



The Longer View

Comments & Outlooks from Longer Financial

July 7, 2020

Markets Stage a Come-Back

The first quarter of 2020 brought us a historic level of volatility in the markets as the world reacted to the unprecedented economic impact of COVID-19. Many of the major indices had fallen more than 30% from their prior highs by mid-March, marking the fastest bear market in history, and breaking through the lows we experienced in December of 2018. However, the combination of the stimulus provided by the CARES Act and the swift actions taken by the Federal Reserve proved to stabilize markets and allowed for an impressive recovery in the second quarter, as can be seen in the chart below.



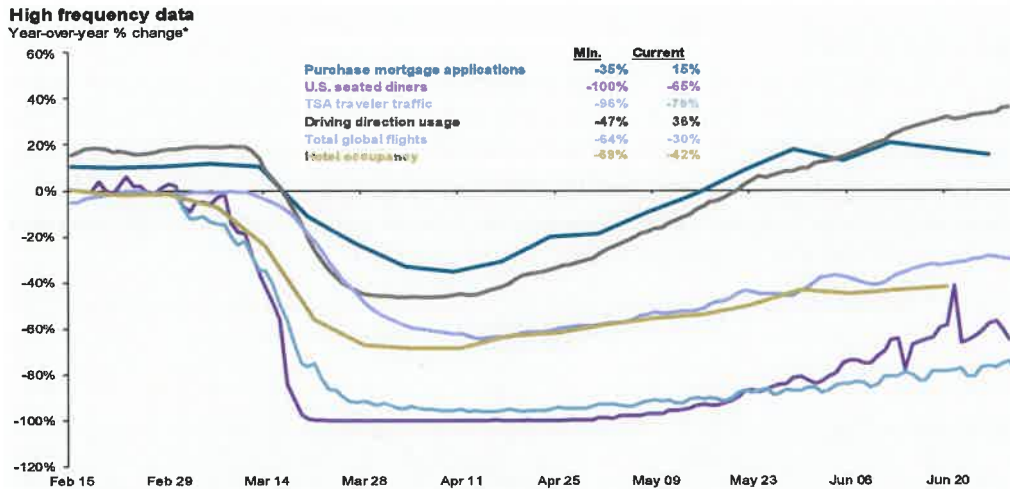
Source: Strategas www.strategas.com

The Dow and the S&P 500 ended June with year-to-date price declines of -9.55% and -4.04%, respectively. Value stocks and small caps remained deeper in negative territory, however, with the CRSP U.S. Large-Cap Value Index off -16.72% and the Russell 2000 down -13.61%. Bonds, which have been most directly supported by the Federal Reserve's purchasing activity, provided needed stability for balanced portfolios, as the Barclay's U.S. Aggregate finished with a year-to-date return of +6.14%.

Re-Opening and Recovery vs. Resurgence in Cases

There continues to be a great deal of debate among economists and analysts about what the "shape" of the economic recovery might look like. On one hand, we continue to experience a troubling number of new COVID-19 cases across the United States, with Florida, Texas, California, and Arizona seeing particularly painful spikes. While current death rates are substantially lower than what was experienced in New York a few months ago, hospitals in some areas are nearing capacity, and calls for renewed shutdowns and restrictions have come forth. There are several promising vaccine candidates in development (from the likes of Johnson and Johnson, Moderna, and AstraZeneca, to name a few), but broad availability remains several months away, at best. The difficulty in reaching a true "re-opening" of the economy continues to drag on several industries, and millions of Americans receiving the enhanced unemployment benefits provided by the CARES Act will see a significant reduction in income at the end of July, absent further action from Congress. However, recent jobs reports have

surprised to the upside, and as can be seen in the chart below, there are signs of life to be found in several sectors. Though hotel stays, seated dining, and air travel remain under pressure, the housing market has been very resilient, and consumer mobility is picking back up, which bodes well for spending.



Source: Apple Inc., FlightRadar24, Mortgage Bankers Association (MBA), OpenTable, STR, Transportation Security Administration (TSA), J.P. Morgan Asset Management.

As we noted in our last newsletter, stock prices tend to be a leading indicator for the economy, making predictions about what will take place in the coming months. For now, the market has bet on the adaptability and resilience of the U.S. Consumer along with the implied support of the Federal Reserve to keep us moving in the right direction.

Moving Forward

We have been pleased to see stocks recover in recent months, and it's worth noting that an incredible amount of cash remains on the sidelines from both institutional and individual investors. We do believe that the record-low interest rates (10-year Treasuries paying approximately .70% as of June 30) make a strong case for equity exposure over the long run. However, the combination of corporate earnings uncertainty and election season looming clouds the outlook for the second half of the year, which means we are likely to experience a somewhat heightened level of volatility in the coming months. We will continue to stay nimble, maintaining a disciplined and diversified approach in our portfolios. Please don't hesitate to contact us if you would like to set up a portfolio review, or if we can be of assistance in any way as we continue to navigate through what has truly been a unique year. Thank you for your continued trust.



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