirus-us.html
3. NYTimes.com, March 12, 2020 https://www.nytimes.com/2020/03/12/world/europe/trump-travel-ban-coronavirus.html
4. USAToday.com, March 16, 2020 https://www.usatoday.com/story/news/politics/2020/03/16/coronavirus-trump-says-social-distancing-may-needed-through-august/5061517002/
5. USNews.com, April 21, 2020 https://www.usnews.com/news/health-news/articles/2020-04-21/more-good-news-on-remdesivirs-power-to-treat-covid-19
6. CNBC.com, May 18, 2020 https://www.cnbc.com/2020/05/18/powell-is-correct-that-the-fed-is-not-out-of-ammunition-by-a-long-shot.html
7. CNBC.com, May 26, 2020 https://www.cnbc.com/2020/05/26/stock-market-today-live.html
8. CNBC.com, June 10, 2020 https://www.cnbc.com/2020/06/10/stock-market-futures-open-to-close-news.html

The following are some economic and financial indicators to help understand how we got here.

To put today's economy in perspective, let's look back to January 2010, when we were emerging from the an economic slowdown. Here, you see 20 speedometers representing 20 indicators. From corporate profits to energy costs, 17 of the 20 indicators were green, which suggested the economy had a solid foundation. None of the indicators were red.

SOURCE:

CNR.com, 2020 https://www.cnr.com/content/dam/cnrcom/articles/economic-outlook/city-national-rochdale-historical-speedometers.pdf

Fast-forward to January 2020: ten of 20 indicators reported positive or strengthening numbers. But you see that an equal number of indicators had a neutral or negative rating. In particular, the political environment and geopolitical risk were in the red.

SOURCE:

CNR.com, 2020 https://www.cnr.com/content/dam/cnrcom/articles/economic-outlook/city-national-rochdale-historical-speedometers.pdf

In June, the speedometers suggested a more cautious outlook.Four were green, 9 were yellow, and 7 were red. The widespread influence of COVID-19 is reflected in many of these indicators. Some states open certain businesses and then adjust the situation due to outbreaks. Some states may continue to give mixed signals until we move closer to a potential vaccine.

SOURCE:

CNR.com, 2020 https://www.cnr.com/content/dam/cnrcom/articles/economic-outlook/city-national-rochdale-historical-speedometers.pdf

COVID-19 Upends Global Economies

By now, almost every American has been affected in some way by the turmoil brought on by COVID-19. So, it's fair to say that the pandemic produced unprecedented economic disruption and upended the capital markets in a way that we haven't seen since the Credit Troubles of 2008.

In the next several slides, we'll examine how the pandemic played out on the key drivers of stock market performance.

Let's spend a few minutes on the Federal Reserve and how its monetary policy responded to combat the disruptions resulting from COVID-19 and the subsequent lockdown of the U.S. economy.

Due to the lessons learned during the 2008 credit crisis, the Fed acted much more quickly and decisively to address the strains in the capital markets that were already beginning to emerge.

Beginning with a surprise Sunday evening press conference on March 15, Fed Chair Jerome Powell announced a drastic reduction of the federal funds rate to zero as well as committing up to $700 billion in asset purchases to maintain liquidity in the credit market. Initially, the market greeted this move negatively, believing that the Fed saw more trouble than the market had factored into stock prices up to that point.

As the timeline illustrates, the Fed continued to implement new measures to steady the financial markets. While the Fed implemented more programs than outlined here, these are the key policy initiatives put in place during the worst of the market slide, including the following:

- The creation of a commercial paper funding facility to buy short-term unsecured debt was crucial to ongoing business funding.
- The creation of a money market mutual fund liquidity facility to promote the purchase of assets from money market funds, ensuring value preservation.
- Established funding to support credit to large companies, including reviving the 2008 Term Asset-Backed Securities Loan Facility (TALF) Program to prop up corporate bonds.
- With the passage of the Paycheck Protection Program (PPP) and the extensive distress in small businesses nationwide, the Fed introduced a lending facility to buy PPP loans. This helped to facilitate bank participation by taking non-performing loans off of banks' balance sheets.
- Introduced sweeping changes to the Main Street Lending Program in order to make it possible for a wider range of small- and medium-sized businesses to apply.

What does it all mean? Remember back on the image that showed the stock market performance in the first half of the year? On May 18, stocks notched another solid gain when the Federal Reserve restated its commitment to do whatever would be necessary to support an economic recovery.

SOURCE:
American Action Form, June 29, 2020 https://www.americanactionforum.org/insight/timeline-the-federal-reserve-responds-to-the-threat-of-coronavirus/

What has happened in the last few months? Volatility in stock prices and earnings came as the result of COVID-19.

Here are a few reminders:

- First, past performance does not guarantee future results. Over the next 10 years, the correlation between stock prices and corporate profits may look different.
- Secondly, individuals cannot invest directly in an index.
- Thirdly, the return and principal value of stock prices will fluctuate as market conditions change. Shares, when sold, may be worth more or less than their original cost.

SOURCE:

FactSet Research, June 12, 2020 https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_061220.pdf

At the highest level, the Federal Reserve has three functions:

1) to provide an effective payment system for the U.S.; **2)** to regulate banking operations; and **3)** to conduct monetary policy. When conducting monetary policy, the Fed is tasked with supporting “maximum employment, stable prices, and moderate long-term interest rates.”

As it works to uphold its monetary policy goal, one of the indicators the Fed monitors is the overall level of consumer prices, which helps to determine whether to adjust interest rates. The Fed has stated that it’s comfortable with inflation in the 2-percent range.

The Core CPI tracks what urban consumers pay for a specific group of goods. This measurement doesn’t include energy or food because those prices are often volatile. Some economists use this measure to track inflation. But the pandemic’s influence on inflation trends has been dramatic in recent months. For example, when most states were urging residents to stay at home in May 2020, Energy CPI dropped 18.9%.

SOURCES:

The Federal Reserve Bank of St. Louis, June 2020 https://fred.stlouisfed.org/series/FPCPITOTLZGUSA

Bureau of Labor Statistics, May 2020 https://www.bls.gov/news.release/archives/cpi_05122020.htm

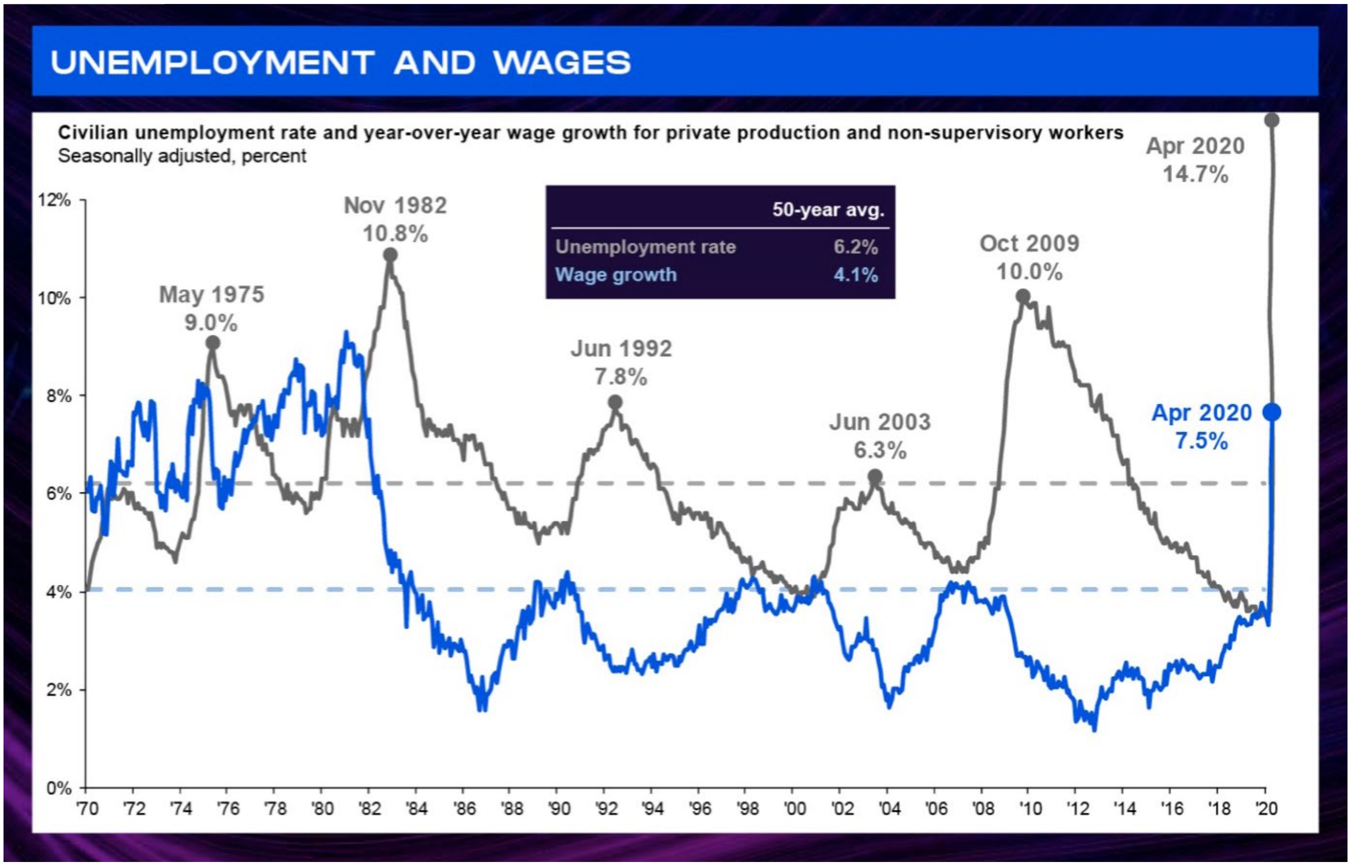
Bureau of Labor Statistics, May 2020 https://www.bls.gov/news.release/pdf/cpi.pdf

Bureau of Economic Analysis, June 2020 https://www.bea.gov/data/personal-consumption-expenditures-price-index

Bureau of Economic Analysis, June 2020 https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy

We need to take a moment to talk about wages and unemployment.

This graph shows the unemployment rate and year-over-year wage growth for the past 50 years. Do you notice anything about how these two lines relate to one another? Most of the time, wages and unemployment have an inverse relationship: when one goes up, the other goes down.



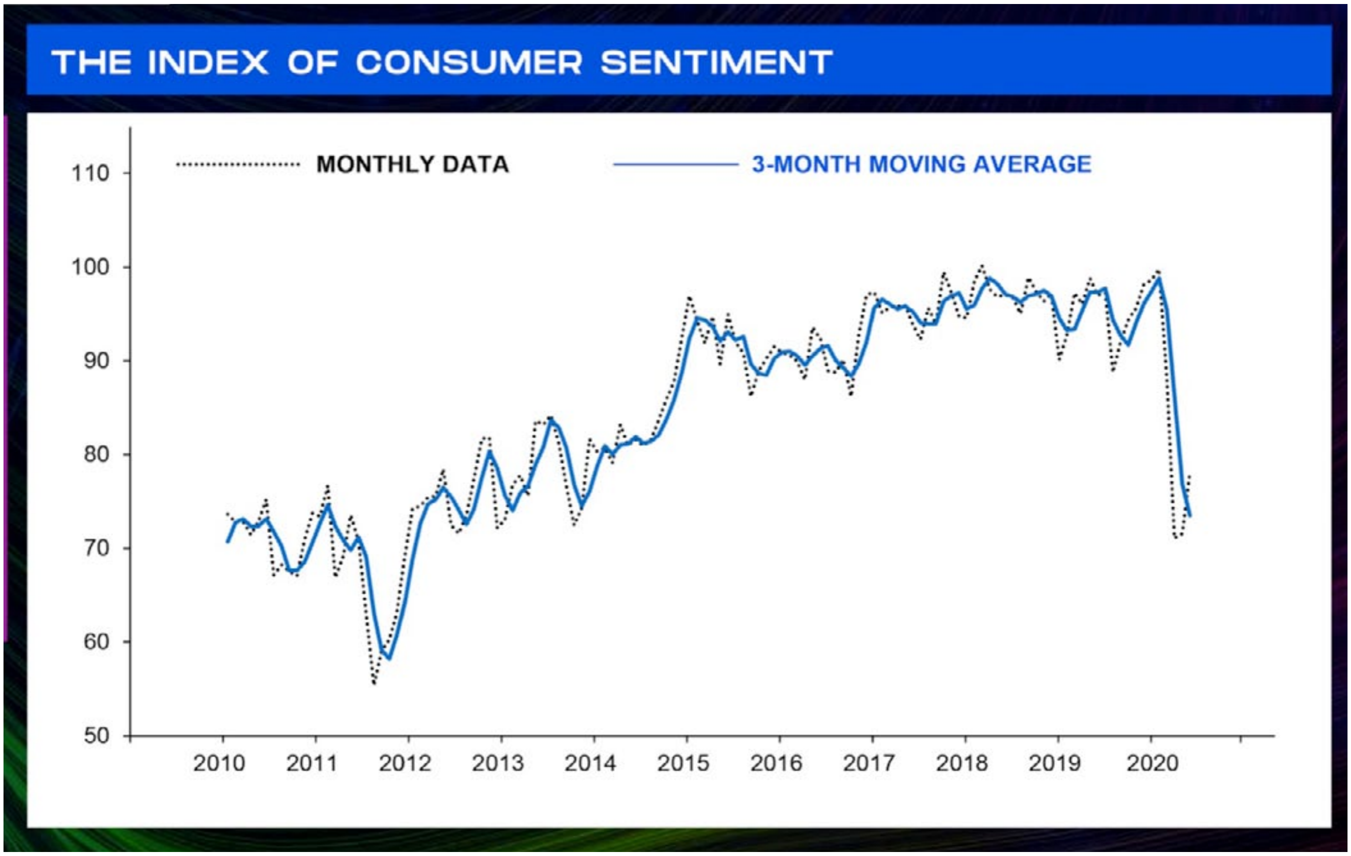
But who expected the change in recent months due to COVID-19? As you can see in the chart, unemployment jumped to 14.7% in April 2020. In May, it fell to 13.3%, which surprised some Wall Street analysts.

Where will it go the rest of 2020? Many of Wall Street's brightest minds are trying to figure that out right now. And you can expect the unemployment rate will be aligned with their outlook on COVID-19.

SOURCE:

JP Morgan Guide to the Markets, Q2 2020 https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer

Bureau of Labor Statistics, May 2020 https://www.bls.gov/news.release/pdf/empsit.pdf

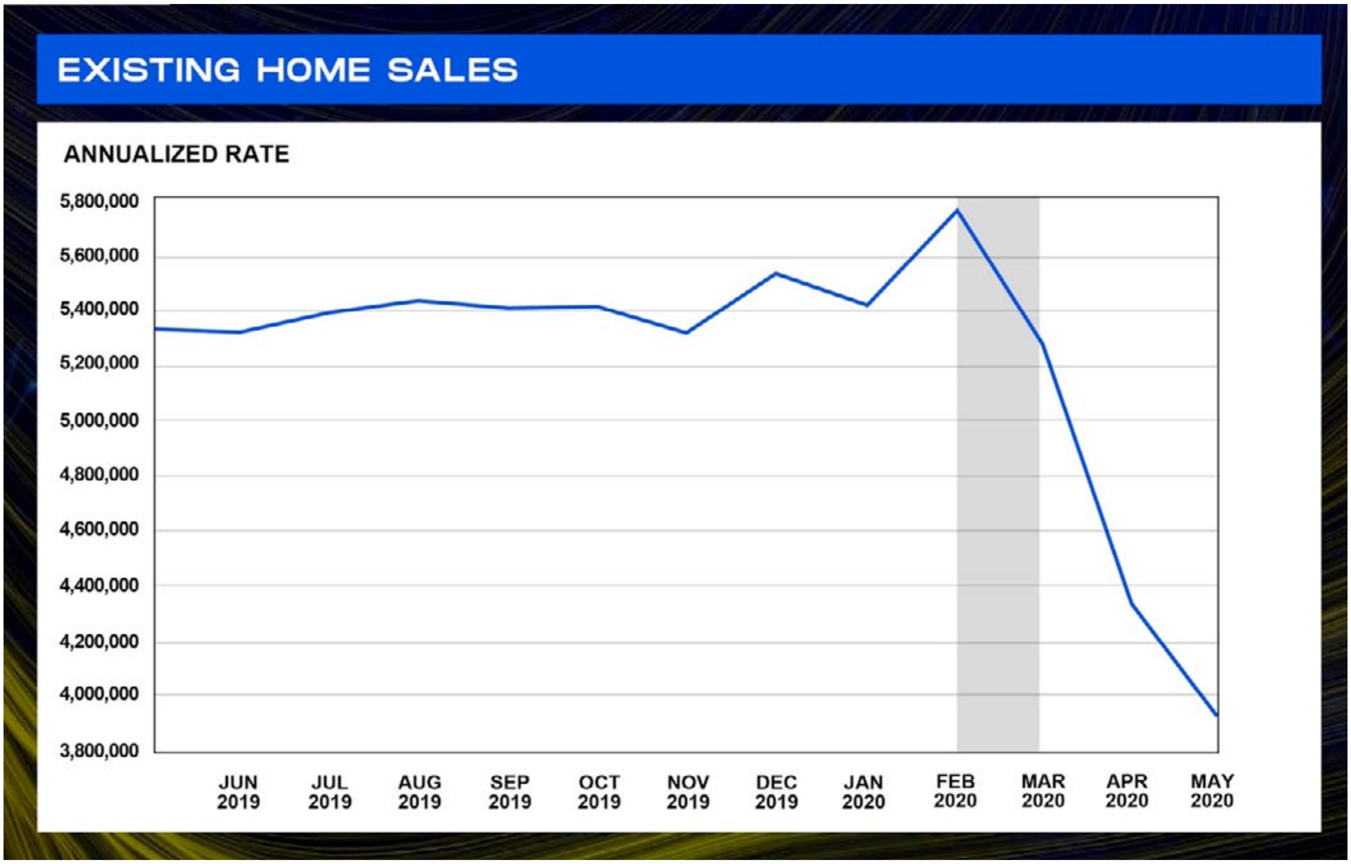


The University of Michigan Consumer Sentiment Index is one of the most widely used sources to help analysts understand how the average consumer feels about the economy. This index is extremely valuable, as it surveys at least 500 residents of the continental U.S. each month by phone. The survey uncovers consumers' opinions regarding their finances as well as business conditions in the country. Understanding how people feel about the economy is essential because consumer spending accounts for more than two-thirds of the Gross Domestic Product.

The chart shows a long-term uptrend in consumer sentiment. But like many other indicators we will see today, COVID-19 has changed the outlook.

"While most consumers believe that economic conditions could hardly worsen from the recent shutdown of the national economy, prospective growth in the economy is more closely tied to progress against the coronavirus," said the University of Michigan in its June 2020 report. "The early reopening of the economy has undoubtedly restored jobs and incomes, but it has come at the probable cost of an uptick in the spread of the virus."

SOURCE:
University of Michigan, Survey of Consumers, June 2020 http://www.sca.isr.umich.edu/ http://www.sca.isr.umich.edu/files/chicsr.pdf



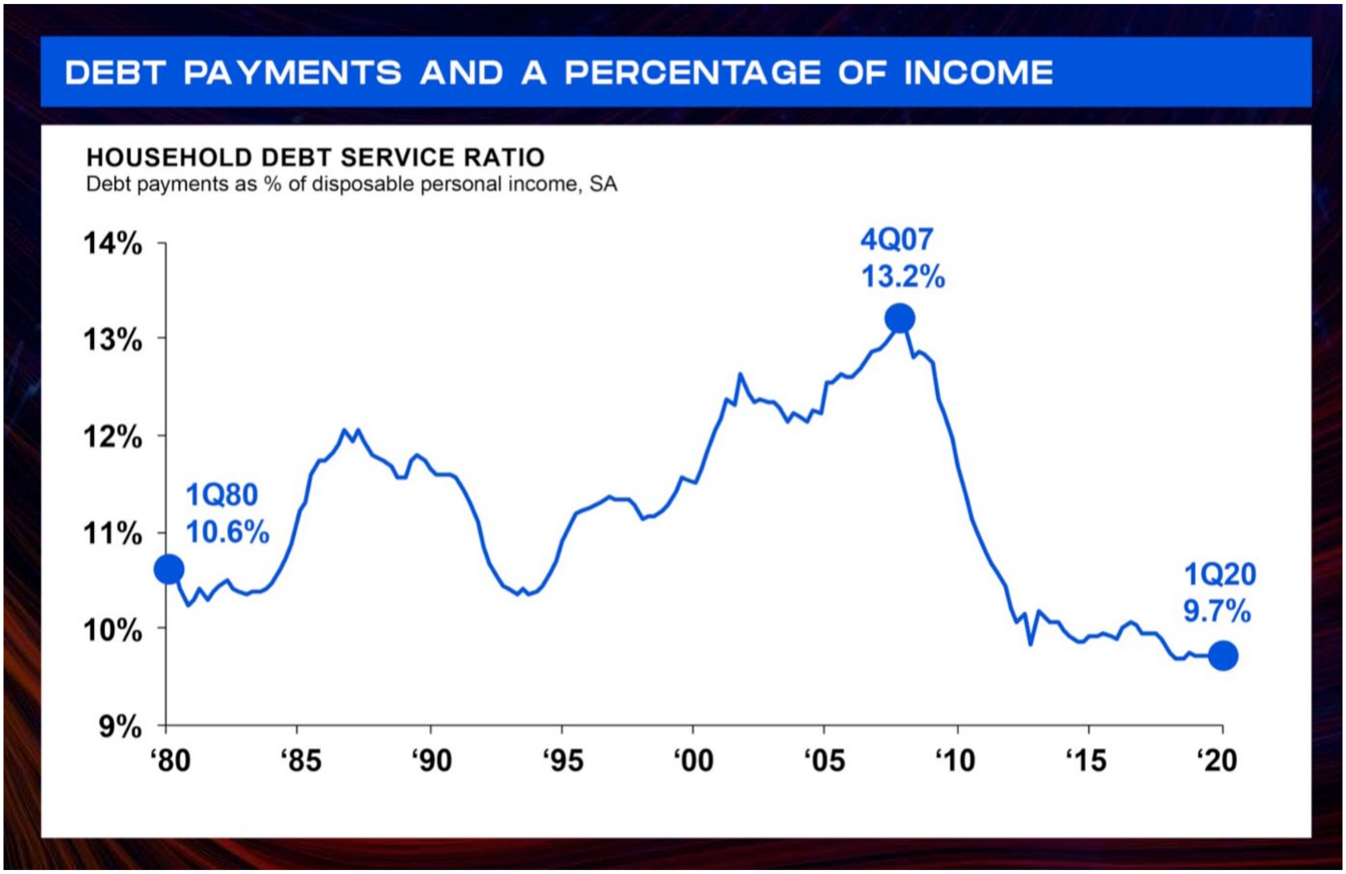
This chart shows the long-term trend in existing home sales, but I wanted to draw your attention over to the far right side. You may have to squint a bit, but that last figure is 3.9 million. A dramatic drop from just a few months earlier.

Here's a pop quiz.

Are existing home sales a leading economic indicator or a lagging one? Before you answer, a quick refresher on leading and lagging indicators: Leading economic indicators are statistics that tend to precede overall economic trends. Building permits, for example, tend to be a leading indicator of new home construction.

Lagging indicators are statistics that tend to follow a particular economic trend. So, returning to our question, are existing home sales a lead or lag indicator? Existing home sales are a lagging indicator because they tend to be influenced by changes in mortgage rates.

SOURCE:
Federal Reserve Bank of St. Louis, May 2020 https://fred.stlouisfed.org/series/EXHOSLUSM495S



Also, the household debt service ratio shows a critical trend. It gives us some perspective on how much revolving debt (e.g., credit cards, etc.) households manage. As you can see, revolving debt hit a high in the Q4, 2017, and has never approached that number again. Does this mean Americans are using debt more wisely? That's uncertain, but the overall downward trend means debt payment as a percentage of disposable income is remaining below 10%.

SOURCE:
Q1 2020 JPMorgan Guide to the Markets https://am.jpmorgan.com/blob-gim/1383407651970/83456/MI-GTM_2Q20-Final.pdf

Before we move on to our outlook for the second half of 2020, let's take a moment to consider the variables that could upend such forecasts. The market's remarkable resilience in the first half of 2020 can be attributed to unprecedented monetary and fiscal support as well as optimism regarding a potential COVID-19 vaccine.

While the Fed has promised to continue supporting economic recovery efforts, it remains less than certain that the federal government can maintain its pace of spending or that medical professionals will discover a vaccine in advance of a new flu season.

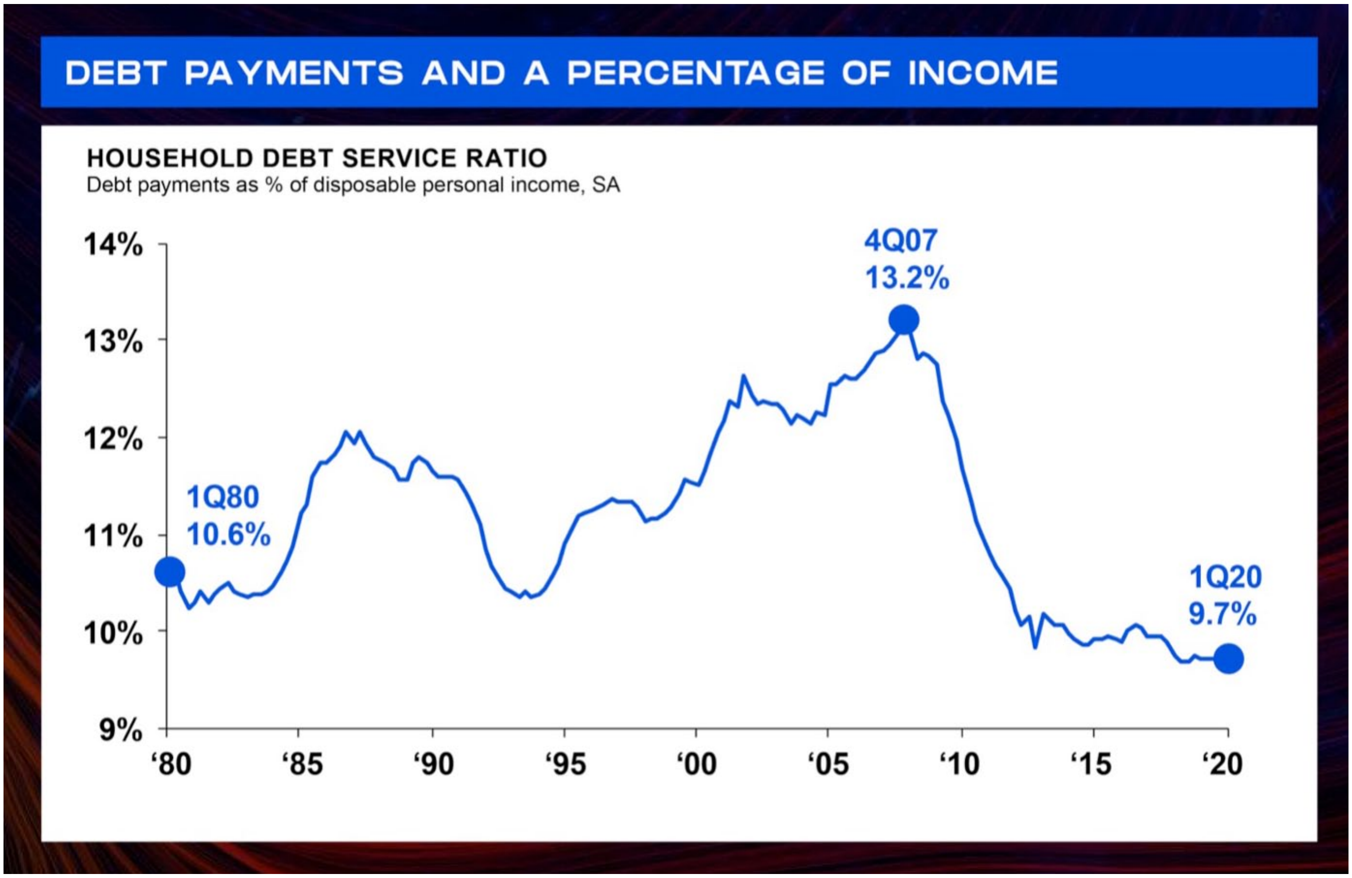
In addition to the upcoming presidential election, other potential headwinds could cause stocks to retreat. The potential for a new wave of COVID-19 cases and a slower-than-expected economic rebound as well as the potential for heightened geopolitical tensions could all have an impact. We also can't discount the possibility that, just like we saw with the emergence of COVID-19, there is always the possibility that what trips the market up will be something no one could anticipate. Of course, no one can predict what will happen in the future, but we hope the following perspectives help you understand what we believe may be on the horizon.

Now, let's dive into forecasts for the second half of the year.

Much like other indicators, COVID-19 has had a rather dramatic effect on real Gross Domestic Product (GDP) which is expected to drop anywhere between 4% and 10% this year. The Federal Reserve's forecast also predicts a dramatic rebound in 2021 and 2022. Longer term, the Federal Reserve sees the GDP settling in the 2-percent range.

SOURCE:

Federal Reserve Monetary Policy, June 10, 2020 https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200610.pdf



A wise market strategist once said, "stock prices are based on earnings and what price people are willing to pay for those earnings."

This chart shows the trend in corporate profits in the United States since July 2017. Notice that profits dropped 12.4% to $1.672 billion in the first quarter 2020. This was the sharpest decline in corporate profits since the last quarter of 2008.

You also may have heard the expression that the stock market operates as a "discounting mechanism"—quickly processing all available information and potential future events. Clearly, the stock market isn't dwelling on the near-term drop in earnings. It appears to be focused on the earnings potential 2021 and beyond.

SOURCE:
Trending Economics, June 2020 https://tradingeconomics.com/united-states/corporate-profits

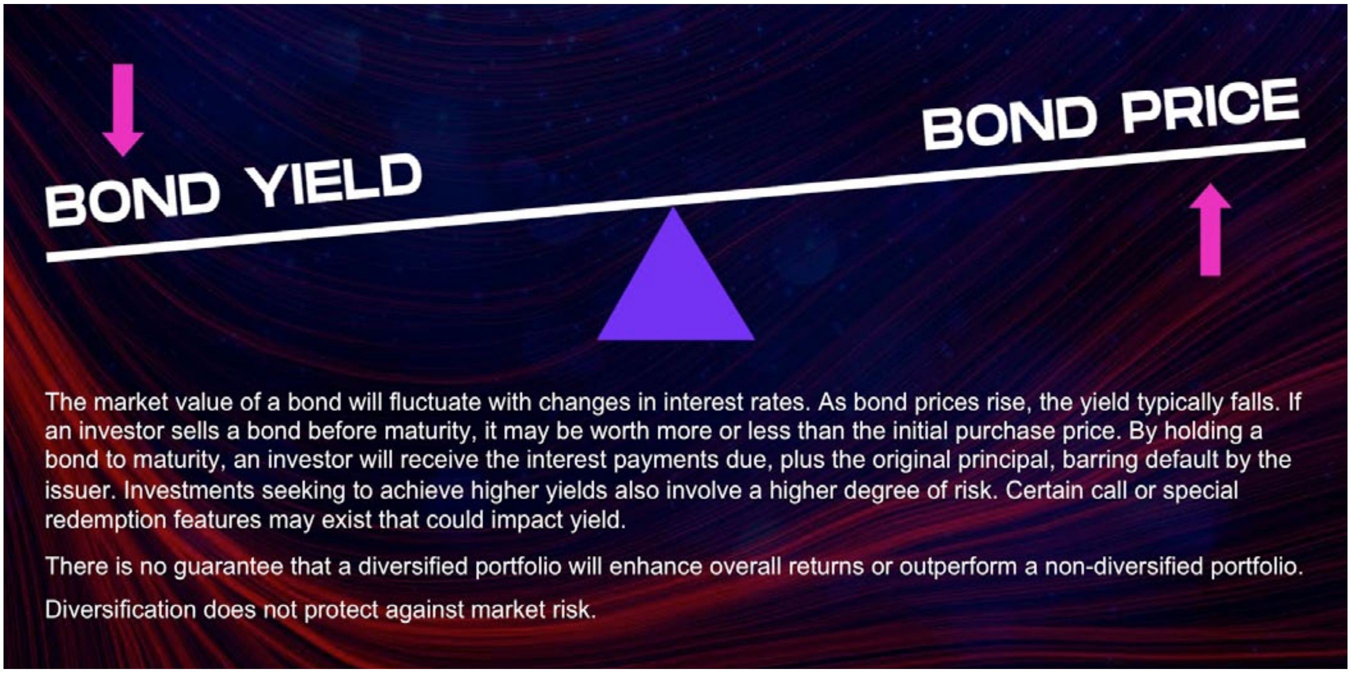
As we discussed earlier, the Fed is watching the economy as it assesses whether to further adjust monetary policy. With the Fed funds rate at zero percent, any reduction in rates may be unlikely, especially since Fed Chair Jerome Powell has previously said that he is not inclined to move into negative rates. So, what could lie ahead?

The Federal Reserve Open Market Committee is scheduled to meet four more times in 2020:

- July 28–29
- September 15–16
- November 4–5
- December 15–16

Typically, if the Fed is going to make an adjustment to interest rates, they announce the change following their two-day meetings.

SOURCE:
Federal Reserve, 2020 https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm



Here's another relationship to understand. Bond prices and bond yields have an inverse relationship. In other words, when bond prices go up, bond yields go down.

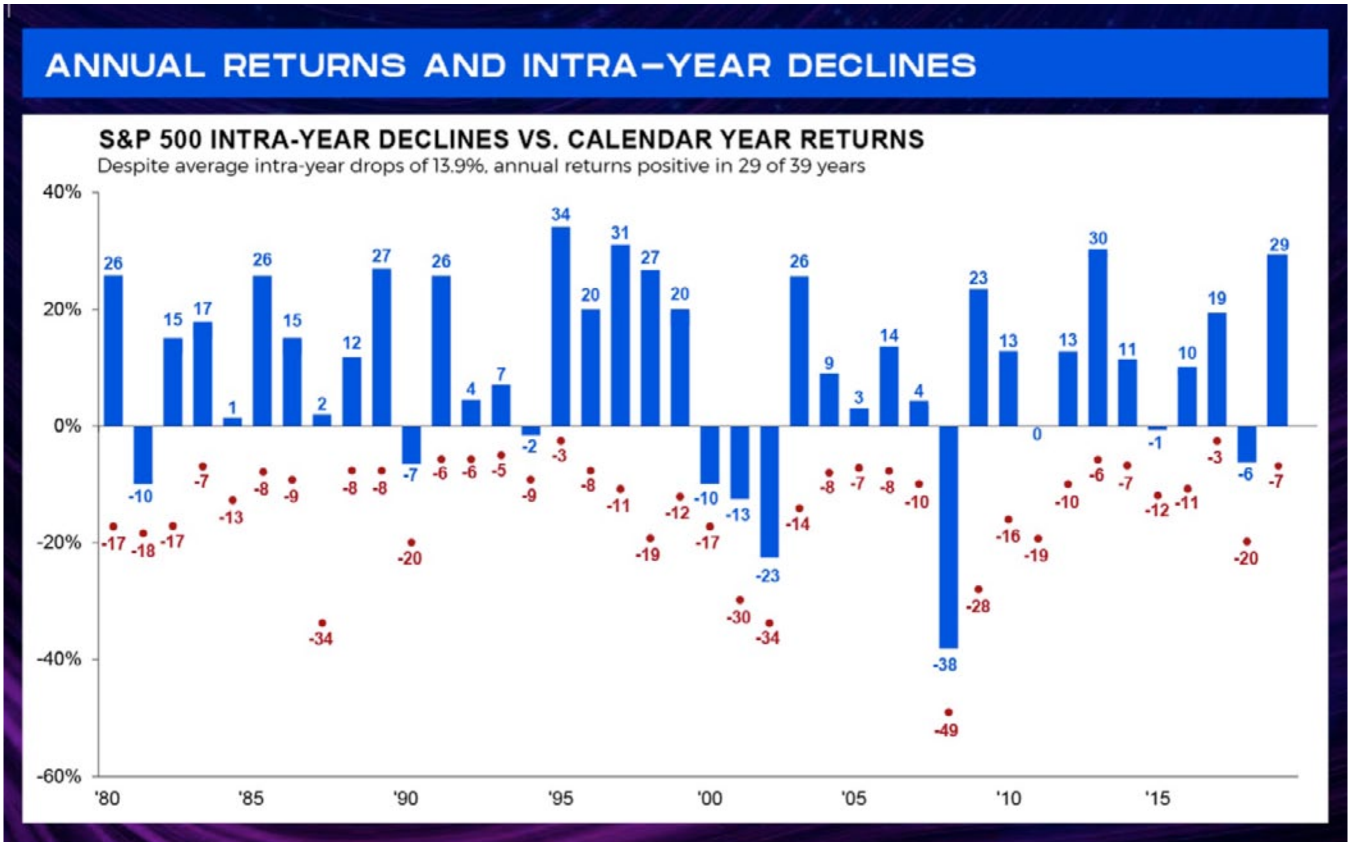
After experiencing years of low interest rates, many investors may be surprised to realize their bonds can lose money if sold before reaching maturity. Bond fund values may decline during periods of rising interest rates. But a changing tide in the economy doesn't mean you have to abandon fixed income. Often, this movement is an important part of a well-balanced, diversified portfolio that may provide investors the income they need.

Keep in mind, however, that there is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Stay Focused on the Fundamentals

Tuning out headline noise while managing your finances is not always easy, but this is exactly what you need to do. Wise investing always involves more than reacting to headlines that may discuss consumer sentiment or geopolitical developments. For investing opportunities, one approach is to stay focused on fundamentals, like a company's earnings or economic data.

Annual Returns And Intra-Year Declines



If you remember just one detail from our presentation, I hope it is this: emotions have no place in investing. Emotion is out and solid logic is in!

Market corrections are a normal part of market cycles. We saw a vivid and compressed illustration of this from March through May of this year! This chart shows the intra-year lows each year, going back to 1980 (in red) with annual returns (in gray). And in 2019, we experienced a 7-percent, intra-year drop coupled with a 29-percent gain.

So far this year, the markets are on a different trajectory, reaching historical highs in February, plummeting in March due to COVID-19 fears and economic shutdowns, and demonstrating a strong rebound in April and May.

I realize that volatility can be uncomfortable, but it is normal. Managing your emotions during good times is just as important. Ultimately, taking a long-term view of the markets is essential when you're trying to pursue your long-term goals. If you ever feel concerned or want to understand what's happening, lean on us for support. Alphavest is here for you—and we want to help you make the most of your financial life.

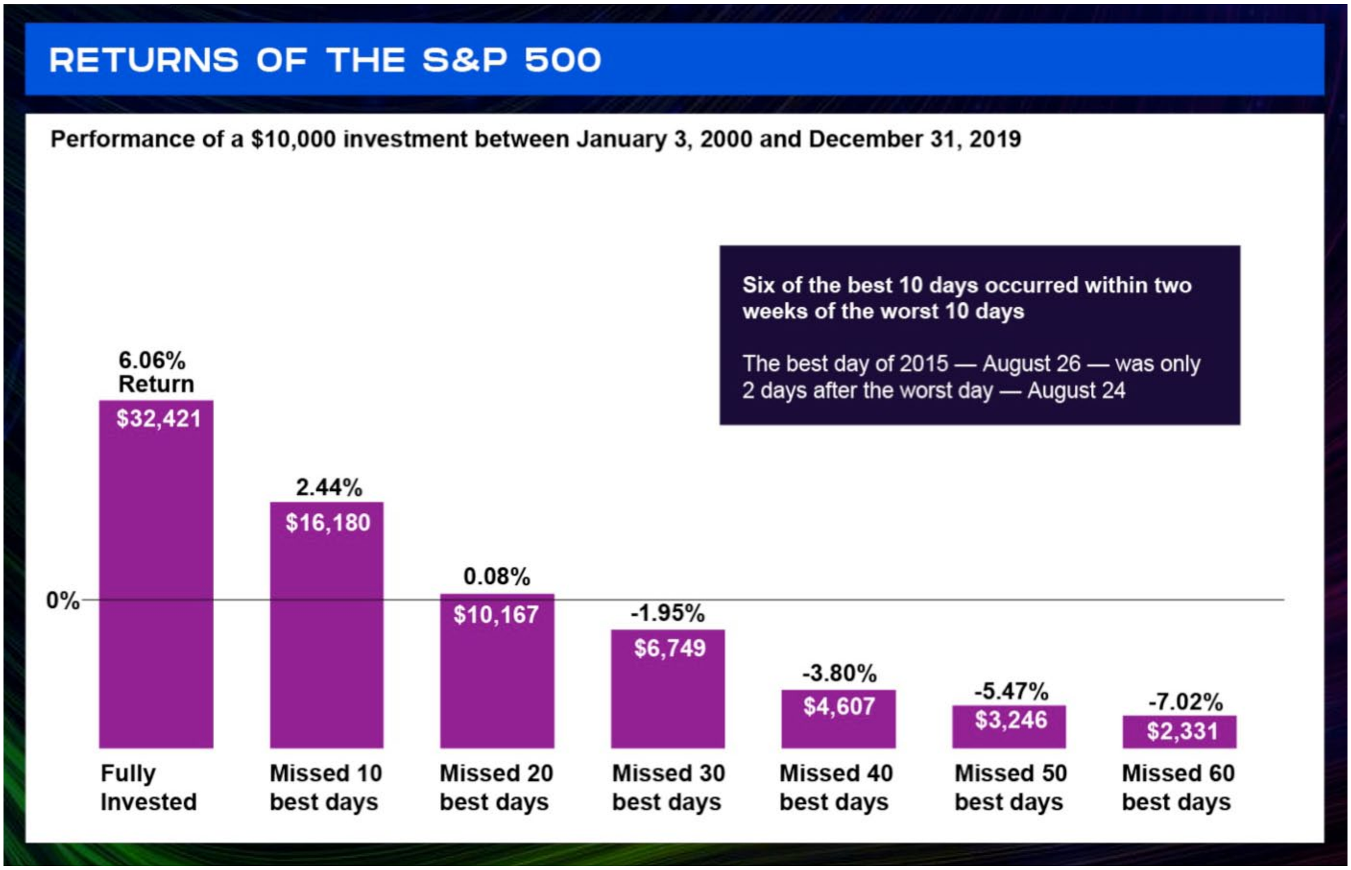
SOURCE:

JP Morgan Guide to the Markets U.S. Q2 2020 https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer

Tune Out the Noise

Finally and to recap: it is important to ignore headlines and focus on your time horizon, risk tolerance, and goals. If we look at the beginning of 2000 to the end of 2019, we can see the danger of missing some of those powerful daily jumps. As the chart illustrates, a $10,000 investment on January 3, 2000, would have more than tripled in value to over $32,000 by the end of 2019.

Had an investor been out of the market and missed just 10 of the best days during this period, that investment would be worth only half as much ($16,180). If an investor missed just 20 of the best days during this 20-year period, they would have essentially gained nothing. Miss 30 or more of the best days and an investor would have lost money.Investors who sell stocks in response to difficult market conditions often miss those all-important "best days" because they often occur when everything seems so negative.



The S&P 500 Composite Index is an unmanaged index that is generally considered representative of the U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

SOURCE:

JP Morgan Guide to Retirement, 2020 https://am.jpmorgan.com/blob-gim/1383421113847/83456/JPM%20-%202020%20Guide%20to%20Retirement.pdf?segment=AMERICAS_US_ADV&locale=en_US

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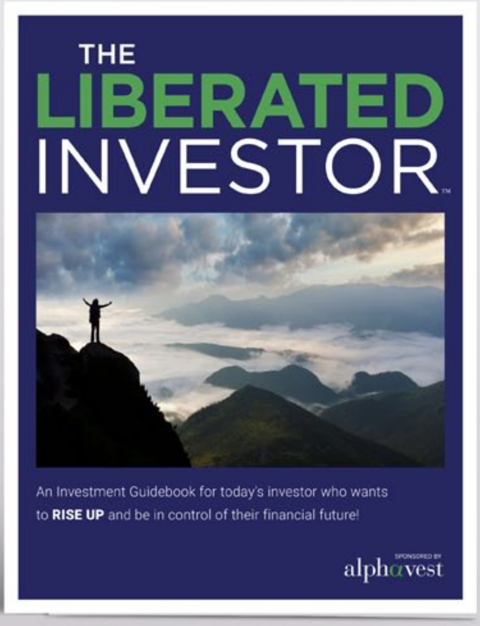
FINRA Advisor Background check. FINRA reports that only a small percentage of investors check their advisor's record before making a switch. We run background checks on our employees, our childcare providers—why not run one, it's FREE—on the person who manages your money? Rest assured our record is spotless **(click here for Cokie's U4)**. The important feature of the report is that it will indicate "NO DISCLOSURES," which means no fraud or investor complaints.

Cokie Berenyi has been in financial services and serving the needs of individual and institutional clients and entrepreneurs since 1996. She is the founder of Alphavest, an industry pioneer that is right-sizing Wall Street one client at a time. She also is the author of *Perfect Day* and *The Liberated Investor*.



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