**ADKINS SEALE CAPITAL MANAGEMENT, LLC**
Investment Commentary
July 4, 2020

**Dear Clients**:
On this Independence Day, events of the recent quarter remind us of the good, the bad, and the ugly of the American human experience. In March, US citizens, with assistance from the federal, state, and local governments, partially "paused" an otherwise robust economy to address the potential adverse consequences of a viral pandemic. In the second quarter, a gradual "reopening" of the economy was commenced. Although not fully back to pre-pandemic levels of employment and economic activity, the performance of the broad equity markets has provided ample evidence of the "good" from the resilience of the American economic system. Time will tell whether the markets are signaling an "all clear" for the coming months and years, but for the moment, investors should be thankful for what has been received.

With the media's help, the evidence of the "bad" is broadcast daily. We sense a broad decline in behavioral norms has led to calls for simple-sounding solutions such as wealth redistribution through taxing economic success, equitable justice through defunding of law enforcement agencies, and the illusion of wealth creation with nearly zero cost for borrowing money. Too much faith in government, combined with a seemingly unlimited borrowing capacity by government, has led to acceptance of the call for simplistic but unworkable proposals in pursuit of "social justice." Our take on human nature tells us the principles of self-reliance and prudent self-control will lead to a better future. We remain optimistic that citizens will choose the benefits of a free society, with its inherent hardships, over the illusion of a benevolent utopia.

The "ugly" of recent events has been the transfiguration from peaceful protests to out of control riots resulting in multiple deaths and unlawful property destruction. The roots for this ugly may lie with the otherwise non-violent combat seen daily across the political spectrum. Perhaps the political division has always been a part of our society just not previously amplified as is the case today. A return to more political comity is necessary to address effectively the imbalances weighing on our society; effective actions will be long term in nature and difficult to obtain given the short sightedness of election cycles. We acknowledge the challenge of choosing between imperfect candidates for elected offices and pray voters will give greater attention to the real challenge of recruiting qualified citizen representatives to undertake the burden of "running" for office.

What does the above have to do with investing? We say investors have to take into account the good with the bad of what the market opportunity makes available. Further, patience is required as the desired outcome rarely happens overnight. Bad things do happen but generally do not persist as the good eventually overcomes. Human nature inherently seeks improvement in the daily existence; over time, that improvement is best achieved in an environment of freedom and personal responsibility. We pray for the wisdom and courage of our elected officials during these tumultuous times to rely upon time-honored behavioral truths when enacting legislation or taking executive actions.

**Investment Market Returns as of June 30, 2020**
The broad US stock market returned 22.1%, including dividends, for the recent quarter, a clear improvement from the 21% decline in the first quarter but still resulting in a decline of -3.4% year to date. Smaller US companies, which were most harmed by the pandemic shutdown, generated even larger gains for the recent quarter but significantly larger negative returns year to date. Returns for non-US stocks followed a similar pattern with a 16.2% return for the quarter but a -11% negative return year to date. Market signals suggest a fairly rapid recovery from the COVID-19 shutdown absent a worsening of the economic impact of the virus.

On the tailwind of falling yields, returns on fixed income assets remained relatively robust for the quarter and year to date. The broad US taxable bond index returned 2.9% and 6.1%, respectively, for the two periods. Current annual yield to maturity on the broad US investment grade bond index is about 1.2%, representing only a slight premium to expected annual inflation. The broad non-US taxable bond index returned 2.3% and 2.5%, respectively, and ended the quarter with an annual yield to maturity of about 0.5% or almost certainly negative net of inflation. Market signals from bond markets suggest a benign inflation environment and possibly a weak economic outlook which possibly contradicts the signal from the equity market.

Returns on hedge strategies were mixed for the quarter with trend following slightly negative, while option based and allocation strategies generated returns of about half of equity returns. On a year to date basis, trend following produced a slight positive return, while option based and allocation strategies were slightly negative. Possibly reflecting the extreme uncertainty of current market conditions was the year to date return on the SPDR Gold ETF of 16.9%.

Cash returns remain essentially zero, acting only as a store of “dry powder” to deploy if stock and bond prices fall.

**Our Look Forward**

Uncertainty over the rate and level of economic recovery from the COVID-19 shutdown makes forecasting future investment returns a “risky” proposition. The most recent forecast of 2021 index-equivalent earnings for the S&P 500 Index compiled by Howard Silverblatt at S&P Global Indices suggest an annual earnings yield of about 4% at today’s index level. Analysts are currently estimating a 34% **DECLINE** in 2020 versus 2019 followed by a 59% jump in 2021 versus 2020. In other words, back to all things normal in 2021 so much so that the disruption of 2020 can be absorbed as a normal blip. We hope this expectation is accurate but consider it somewhat optimistic; only time will tell how all this works out. The combination of normalized annual earnings growth of around 2-3% combined with the 4% earnings yield produces an average annual total return of 6-7% over a reasonably long term period such as ten years. The return expectation for non-US stocks is possibly even higher albeit with greater volatility, implying the benefit of global diversification remains viable.

Bond yields offer an unambiguous and unattractive forward return opportunity. The benefit of holding such assets derives from being able to take advantage of lower prices for stocks and other assets in the future. We continue to believe this benefit has merit but investors must lower portfolio return expectations to account for the price of this “opportunity cost.”

As we have counseled in the past, investors and our clients in particular may well look to using higher equity allocations to achieve desired portfolio returns. Such an approach makes sense where the client has an appropriate time horizon and emotional construct to “stomach” the volatility in market prices and an ability to adjust periodic withdrawals in periods where market values decline significantly.

**In Closing**

We look forward to visiting with each of you about your investment results and expectations for the future and to make sure your portfolios are aligned with your specific circumstances. We greatly appreciate the opportunity to serve as your investment adviser and pledge our best efforts to meet your expectations.

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