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2nd Quarter 2020 Moreno Dye Cervantes Wealth Management Group
of Wells Fargo Advisors Quarterly Newsletter

How do we navigate the financial markets during a pandemic? Excellent question and we will do our best to answer this as well as what we believe the financial markets are forecasting for the balance of 2020. We also empathize that the recent financial market volatility has been difficult to witness. It would be great to go a couple of years without using the phrases "best ever" or "worst ever", but alas after going through the worst 1st quarter in financial market history, the 2nd quarter rebounded to provide investors with the fastest bear market recovery in financial market history thanks to historic fiscal and monetary stimulus. The following performance recap illustrates how significant the gyrations have been over the last six months:

	2020 1st Quarter	2020 2nd Quarter
Dow Jones Industrial Average	-22.73%	18.51%
S&P 500 Growth Index	-14.59%	23.68%
S&P 500 Value Index	-25.50%	10.86%
NASDAQ Composite Index	-13.95%	30.95%
S&P Mid Cap 400 Index	-29.70%	24.07%
S&P Small Cap 600 Index	-32.64%	21.94%
MSCI EAFE – International Index	-22.83%	14.88%
Bloomberg Barclays US AGG Bond	3.15%	2.90%

*Wells Fargo Advisors Monthly Major Index Returns

As previously mentioned, we feel that the main driver behind the 2nd Quarter's rally resulted from a tremendous amount of fiscal and monetary stimulus provided by the Federal Reserve and the US Government. The Federal Reserve not only lowered interest rates back to zero, but also initiated massive quantitative easing by expanding their balance sheet to over $7 trillion dollars (that's a 7 with twelve zeros). This is obviously significantly larger than any previous quantitative easing program in FED history and they have stated unequivocally that they are willing to do much more if necessary. So, from the financial market's perspective, the Federal Reserve is going to be a major player for the foreseeable future and that is very bullish. One of the best known stock market adages is "Don't Fight the FED".

Additionally, Congress passed and the President signed into law the CARES Act in March which provided $2 trillion of economic relief and stimulus. This was followed by another $480 billion in April for small businesses through the Paycheck Protection Plan and according to numerous news reports there is the expectation that another stimulus package will be presented in the 3rd quarter that could be another $1 trillion. So, $3.5 trillion of government stimulus and an unlimited amount of Federal Reserve bond buying gave the financial markets all the reason it needed to produce the best quarterly returns since 1987.

Central banks outside of the U.S. have also been working to provide additional stimulus in order for world economies to get through the Covid-19 pandemic. For instance, the European Central Bank has pledged to increase their quantitative easing program with “no limits to our commitment” and the Bank of Japan has provided multiple spending programs that have broken all previous monthly spending levels. While these programs are not nearly as significant as those provided by the FED and U.S. government, we expect to see additional stimulus announced throughout the balance of 2020.

In our opinion, the stimulus has bought us valuable time to work on finding effective therapeutics and potentially a vaccine to fight off the Covid-19 pandemic. We seem to have worked our way through the initial shock to the economy and now we have begun to reopen after sheltering in place for almost three months. Reopening is not going to occur without challenges and we are not surprised to see that the spread of the virus has picked up again. Time will tell, but scientist have already identified a number of effective therapies to hopefully limit the worst outcomes for people that become infected. Obviously, those who are older and have underlying health conditions remain most at risk. We believe that we are probably still about 12 months away from being able to start to think about a return to normal, but at the very least we are moving in a positive direction.

The U.S. economy seems to be mirroring the virus at this point. Economic data has remained weak, but we have seen multiple signs that the worst is probably behind us. Employment, housing, manufacturing, consumer confidence and retail sales all have signaled that economic activity bottomed in April and has been recovering each month since. Over the balance of 2020, we expect economic activity to be impacted significantly by the spread of the virus. In areas where the virus spreads too quickly economic activity may need to be curtailed in order to slow the virus, especially in cases where hospital ICU capacity gets strained. These potential starts and stops will likely keep financial market volatility elevated. It feels like a no win situation for local, state and national political leaders. You can’t snuff out the economy completely to stop the virus from spreading and you can’t put public health at risk by opening the economy too fast. Finding the right middle ground is going to be challenging.

We wish we had all the right answers for you, but this goes to the heart of the question: How do we navigate the financial markets during a pandemic? We believe that the most important thing an investor can do is keep their investments geared towards their long-term plan. We have been doing financial analysis and planning with most of you for many years, so the risk allocations and diversification strategies that we have helped to put in place for you are long-term focused. The next best thing an investor can do is to rebalance their portfolio. It is very likely that in at least one of our most recent conversations with you, we have discussed rebalancing your portfolio. Rebalancing allows us to take profits during periods of economic growth and to buy low during periods of economic decline. The positive impacts that rebalancing your portfolio can have on your investment success cannot be overstated. Therefore, the ability to remain focused on your investment time horizon and rebalancing your portfolio are crucial to navigating the Covid-19 pandemic.

The volatility of the last six months has definitely kept us much more active than usual in making adjustments to your portfolio. In some instances we have already rebalanced portfolios as many as three times, which is more than any of us can remember over such a short period. We anticipate the financial markets are going to remain very reactive to headline risks, so don’t be surprised if we continue to be more active than usual with your portfolios in the months ahead.

Our expectation for the second half of 2020 is to experience a strong economic recovery given the depths of the pandemic induced recession. We are already seeing the economic benefits of pent-up demand for products and services, which will likely continue throughout the balance of the year. There are also going be some long-term impacts from the pandemic as well. For instance, technology platform advancements have significantly altered our ability to work from home and communicate remotely as you have no doubt noticed. Consumer purchasing habits that were already trending have likely been accelerated for various goods sold online, such as groceries and other basic necessities. Some of these trends are already being priced into the financial markets as seen by the outperformance of the technology heavy NASDAQ verses other major market indices. It will be very interesting to see how the global workforce and our lives in general are changed by the Covid-19 pandemic.

On a separate note, we want to also make sure you are aware that we are fully up to speed and capable of having client updates via Zoom. While our preference is always to meet with you in person, unfortunately that just isn’t a realistic option at this time. This might be excellent for those of you that live outside of Southern California and wish to see how much more grey hair we have or less hair for that matter. Therefore, please let us know if you are interested in having a Zoom call or update. We would welcome the opportunity to spend some face time with you.

Lastly, we want to continue to express our thanks for the support and trust that you place in us. We hope that our genuine care, not only for your finances, but for you as clients comes through. No one enjoys going through difficult financial markets, but we will always be here to support you and address any of your questions or concerns. We look forward to speaking with you again soon, but in the meantime we hope that you and your families stay safe and healthy!

Sincerely,

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Michael B. Dye, CRPC®
Managing Director – Investments

Oliver A. Cervantes, CFP®, CRPC®
Senior Vice President – Investments

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The Dow Jones Industrial Average is a price-weighted index of 30 “blue-chip” industrial U.S. stocks.

The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor’s 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.

The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor’s 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between $1-4 billion.

The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock’s weight in the index proportionate to its market value.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.