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It's hard to believe that the "Good Old Days" were just six months ago. High volatility is now the norm and not the exception. So far this year, the shortest major decline in history was followed by the second fastest rising bull market since 1932. To what degree this trend continues can have long-term market implications. A prolonged period of high volatility is presumed by some investors to indicate that more difficult market conditions may be forthcoming, requiring further investor patience. However, the base case for the majority of forecasters is that stock market volatility diminishes from high levels, the economy starts to recover, the current bull market continues and the public's interest in this election cycle resumes.

While the end of the recession may not be declared for months, recent jobs and retail sales reports suggest that the low in economic activity may have occurred in the second quarter. Mortgage applications have increased, home and retail sales appear promising, and unemployment claims, although extremely high, may have peaked. These are just a few of the current encouraging indicators that have normally preceded a bottom in economic conditions and are favorable for stocks. Despite these optimistic signs, most economic statistics remain at historically weak levels, indicating an extended period before pre-COVID business activity is restored. Fortunately, investors frequently have been looking beyond near-term health and economic reports, buying even on days when data is unfavorable.

A wide range of economic recovery outcomes are currently forecasted. Some suggest a V-shaped recovery, while others believe a U-shaped rebound is more probable. It is becoming increasingly apparent that the most likely scenario is overlapping W's, where different industries regain prosperity at different times. Historically, the stock market has not differentiated between the types of recoveries in the initial months of any rally near the end of recessions.

Likewise, Federal Reserve Chairman Jay Powell has repeated several times that the central bank is learning as they go and are keeping policy steady for the time being until they gain more clarity regarding how the economy is progressing. His statement implies that the Fed will not enact policies that might burst any asset bubbles or preemptively fight inflation. Powell also said that as long as they are failing to meet their dual mandate of maximum employment and price stability, it's not the Fed's responsibility to determine the appropriate level of asset prices (such as the stock market). This policy should serve as wind at investors' backs to further stimulate a stronger economy.

While this presidential race has received less attention than recent elections, politics are expected to rise in relative importance as November draws closer. The market has performed better during years when the incumbent party has retained the White House, a tendency anticipated more so this time under Republicans. Until recently, President Trump has depended heavily on the economy to support his record of accomplishments. What remains unknown is whether voters will fault him for the response to COVID and the related recession or credit him for guiding the economy through the crisis. The strength of any post-election rally is interconnected with the economy as much as the presidential election.

Today's financial markets are some of the most challenging ever due to increased frequency and magnitude in price changes. What is most encouraging is that those investors who have remained focused on their long-term investment plans have fared well through the recent market turbulence and recovery. Although some may argue that many things have changed, resulting from unprecedented health and economic related challenges this year, the importance of discipline by keeping emotions in check remains fundamental to long-term investor success. We are privileged to serve you in our trusted capacity and look forward to providing you continued effective financial guidance.

We hope that you and your family remain healthy and safe, and encourage you to call us whenever we can be of assistance.

Sincerely yours,

Randy

Randy Garcia
Chief Executive Officer