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...a View from the Top

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Please Wear a Mask!

Here's our current View from the Top. We provide our thoughts on recent happenings in the financial markets, the world, some thoughts about 2020, and answer some great questions from clients.

The term interesting times doesn't come close to defining what we have experienced over the last 6 months. The battle against Covid-19, shutting down many parts of the economy, incredibly volatile and unpredictable financial markets, protests and the Black Lives Matter movement which is gaining momentum across the country, an election year that we can't begin to explain in a few paragraphs, and many of us are socially distancing and working from home. With so many variables and the speed of the many moving parts, stress levels have climbed to new heights. Our normal advice to clients during unsettling times is to take a deep breath and remember that you are a long-term investor. Today deep breathing is a necessity but just as important is staying connected to others whether it is family, friends, or coworkers. We all need to feel connected and to know there is someone who understands what we are going through. So please stay connected and reach out to people that may not have close family. We can all use a little extra contact today whether it is by email, text, telephone or best of all, by video.

Let's talk about Covid-19 which is the driver behind all of the social distancing. If there is one thing I have learned over the last several months, it is that wearing a mask and social distancing does work in reducing the spread of Covid-19. The issue is some people still don't believe it makes a difference. The reality is we have to believe the doctors and the science

if we want to survive and prosper after Covid-19. All we have to do is review the statistics for states that encouraged people to wear masks and ones that didn't. Florida, Texas, and South Carolina come to mind as a lesson in how not to control the virus. Many of us are old enough to remember how difficult it was to get people

to wear seatbelts and we knew they saved lives. We also know that there are people who still don't support vaccinations for different known diseases. The challenge is we don't have years for people to figure this out. **So please wear a mask and wash your hands**.

There are many discussions taking place concerning Covid-19 and how we deal with it. We have several vaccines that look promising but probably won't be available this year. We have learned a lot about treating Covid-19 which has helped hospitals in the hot spot areas that are currently dealing with the increasing number of cases. The bottom line is that some states such as Florida, where I stayed for several months this year, did not push people to wear masks, and reopened businesses and the beaches very early. Now residents of Florida are paying the price with increasing community spread of Covid-19. But Florida isn't the only state that is experiencing this increase. There are many states that are struggling with an increase of cases including Texas, South Carolina, Georgia, and Mississippi to name a few.

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We will get through Covid-19 and the impact on people and the economy, but it is not going to be quick or easy. I believe if we had a strong national policy for wearing facemasks in public and how we handle and test suspected cases, the impact could be reduced and the recovery would be faster. Unfortunately it does not appear that we will see a national policy any time soon or any level of consistent policy between states. It seems much more likely that we will continue to rely on the state and local leaders to make these decisions. With every state being on its own, we could very well continue to have Covid-19 flare-ups in different states for a longer period of time. This means that community spread of the virus is still a major risk given the fact that people are still traveling between states and local communities.

I flew back to NJ from Florida recently and found the experience to be more positive than I expected. Everyone wore a facemask and even covered their noses. United provided sealed packets of hand sanitizers for passengers and informed us that the seats had been wiped down. The only thing served on the plane were small sealed bottles of water which certainly made sense. Passengers on the flight were pretty well spaced out with a few exceptions. Overall I felt a little better about flying but would still not want to get right back on a plane. I am now working from home for the next two weeks as I self-quarantine according to NJ's mandate.

We will continue to follow current developments, recognizing that there are still many unknowns concerning Covid-19 and the impact on the economy.

Now let's take a look back over the first half of 2020.

The Economy

Little did we know at the beginning of 2020, that we would soon experience the highest unemployment rate since the great depression. The official unemployment rate topped out at 14.7% in April (BLS.gov). Many economists expect that actual unemployment could have been higher, as the survey does not make a clear distinction between furloughed workers and unemployed workers. One thing that is clear is that this was one of the fastest declines in economic conditions ever experienced in the US. Unemployment increased from a low of 3.5% in February, to a high of 13.0% two months later. For perspective remember that the economy took over a year to reach peak unemployment in the depths of the financial crisis. So how is this time different?

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It appears that the biggest difference was the speed, the scale and the severity of the shutdown. Many businesses were forced to close at the same time. And this economic slowdown was very visible. We saw a much smaller number of people leaving the house, fewer stores open on a daily basis, and a significantly lower number of cars on the road. The economy was open and ready for business in early March, but in a matter of weeks state after state saw nonessential businesses being forced to close. A stark contrast to the slowly building crisis level liquidity problems that the financial system faced during 2008. The 2008 crisis built slowly and wasn't really recognized for a very long period vs. the immediate impact of Covid-19 and the economic shut-down that we experienced in a matter of weeks.

The Government

The good news is that on an economic level both the Federal Reserve (Fed) and Congress acted quickly to support both businesses and individual households. On March 3rd the federal reserve cut interest rates by 0.50%, "in support of achieving its maximum employment and price stability goals". These comments were repeated a few weeks later when the Fed cut rates again this time by 1% to a target range of 0 to 0.25% and began programs to provide liquidity to specific unstable bond markets. On the fiscal side, Congress acted quickly and was able to pass the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) by late March, which provided $2 trillion in stimulus through direct

payments, increased unemployment benefits, and instituted forgivable business loans through the Paycheck Protection Program (PPP). PPP initially provided $350 billion in forgivable loans to small business to cover expenses and keep staff employed during the shutdown, but after running out of money in a mater of weeks, was increased to $669 billion. The increased unemployment benefits which added $600/week to unemployment insurance benefits, will expire at the end of this week on July 31st. Currently there is hope for a second round of stimulus checks and a continuation of expanded unemployment benefits for those affected by the pandemic, but there has yet to be bipartisan support around the scale of the stimulus. The main point of contention is around the continuation of expanded unemployment insurance benefits, which Democrats would like to extend until the labor market recovers.

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As of this writing the Senate Republicans have reached an agreement that will begin to move a Bill forward. There has been much discussion around the need for extension of benefits and the dollars that would be included in the Bill. We will hopefully hear more details around the proposed Bill that may be approved sometime in the next few weeks but we are really in a wait and see mode at this point.

Equity Markets

Given the backdrop of a once in 100-year global pandemic, very few could have predicted the huge gains the market experienced following one of the fastest declines seen in recent history in the first quarter. The S&P 500 rallied 20.54% on a total return basis, bringing it's year-to-date performance closer to break even at -3.08%. Small caps rebounded even farther, returning 25.42% for the quarter, but were still down -12.98% year-to-date after their steep decline in March. International and Emerging markets both faired quite well, with the MSCI EAFE returning 15.08% for the quarter and the MSCI EM Index returning 18.18%, bringing their year-to-date performance to -11.07% and -9.67% respectively.

The S&P Global REIT index which tracks global real estate investments rebounded 11.46% but was still down -20.64% year-to-date. Many investors are fearful that businesses will need both less retail space and office space as they begin to realize the possible benefits of both work from home and hybrid models. The truth is that no one really knows what the long-term implications of this health crisis will be. Employers could end up needing more real estate to allow for adequate social distancing among employees. Real estate does however still provide significant yield to investors as well as diversification away from more tradi-

tional asset classes like stocks and bonds. The open question remains how will the work environment change as we begin to “return” to work. Given the major improvements in technology and the need to work from home, both opportunities and challenges are becoming evident and lead us to some of the questions we are working our way through.

What percentage of the workforce would now prefer to continue to work from home?

Will increased technology costs really translate into productivity gains and a reduced need for space?

How will companies balance the need for more face-to-face interaction with the desire to work from home?

There are so many other questions that we are dealing with today but only time will tell how we manage to answer these questions and others as we recover from Covid-19. If you have thoughts around this please share with us. There is much to be learned by all of us in this new and evolving environment.

We know that you can’t predict markets even during normal times and this is far from a normal time. Many market-timer’s who sold equities in March during the extreme selling, missed out on April’s rebound.

Bond Markets

Bond markets also rallied during the second quarter. The Barclays Aggregate Bond Index, which measures the performance of the US investment grade bond market, rallied 2.90% during the quarter and was up 6.14% YTD. As we have talked about in previous editions of the View From the Top (VFT) as interest rates decline, the value of bonds goes up because they are paying a higher yield than the current market rate. Municipal bonds also fared well during the second quarter, recovering from their lackluster -0.63% return in the first quarter, caused by increased concerns of municipalities and state governments not being able to meet their obligations. The coronavirus has been difficult for state governments. They have not only seen less revenue from sales and income tax but have also had higher expenses due to increased unemployment claims. To deal with this budgetary crisis, there has been some discussion of the necessity of some type of Federal package in the next stimulus bill to help state and local governments through the pandemic. Any funding for the States would be helpful given the need for increased testing and the fact that many States have been forced to reduce their workforces significantly.

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We know that you can’t predict markets even during normal times and this is far from a normal time. Many people who sold equities in March during the extreme selling, missed out on April’s rebound. We believe that the only proven way to invest for the long term is to maintain a balanced and diversified asset allo-

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cation appropriate for your risk tolerance, and to rebalance regularly. Investors who exited the stock market in 2008 may have experienced less volatility in the short term but missed out on the rapid recovery. Historically, some of the best returns have come during periods of high volatility. No one has a crystal ball, but we know that the economy will recover over time, as it has done in the past.

Remember that rebalancing means buying low and selling high. Disciplined rebalancing prevents selling at the worst possible time and dealing with regrets.

PCY Transition

For clients who currently hold Invesco Emerging Markets Sovereign Debt ETF (PCY) in their accounts with us, our Investment Committee has decided to transition out of this fund and replace it with iShares JP Morgan USD Emerging Markets Bond ETF (EMB). Emerging Markets Debt is a dynamic market, that adds diversification and increased yield to our clients' portfolios. We have used PCY at times to gain exposure in this space. PCY uses a balanced approach, by equal weighting each emerging market country within the fund. For example: Chinese debt would have the same weighting as Brazilian debt. This way of weighting differs from the index we use to measure performance of the asset class. The JPM Emerging Markets Bond Index which we use weights countries based on the size of their economies. For example, a larger economy like China, would have a larger weighting in the index than a small emerging market country like Mexico. Historically, there has not been a significant divergence in returns between the different weightings, but with the recent volatility caused by the pandemic we have seen the equal weighted approach lag.

The Investment Committee made the decision to use EMB which more closely tracks the Emerging Markets Bond Market on a market cap basis and has a lower expense ratio.

There will be little to no impact for clients who currently hold the PCY fund.

Client Questions

We are repeating two of the questions from the last VFT with an update since we continue to have discussions around them. Let us know if you have others you would like us to answer.

Question: *Is there anything new on COVID-19 that we should be aware of?*
Answer: There have been a few positive developments in the treatment of COVID-19 but we do not yet have a working vaccine. Recommendations are pretty consistent and haven't changed a lot so I am including some of the ones from the last VFT. Wash your hands often with soap and water for at least 20 sec-

onds. Avoid close contact with people who are sick and avoid large gatherings.

Stay home when you are sick. Even if you are able to work please help contain the spread. But most important of all please wear a mask when you are out in public or around others where you cannot social distance.

Please pay attention to the news from health care professionals, take every precaution you can to prevent catching the virus, and recognize that we **will** get through this.

The bottom line is we all have to accept responsibility for helping to reduce the spread of COVID-19 by washing our hands often, not shaking hands or hugging and following the recommendations of our health professionals. Social distancing is one of the primary ways to help reduce the spread of COVID-19. Please check out the websites concerning COVID-19. Stay informed and stay safe.

*Please pay attention to the news from health care professionals, take every precaution you can to prevent catching the virus, and recognize that we **will** get through this.*

Question: *Is this a good time to do a Roth Conversion?* ***Answer:*** We have spoken to many clients considering a Roth conversion. A Roth conversion rolls money from a tax deferred IRA to a tax-free Roth IRA. Either all or a portion of the amount rolled will be subject to taxation in the year rolled.

Consider whether you may eventually need to use the money for yourself instead of leaving it to heirs? Or, will your taxable income be low for the year rolled? If the money is for heirs and the tax rate is low, then it's worth considering. Now may be a really good time to consider a conversion since investment values are lower you may pay less in tax to convert an IRA to a Roth IRA.

If you are unsure whether you may need the money, but the tax rate is low, then consider that minimum distributions are not required from Roth accounts. This means the money can grow tax free perhaps for a longer period of time. And if you do need it, you may take only what you need, tax free.

Another consideration is that if you have been able to eliminate your Required Minimum Distribution from an IRA this year, your taxes may be lower. If your taxes are lower it may be a good opportunity to do a Roth Conversion.

There are no right answers to this question. Tax rates may be higher down the road, but your income may be lower and not as affected. If you think you'll be in the same or a higher bracket later then you may want to consider converting now.

An ideal time to consider a Roth conversion is the time period between retirement and required minimum distributions. Your tax bracket could be substantially lower and your life expectancy longer. Give us a call if you would like to discuss whether or not a conversion would make sense for you.

Lassus Wherley Happenings

We missed congratulating David Colby on his promotion from Investment Analyst to Portfolio Manager last quarter. David works very closely with Advisors and the Investment Committee. Congrats David on a well deserved promotion.

Diahann has recently been elected to the Florida State University Foundation Board. She also continues to serve on the Florida State University College of Business Board and the FSU Student Investment Board.

STAY SAFE!

Please keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term. You know our mantra. We are long-term investors!!!!

Let us know if your cash needs have changed or there is something else we can help you with. Please reach out when you have questions or concerns. And remember to practice that deep breathing when the world starts to get to you.

Take a break from the news and enjoy the warm weather while staying close to home, of course. Wear a mask, wash your hands and stay safe!

Diahann

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