FULLEN FINANCIAL
GROUP

Quarterly Market Summary – Q2 2020

Market Results as of the Second Quarter of 2020

Selected Index Results for Q2 – 2020

Index(1)	**%Growth For FY 2019**	**%Growth For YTD 2020**	**%Growth For Q2 2020**
DJIA	22.34%	-9.55%	17.77%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	5.52%	5.20%	2.46%
S&P 500 (large cap)	28.88%	-4.04%	19.95%
S&P 400 (mid cap)	24.05%	-13.56%	23.54%
Russell 2000 (small cap)	23.72%	-13.61%	25.00%
MSCI EAFE Index (developed international)	18.14%	-12.34%	13.86%
iShares MSCI Emerging Market Index	14.87%	-10.88%	17.17%
iShares Dow Jones US Home Construction	47.87%	-0.61%	52.61%
MSCI US REIT Index	20.94%	-20.10%	10.66%
Amex Oil Index	9.62%	-38.28%	26.03%
Barclays Global Agg ex-US Corp Bond Index	3.70%	-1.58%	8.17%

(1) These results do not include reinvestment of dividends.

Q2 Quick Summary

- Global equities recovered mightily as unprecedented central bank and fiscal support was engaged to offset the Covid-19 impact. As coronavirus case data showed signs of improvement, investors cheered an economic reopening and pointed to improvement in such indicators as nonfarm payrolls, consumer confidence, and manufacturing and services activity.

- During Q2, the MSCI EAFE Index rose 13.9%, while the S&P 500 Index gained 19.9%. Most non-core bond segments recovered from Q1's despair. Of note, the Bloomberg Barclays U.S. High Yield Index rose 10.2% and the Bloomberg Barclays Investment Grade Corporate Index was 9.0% higher.

- Commodity prices also recovered in the second period as market participants anticipated some post-Covid recovery in demand. Oil and gold were notable gainers.

- The Core U.S. Aggregate Bond Index posted a 2.5% gain as demand for "safe-haven" bonds remained notable and Treasury yields stayed low. The 10-yr Treasury yield ended the period at 0.66%; nearly unchanged from the close of Q1.

- U.S. fiscal and monetary policymakers debated the need for still-more policy support, while the Federal Reserve indicated its near-zero interest rate policy would remain for the foreseeable future.

S&P 500 Index Sector Returns – Q2 2020
Source: Bloomberg

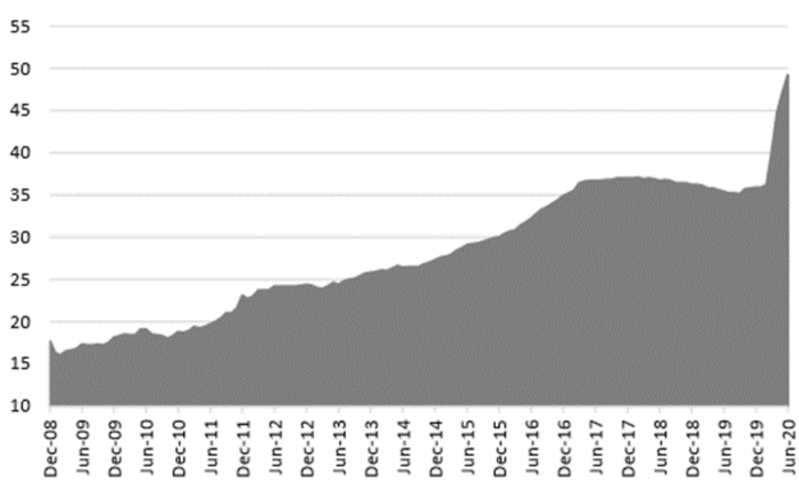
Sector	Cyclical or Defensive	Total Return	Sector	Cyclical or Defensive	Total Return
Consumer Disc.	Cyc	32.9%	Info Tech	Cyc	30.5%
Consumer Stpls.	Def	8.1%	Materials	Cyc	26.0%
Energy	Cyc	30.5%	Real Estate	Cyc	13.2%
Financials	Cyc	12.2%	Comm Svcs.	Cyc	20.0%
Health Care	Def	13.6%	Utilities	Def	2.7%
Industrials	Cyc	17.0%			

Priced to Perfection

During the second quarter, both credit and equity markets turned in robust returns. Clearly the injection of considerable fiscal and monetary stimulus across the globe provided a platform for material equity price recovery. Asset prices were also aided by some light at the end of the tunnel, given April improvement in Covid-19 case data that led to partial economic re-openings during April/May/June. Some of this re-opening activity was evident in dramatically improved economic data on most fronts. U.S. jobs numbers, manufacturing and services activity, retail sales, consumer confidence, and other economic markers rebounded materially in the period. Similar economic indicators also rebound in other areas of the world.

In our view, the biggest reason for the Q2 rebound was the real and implied support from the Federal Reserve and other global central banks. Based on the substantial monetary measures enacted, central bank assets as a percent of GDP, are well above previous highs. We believe monetary policymakers understand that their support is vital in maintaining buoyancy in the economy and markets, although there is a risk that everlasting accommodation will upset the capitalist mechanism.

G4 Central Bank Assets as a % of GDP
Source: Bloomberg, Federal Reserve, European Central Bank, Bank of England, Bank of Japan



Domestically, the Federal Reserve has injected over $2 trillion to date in monetary support via several programs aimed at aiding the economy and financial markets. And policymakers have indicated a bias to do more if conditions warrant. The Fed has also stated its intent to keep its policy interest rate near zero for the foreseeable future. Meanwhile, debate on another stimulus package at the U.S. federal level continues. The Trump Administration is angling at the possibility of issuing another round of individual stimulus checks, plus other measures. However, the partisan battle to get this done may prove to be too much in this election year.

While the fiscal and monetary stimulus effects were notable and have helped push markets higher, the support has seemingly caused some excessive risk-taking in portions of the market. Current equity valuations and tight yield spreads to benchmark Treasuries paint a fundamental picture that appears to be materially different from the current coronavirus reality. We believe the Covid-induced economic uncertainty, the deterioration of U.S./China relations, and the onset of U.S. election season are injecting risk variables not adequately represented in asset prices.

We are cognizant that a vaccine may quickly improve visibility toward improved fundamentals and help support valuations, but some of that eventuality may already be priced in, in our view. We are happy to see the recovery, but we are wary that the seeming safety net of monetary policy has only papered over evident cracks in the foundation.

GDP Forecasts May Be Dialed Down

Economically, the deep U.S. recession will seemingly only be resolved through the wide distribution of a Covid-19 vaccine. Given the recent spike in cases across parts of the U.S., governors have again taken measures to slow the reopening, or re-impose shutdowns for certain sectors of) their economies. While there has been considerable debate about such decisions being taken on case rates rather than death rates, the mandates have been issued based on the former. This will likely be the protocol going forward. As a result, we anticipate U.S. economic recovery scenarios will be elongated and the expected jump in Q3 GDP may now be more muted.

In terms of GDP, we believe economic forecasters could revisit their economic growth estimates for Q3 and Q4. Currently, the Bloomberg consensus is calling for an 18.0% GDP lift in the third period and a 6.9% gain in the fourth; following a 33.7% drop in the second quarter. With statewide economic rollbacks now trending and with California effectively out of business for now, Q3 and Q4 forecasts may move lower, although we believe they could still point to quarter-over-quarter growth.

U.S./Eurozone/Japan Quarter-over Quarter GDP Forecasts
Source: Bloomberg E = Bloomberg consensus estimates

	Q3 '19	Q4 '19	Q1 '20	Q2 '20 E	Q3 '20 E	Q4 '19 E	Q1 '21 E	Q2 '21 E
United States	2.1%	2.1%	-5.0%	-33.7%	18.0%	6.9%	5.0%	4.1%
Eurozone	0.3%	0.1%	-3.6%	-12.4%	8.7%	2.8%	1.4%	1.0%
Japan	0.0%	-7.2%	-2.2%	-22.9%	9.7%	5.1%	3.6%	3.0%

Given the timing of the first economic re-opening, the recovery was previously expected to be somewhat U-shaped. Now with economies shuttering again, the improvement path may take on a slow upwardly sloping trajectory, followed by more of a surge once vaccine distribution takes shape. Widespread vaccine distribution, according to the pace of some vaccine work being done today, is expected to be a mid-to-late 2021 event.

And Then There's the Election

A factor that has gotten very little attention from market participants, in our view, but one that may yet have a material impact on market volatility, is the upcoming U.S. election. While the ramifications of Covid-19 are rightfully taking center-stage, the apparent dichotomy of outcomes from the presidential election should be getting more attention from investors**.** Given that we believe some capitalist-premium has been priced into this market, we expect election uncertainty will eventually have an effect on market volatility as we approach November 3rd. Typically, equity returns are lower and volatility is higher during an election year. We have certainly seen Covid-related volatility, but we believe some election instability also could be around the corner.

Conclusions

Given high equity valuations, rollbacks of economic re-openings, and the onset of a contentious election season, we believe investors will be well-advised to take a measured approach to equity assets. However, a vaccine breakthrough, coupled with continued accommodative fiscal and monetary policies, may fuel additional market gains in the near term.

COVID-19 has had far-reaching impacts on public health systems, the global economy and the financial markets. In the course of this pandemic, single-day movements in stock market indices, both negative and positive, have been almost unprecedented. Sensationalized press coverage and program trading certainly contribute to this volatility and can make market gyrations seem worse (or better) than they otherwise would be. In this type of market environment, investors often feel the need to do something with their investments, even though history has shown that large moves at times like these can do lasting damage to investment portfolios.

While we are still operating in an uncertain environment, we remain generally optimistic that virus mitigation measures and treatments, combined with significant government stimulus, will support continued economic recovery over the next two quarters. With recent negative developments in containment of the virus and the slowing of business re-openings, downside risk still remains, and could be significant. Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming a vaccine and effective drug therapies are developed to combat this virus, which we believe will happen, the long-term impact on economic growth, and equity values, should not be significant.

One counterweight to this argument is the unprecedented level of government stimulus, both fiscal and monetary, undertaken over the past several months. Prior to this pandemic, we had voiced concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, with a partisan political environment and a presidential election coming in November, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses.

Market shocks also tend to give rise to “can’t lose” investment strategies that seem too good to be true. If someone appears to have found a way around market volatility, be very wary – they are either not showing you all their cards or are taking risks that you are not aware of. Fullen Financial is always available to help sort out false claims so don’t be concerned about asking us.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don’t try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven’t had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financial’s Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor’s education and experience. You may do so by contacting Aigool Zhumasheva at aigool@fullenfinancial.com and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on “Resources” in the top menu bar, and then on “Client Forms.”

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