DeBoer Financial Group
Retirement and Estate Specialists

Financial focus

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Message from Jeffrey DeBoer, ChFC®

I hope you are doing well through the "Coronavirus Crisis". It is hard to believe how many weeks have passed since the "Stay at Home" mandate. At least the weather has been beautiful and I hope you have been able to get out and enjoy it! One of the top questions I have heard recently in our client Zoom meetings is, "Why is the market going up lately while we are experiencing the worst economy ever?" I thought I would address that intriguing question in this update. I also would like to share the most recent video update from Brad McMillan, Commonwealth's Chief Investment Officer, whose insight is always invaluable. Many of you had the opportunity to hear Brad speak in person in Roseville or Lincoln last September. You will find Brad's video at the end of my update.

If I can assist you with anything at all, please reach out to me. We are here to help you during these challenging times. From our team at DFG… we are wishing you the very best of health and sanity!

Whatever it Takes

"Within our mandate, the Fed is ready to do whatever it takes to support the economy. Believe me, it will be enough."

Wait, did Fed Chief Jerome Powell really say that? No he didn't, but the Fed's actions seem to have said it for him. Given the speed and force with which the Fed has moved, he might as well have uttered those words.

In actuality, it was European Central Bank President Mario Draghi who voiced this promise. In 2012, as Spain and Italy careened towards a financial cliff Draghi gave a speech (*Bloomberg News*) in which he said: "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro." After a pause, he added firmly, "Believe me, it will be enough." In some respects, "whatever it takes" became Draghi's legacy. No one remembers what he said during the rest of this speech. Just the thought of unlimited central bank firepower encouraged investors to step into Spanish and Italian government debt. Long story short: Another financial crisis was averted.

Perhaps the Fed's rapid response has created the same confidence for American investors. Because despite the tanking economy, markets are fairly robust. Let's take a deeper look.

The Economy: Worst Ever

The economy is in a free-fall. Over a six-week period, there have been 30 million first-time claims for unemployment insurance (through April 25) (*https://fred.stlouisfed.org/series/ICSA).* It's by far the worst number of layoffs we've ever seen, and it is disheartening to see.

A 7.5% decline in consumer spending in March (*https://fred.stlouisfed.org/series/PCE*) is the largest decline on record. Industrial production slid 5.4% in March (*https://fred.stlouisfed.org/series/INDPRO#*), the worst decline since the end of World War II. Nonfarm payrolls for April will be released this Friday, May 8. According to Brian Westbury, Chief Economist at First Trust, it is estimated that nonfarm payrolls will be down roughly 22 million versus March, and the unemployment rate will skyrocket to around 17.0%, the highest rate since at least 1948. To put it in perspective, the highest unemployment rate since World War II was 10.8% at the end of the 1981-82 recession and the jobless rate peaked at 10.0% after the Great Recession of 2008.

Sadly, we may see an acceleration in the economic contraction this month when April's data roll in. "Many standard economic statistics have yet to catch up with the reality we are experiencing," Powell said at his end-of-April press conference. "Manufacturing output fell sharply in March and is likely to drop more rapidly (in April) as many factories have temporarily closed."

Put simply, a health crisis has morphed into an economic crisis, with the economy contracting at depression-like speed. "The severity of the downturn will depend on the policy actions taken at all levels of government to cushion the blow and support recovery when the crisis passes," Powell said.

The Markets: Best Monthly Gains Since 1987

During April, the Dow Jones Industrial Average and the S&P 500 recorded their best monthly gains since 1987 (*https://www.marketwatch.com/story/after-a-blockbuster-april-for-the-dow-and-sp-500-is-sell-in-may-in-the-coronavirus-era-a-smart-strategy-2020-04-30*). It's an incredible disconnect between the financial economy and the real economy.

One of the recurrent themes I emphasize is that bull markets occur during economic expansions and bear markets coincide with recessions. Expansions outlast recessions, and expansions drive the economy to higher levels. And stocks typically follow, albeit unevenly. The one glaring exception over the last 50 years occurred when I started as a financial advisor, the 1987 market crash, which did not lead to an economic contraction.

The four-week 34% decline in the S&P 500 (*https://fred.stlouisfed.org/series/SP500*) qualifies as a bear market. Stocks imploded at a stunning pace as investors sensed the economy was running into a COVID-19 wall.

But the rally over the last month has been nothing short of astonishing given today's dire economic environment. Year-to-date, losses in U.S. stocks have been quite modest, as the table below illustrates.

Key Index Returns

	MTD%	YTD%
Dow Jones Industrial Average	11.1	-14.7
NASDAQ Composite	15.5	-0.9
S&P 500 Index	12.7	-9.9
Russell 2000 Index	13.7	-21.4
MSCI World ex-USA*	6.8	-18.7
MSCI Emerging Markets*	9.0	-17.0
Bloomberg Barclays US Aggregate Bond TR	1.8	5.0

Source: *Wall Street Journal*, MSCI.com, Morningstar, MarketWatch
MTD: returns: Mar 31, 2020-Apr 30, 2020. YTD returns: Dec 31, 2019-Apr 30, 2020
*in US dollars

How Might We Explain the Disconnect?

The Fed's unlimited firepower has not been enough to prevent a debilitating economic decline, but its unprecedented steps have kept an economic crisis from morphing into another financial crisis, with a massive amount of liquidity and a promise of more support aiding stocks.

Further, government stimulus of over $2.5 trillion is helping sentiment. Talk of a vaccine or treatment that would end the pandemic has been a factor. And, possibly investors are looking to 2021, when there is the anticipation that corporate profits will turnaround.

Of course, the outlook is very **uncertain**. Have investors been too optimistic?

Additional government spending and support may be needed to jumpstart economic activity, as Powell alluded to in his press conference. Deficit hawks may cringe at talk of new spending and new programs haven't been problem-free. So far, fiscal stimulus has received strong bipartisan support.

Meanwhile, the reopening of large swaths of the economy may or may not go as planned.

Another wildcard will be consumer behavior. Prior patterns are unlikely to return to pre-crisis behavior, at least right away, and social distancing at restaurants, airlines, and industries that require person-to-person interactions could limit activity and sales. If this occurs as we anticipate, the recovery good be long and arduous.

Is the Economic Bottom in Sight?

Market action suggests some type of economic bottom may be in sight. Think of it like this: The level and the direction of stocks is the equivalent of the collective wisdom of millions of small and large investors.

They are not simply opinions, but real people and institutions that buy and sell equities, effectively putting their money where their mouth is, as they say. No one has a crystal ball. No one can tell you where stocks might be at the end of the year. There are too many unknown variables. Those who make forecasts are simply offering opinions.

I understand the **uncertainty** facing all of us. We are grappling with an economic and a health care crisis. It's something none of us have ever faced.

Notice I have bolded the word **uncertain** and **uncertainty** a couple of times. **Uncertainty** is really the theme right now. It's just too early to tell what might happen with the economy and the markets going forward. This recession will be brutal, probably the worst of our lifetimes. At the same time, it is not a normal recession, and it may also be short. The weeks and months ahead will likely be tough, but there are better days beyond them.

Until the economic and financial indicators start to turn to recovery mode from recessionary, we are going to continue to do what we are doing now, implement our investment process to protect you as much as possible from a "Big Bear" market.

We have addressed various issues with you in this update, but please know it is my job to help you. If you have questions or concerns, let's have a conversation. That's what I'm here for.

Update from Brad McMillan, CIO of Commonwealth Financial Network

Lastly, I would like to offer you the opportunity to hear thoughts from Brad McMillan, managing principal and Chief Investment Officer at Commonwealth Financial Network®, our Registered Investment Adviser.

In this video, Brad discusses where we are in the coronavirus crisis, including a look at the virus itself, the economy, and the market. We had some good news this past week in terms of the virus. The daily case growth rate dropped to under 3 percent per day, and the number of tests given per day increased. Unfortunately, there was bad news for the economy, with millions more people losing their jobs. Even here, however, there are signs that the federal stimulus programs are working, and the peak of the economic damage may be behind us. In fact, the stock market seems to think the recovery may happen sooner rather than later. It is pricing in a V-shaped recovery, with a return to something close to normal by the start of next year.

Does the market have it right? Watch Brad's latest video to learn more.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor. Stay Healthy and Stay Positive!

Jeffrey DeBoer, ChFC®

DeBoer Financial Group
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975 Reserve Drive Roseville, CA 95678 | PH: (916) 797-1888 | FAX: (916) 797-4986 | EMAIL: jeff@deboerfg.com | WEB: www.deboerfg.com