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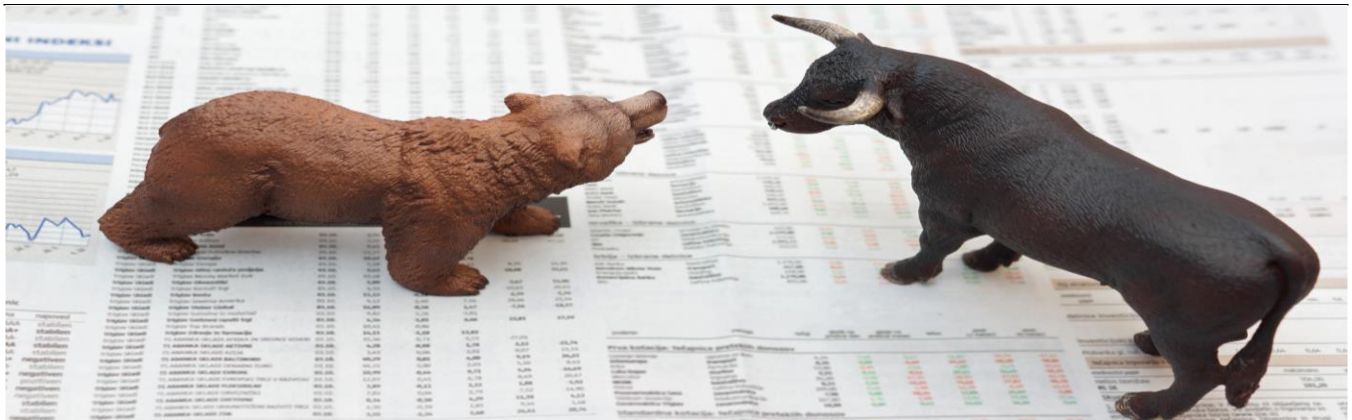
Financial Principles, LLC



AUGUST 2020 MARKET COMMENTARY

Domestic equity markets rose again in July. The Dow Jones rose 2.3% while the Standard and Poor's 500 advanced 4.2%. The technology heavy Nasdaq was up 4.3%, while small caps (the Russell 2000 Index) advanced 4.8% on the month. Year to date the broad Standard and Poor's 500 Index has now turned positive for the year. When you consider that the index fell more than 40% from its pre-pandemic highs in March, that is a stellar rebound. In fixed income, the benchmark 10-year Treasury ended the month yielding 0.55% down from 1.88% to start the year.

While the domestic equity markets have rebounded nicely, market breadth is the narrowest it has been in 20 years. This means that while the broad indices are advancing, most of the gains are concentrated in certain sectors and individual companies. This makes smart stock selection and active management more important for investors. Despite the equity indices gaining ground, there has been less than stellar economic data being reported over the past month. Second Quarter GDP advanced estimates were announced with the economy having contracted 32.9% (annualized) during the quarter. While the contraction shouldn't be much of a shock to investors, it is worth noting that this is the worst quarterly contraction on record and the second consecutive quarterly contraction, which means the American economy is *officially* in recession. Initial jobless claims, which were improving, posted back-to-back weekly advances after appearing to have leveled off. Finally, while big pharma scrambles to work on a vaccine coronavirus cases are increasing as states continue to open their economies.

The divergence in economic data and market performance is being fueled by optimism and an unprecedented monetary and fiscal stimulus from the Federal Government. On the monetary policy front, Federal Reserve Chairman Jerome Powell has indicated he is "committed to using our full range of tools to support our economy in this challenging environment." However, on the fiscal policy front expanded unemployment benefits have now ended as Congress continues to negotiate a fourth round of fiscal stimulus. While we fully expect that a deal will be reached in the month, the negotiations may rightfully put investors on edge.

While equity markets are pricing in a v-shaped recovery, we believe that the recovery will be strong but are not convinced that it will be as quick as markets may be expecting. We think it will be a rocky road, and we do not think that the rising tide will lift all boats evenly (as we have already been seeing). While the government and Federal Reserve are taking necessary actions to support markets, we suspect volatility will persist in the coming months as we await additional stimulus, a growing number of coronavirus cases as big-pharma races to develop a vaccine, mounting tensions with the Chinese government, and a hotly contested and scrutinized election cycle. While we remain cautious and seek better entry points when putting new money into the markets for clients, we advise clients to remain committed to their long-term financial plans.

As always, if you have any questions, please do not hesitate to contact our team. Be safe, be well.

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.