CAUBLE & HARRE
WEALTH MANAGEMENT

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My daughter recently sat down with my father-in-law to review the genealogy of his family. I had the chance to see the work, and I discovered some interesting things. One entry got me thinking. There was a gentleman that was born in England in 1760. He died in Virginia in 1780. So as a young man, he made the journey across the Atlantic. 1780 was during the Revolutionary War. No information was provided about his death. Did he lose his life fighting for liberty? Was he a loyalist? Perhaps his death was a result of a plowing accident, or perhaps a simple sinus infection.

One thing is known. By the time of his death, he had managed to get married and have a son. And the son managed to survive the rest of the war and went on to have his/her own children. One of those in the family tree was my wife, and so she and my children are part of this series of unlikely events. All of us have one or more of these unlikely occurrences in our family histories, which suggests that our being in this world, at this time, really has nothing to do with us. It would be nice if this notion were more broadly accepted and resulted in more humility in our current world.

Market Review

Markets continued their strong rebound from their decline in the first quarter. Still, the indexes are modestly negative for the year. Through June 30, 2020, the Vanguard Total Market Index declined 6.2% Year-To-Date. Two sub-sectors of the overall market that struggled were developed international and small cap, with the iShares MSCI EAFE ETF declining 10.7% and the iShares Russell 2000 ETF falling 13.8%. Large cap outperformed, but still ended up negative with the Vanguard S&P500 ETF falling 2.6%. Intermediate term bonds provided a counterbalance by increasing about 6% YTD (iShares Core U.S. Aggregate Bond ETF).

There was a large disparity of returns in the S&P500. 347 of the stocks had negative YTD returns. 73 stocks had returns in excess of 10% YTD. The top five names in the S&P500 represents 20% of the index. These 5 stocks have all returned double digit positive returns YTD.

Earnings Review

The market's strong rebound has happened in anticipation of earnings recovering. To some degree, this makes sense. Markets lead the economy. If earnings are expected to increase the rest of the year and next, then the markets can rise now. The question is whether the degree of improvement so far in the markets is warranted. In the last note, it was mentioned that companies did not give much guidance for earnings for the future. This was in response to the significant degree of uncertainty that existed then. Company managements were not going to hazard a guess in that environment. Since then, the Federal Reserve and Congress have flooded the market with liquidity in an effort to avoid crises of various sorts. Is it possible that a lack of guidance along with a lot of cash has created an environment with a touch of speculatory excess?

The next few weeks will provide some clarity on this subject as companies release results for the second quarter and decide whether they will give future guidance. The chart below shows what the expectations are for earnings. The chart shows about a 20% decline this year, followed by a

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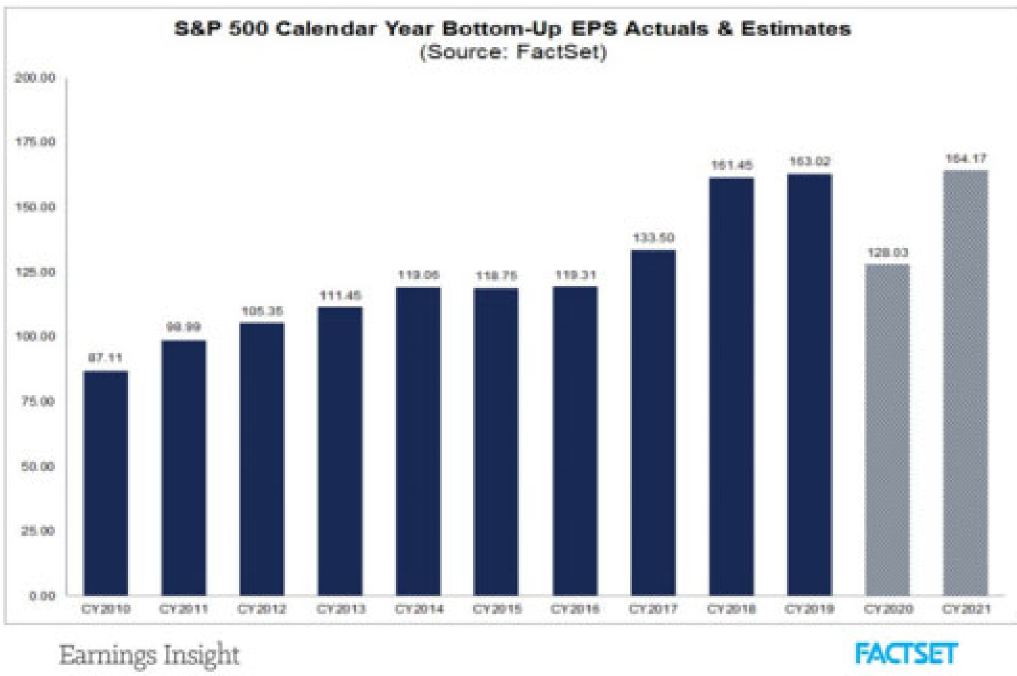
recovery in 2021 to a level of earnings higher than 2019. The interesting thing about this expectation is that this shape of recovery has never happened before. It has always taken two years after a recession for earnings to recover to pre-recession levels.

S&P Earnings per Year



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Economic Review

Good news on the economic front has supported enthusiasm for market gains. Last week's employment numbers were impressive. The 4.8 million jobs reported was a record. May's report showed 2.5 million jobs created. The latest ISM index of factory activity showed a 9% increase to level above 50% which reflects expansion. The Consumer confidence index increased from 85.9 to 98.1. Other measures reflect the re-opening of the economy.

There are reasons why we believe the markets may be ahead of themselves and are susceptible to more volatility and declines. It is too early to declare complete victory on the economy. The over 7 million jobs created in the last two months are a third of what was lost in March and April. Will the

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pace of job creation slow from this point forward? The time period the jobs report included ended just before states started to pause or reverse their re-openings. In fact, new unemployment claims increased 1.4 million since that point.

Will there be more stimulus? The current federal unemployment benefit ends this month. What about the election? Or more focus on the election. It is hard to predict markets, but it seems easier to predict that as bad as 2020 has been, things are likely to get crazier between now and the election.

Markets have reached a valuation level that requires a stable narrative of continued improvement. If something challenges this narrative, or the timing of earnings gains, the market will experience volatility (including declines). More volatility is our expectation for the next quarter. We say this not to suggest running for the hills, but to remind you that volatility is normal in the process of markets healing from disruptions. We would caution any 'investors' out there that are beginning to speculate in markets that speculation tends not to work well in the long run.

One More Important Thing To Mention

Recent guidelines from the IRS allow anyone that has taken an RMD this year to return that RMD back into the IRA and thus avoid the tax on the distribution. The deadline for this action is August 31, 2020. We will be reaching out soon if this potentially applies to you.

Sincerely,

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