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*Frank*ly Speaking©

Welcome to the Q2-2020 issue of *Frank***lySpeaking**©, now in its 28th year. The purpose of this newsletter is to keep you informed of current issues and global events that could impact your finances. Please feel free to share your thoughts with us, as we welcome your comments.

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In This Issue

Economic and Market Commentary

A couple months ago, the trade war, impeachment proceedings and Brexit were the main risk scenarios. Today, they seem to be from a different era and almost harmless.

They have nearly been forgotten in a few turbulent weeks. We have been transformed by a shocking, almost unbelievable, pandemic, the new coronavirus, Covid-19, which originated in China and has spread rapidly abroad.

The full extent of this spread did not become apparent until the end of February.

The contagion's impact on capital markets in just the following three weeks can be quickly illustrated.

The number of new cases outside China quickly approached China's total. On March 9th, Italy effectively quarantined the entire country. Cultural and sporting events were cancelled in many parts of the world.

In the markets, the S&P 500 slumped at record speed, over 20% from its record high and European indices have lost more than a quarter of their value.

Stock-market volatility has reached levels not seen since 2008. To make matters worse, key oil producers Saudi Arabia and Russia embarked on a full-blown price war, sending oil down to $20 per barrel.

All U.S. government-bond maturities yielded less than 1% for the first time in history, while the risk premiums on euro high-yield bonds doubled virtually overnight.

The virus has also arrived in most people's daily lives. Companies have taken extensive precautions to ensure smooth business operations. These dramatic developments demonstrated that economic forecasts made in mid-February were no longer relevant.

Another colossal shift occurred on March 12th, the day on which almost the whole of Europe switched to crisis mode and it became obvious that the United States would soon follow suit.

Stock markets suffered historic falls and most bond markets froze. Central banks began to intervene with large liquidity packages and both the U.S. Federal Reserve (the Fed) and the Bank of England radically cut interest rates.

At 0.1%, the benchmark British bank rate is at its lowest level on record, going back to 1689. The European Central Bank (ECB) followed suit with numerous easing measures to stimulate bank lending and a 750-billion-euro purchase program, to improve liquidity in the bond markets.

The high number of traders and fund managers currently working from home has intensified the lack of market liquidity.

This was evident in the fact that even on days of massive collapses in the riskier markets, such as equities and corporate bonds, the supposed safe havens, gold and government bonds, had lost value.

They become a source of liquidity for many companies and institutional investors when the overarching rule is, "cash is king." This was evidenced by panic selling to cover massive market liquidity needs brought on by panic selling. Kind of like a directive from the department of redundancy department.

Economic life appeared to be collapsing right before everyone's eyes. Extensive border closures and air traffic had been largely suspended. The closure of shops, cultural and sports facilities and the imposition of curfews, all of which are leaving city centers in Europe and the U.S. empty, add more fuel for panic.

The greatest uncertainty remaining, however, is the trajectory of the virus and the burdens to the health-care systems it has created. In general, medical issues will be a greater concern more than anything else in the coming weeks.

The aid packages provided by central banks and governments are extremely important in preserving business continuity as much as possible by providing security for small businesses and the self-employed and ensuring that markets can function properly.

There is equal importance on the continuing development of the virus itself and how state authorities deal with it. There are more questions than answers and an unpredictability from the virus and the pandemic it is causing.

Here is where we take a deep breath moment. We are from the school of thought that three months of experience with the virus have greatly improved our judgement.

We believe that the pandemic will remain a temporary phenomenon whose worst phase will be behind us by the mid-summer, at least in the regions that are already severely affected.

The number of new infections in key economic regions should stabilize clearly in the first half of the year, and the pandemic's worst impact from an economic perspective should be over by year-end. To get to this point, experts believe that three things must happen.

First, the virus will have to have been brought largely under control by then. Essential for this is the provision of many test kits, whose use must be simplified.

In a quick response, on March 27, 2020, it was announced that the U.S. Food and Drug Administration (FDA) has issued Emergency Use Authorization (EUA) for the fastest available molecular point-of-care test for the detection of novel coronavirus (COVID-19), delivering positive results in as little as five minutes and negative results in 13 minutes.

Second, disease-relieving medicines need to be approved, even before an effective vaccine is available. There are a number of treatments in various stages of testing.

Third, as odd as this may sound at first, society will need to get used to dealing with the virus, just as it has become accustomed to dealing with other viral diseases.

Social distancing, more precautionary personal protective items, along with massive closures appear to be working.

There is a negative assumption associated with these closures, generally thought of as a "shock freeze" of large parts of the economy, cannot be maintained for more than six to eight weeks before being gradually eased. This has never been attempted before.

This unfreezing, however, could lead to a second wave of infections which is why some models do not expect a quick recovery but rather a more prolonged one.

With this in mind, there is the risk for a short-lived global recession in the U.S. and the Eurozone. The economy could shrink by around four percent this year, while China should manage to grow slightly.

Asset prices, as well as economic activity, should continue to be bolstered by central banks that have, to a large extent, already delivered what was expected and, in some cases, more.

Key interest rates are close to zero almost everywhere in the developed world and numerous liquidity support measures have already been announced.

Bond purchases are again among them. The ECB announced a 750-billion-euro package and on March 23 the Fed announced that it would buy as many bonds as necessary, including corporate bonds, and bond yield forecasts have adjusted accordingly.

The 10-year U.S. government bond is expected to yield 0.9% in twelve months and corresponding German government bonds to yield -0.5%.

Regarding equities, after an extremely weak first half of 2020 and stabilization in the second half, forecasts predict a drop in earnings of up to 20% for the full year 2020.

The recovery in 2021 should lead to slightly better figures for the next 12-month period with most stock indices trading significantly above their current level in twelve months' time.

There is the possibility of new lows being tested along the way now that the large monetary and fiscal packages have been priced into the stock markets.

Currently, the two most important parameters for investor sentiment are news on the coronavirus, relating to containment or progress on treatments and stock valuations.

Inflation and interest rates will probably still worry capital markets. Economists had assumed that monetary policy would remain loose in 2020 but rates have fallen due to the crisis.

We are likely to be stuck in a low-interest world for some time. U.S. Treasuries can no longer compensate for inflation and the dollar is losing its fundamental appeal.

Investors are being forced into corporate bonds and equities because government-bond yields are so low, or even negative.

Other investments that we believe should benefit from the low interest-rate environment are in real estate and infrastructure.

Whether inflation will remain as invisible as it has since 2009 will be another big question for markets. Ultimately, stronger inflation would again spark more desire for equities.

We are dealing with the most severe economic standstill and capital-market reversal in the post-war period. The damage done and distortions created will only become clear in the coming months.

The pandemic could get worse in some countries before it gets any better. The virus is extremely dangerous and may have been underestimated by the developed world for too long.

But what should not be underestimated is the adaptability and inventiveness of humanity when we are directly confronted with a crisis.

This is not the time to give up, especially as investors. The markets could remain volatile in the near future, but we must keep an open mind to potential opportunities on the horizon.

Negative headlines about the virus will be replaced by more positive news over time and capital markets, anticipating future developments, will react in a positive way, even when the situation seems to be dire.

We truly believe that most share prices will be substantially higher in twelve months' time.

First and foremost, please stay healthy and take care of yourself and your family. We need each other now more than ever.

Mortgage Rates Drop Again

MCLEAN, VA, April 2, 2020) (Globe Newswire) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), showing that the average 30-year fixed-rate mortgage averaged 3.33%.

The 30-year fixed-rate mortgage (FRM) averaged 3.33% with an average 0.7 point for the week ending April 2, 2020, down from the previous week when it averaged 3.50%. A year ago, at this time, the 30-year FRM averaged 4.08%.

The 15-year FRM averaged 2.82% with an average 0.6 point, down from the previous week when it averaged 2.92%. A year ago, at this time, the 15-year FRM averaged 3.56%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 3.40% with an average 0.3 point, up from the previous week when it averaged 3.34%. A year ago, the 5-year ARM averaged 3.66%.

As of January 1, 2016, the PMMS no longer provides results for the 1-year ARM.

(Average commitment rates should be reported along with average fees and points to reflect the total cost of obtaining the mortgage. Borrowers may still pay closing costs which are not included in the survey.)

Sam Khater, Freddie Mac's chief economist, reported that mortgage rates have drifted down for two weeks in a row and that drop reflects improvements in market liquidity and sentiment.

He also noted that while the market had stabilized relative to prior weeks, homebuyer demand had declined in response to current economic conditions.

The good news is that the pending economic stimulus is on the way and will provide support for both consumers and businesses.

The CARES Act

The coronavirus (COVID-19) emergency is presenting new and unique challenges that most of us are facing for the first time.

Employers across the country are facing closures of offices and businesses, resulting in everything from required work at home arrangements to employee lay-offs and furloughs.

This has raised important questions around retirement plan administration, including the nature of relief that may be available for plan participants. In response, on March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law.

Below is a brief description of the key CARES Act provisions.

Plans may permit in-service coronavirus-related distributions from a participant's vested account balance without regard to the normal withdrawal restrictions. This relief is offered through December 31, 2020 and are subject to the following requirements.

Total distributions are limited to $100,000 per tax year, aggregated across all plans of the employer or controlled group.

Distributions are not subject to 20% mandatory tax withholding upon distribution and are exempt from 10% early withdrawal penalty generally applicable to distributions made to participants who are 59-1/2 years old or younger.

They are eligible to be indirectly rolled into an IRA or employer plan within 3 years from the date of distribution.

Amounts not indirectly rolled into an IRA or employer plan are included in gross taxable income, ratably, over 3 tax years (beginning with the tax year of the distribution), unless the participant elects to include all amounts in a single tax year.

Coronavirus-related distributions are available to eligible participants:
- who are diagnosed with a coronavirus (COVID-19 or SARS-CoV-2) illness.
- have a spouse or dependent diagnosed with a coronavirus illness.
- experience adverse financial consequences as a result of a quarantine, furlough, layoff, reduction in work hours, business closure, the lack of childcare, or other factors determined by the IRS due to the coronavirus emergency.

A plan administrator may rely on a participant's certification of the above.

IRA's, SEPs, SIMPLEs, Single-Ks, Qualified 401(a)/(k), 403(b), and governmental 457(b) plans **will not be required to make any RMD payments for 2020**.

Participants who turned age 70½ prior to 2019 will not be required to receive an ongoing RMD for 2020.

Participants who turned age 70½ in 2019 and who did not receive their first RMD for 2019 on or before January 1, 2020 will not have to receive their first (2019) RMD or their 2020 RMD.

Beneficiaries receiving life expectancy payments will not be required to receive their 2020 beneficiary RMD.

Beneficiaries who have an account balance in the plan subject to the five-year distribution rule may extend their required distribution by one year (full distribution of the account must be made by the 6th anniversary of the participant's death).

If a 2020 RMD is provided to any of the above, it may be rolled over to an IRA or employer plan. A participant's RMD or beneficiary's life expectancy RMD for 2021 will need to be paid.

We recommend that you contact your accountant for your specific situation.

Source: 2020 Transamerica Retirement Solutions, LLC

Tax Cuts and Jobs Act

Lawmakers have enacted a massive stimulus package that offers deep tax relief to both businesses and individuals.

The compromise bill moved quickly through Congress with overwhelming bipartisan support and was signed into law by the president on March 27, 2020.

The bill is a $2 trillion combination of both tax provisions and stimulus measures, including emergency business lending.

The tax package itself is broad, with payment tax relief, significant business tax incentives, several long-sought technical corrections to the Tax Cuts and Jobs Act (TCJA), and individual tax cuts and rebate checks.

The business tax changes will allow for immediate refunds in many cases and should provide considerable cash flow relief.

The centerpiece of the individual tax title would offer rebate checks based on a new tax credit of $1,200 per filing adult and $500 for each qualifying child.

The credit begins to phase out at an adjusted gross income (AGI) of $75,000 (single), $112,500 (head of household) or $150,000 (joint). The stimulus payment is a unique, fully refundable tax credit, even if you don't owe a penny of tax.

The legislation waives early withdrawal penalties for up to $100,000 in COVID-19-related withdrawals from qualified retirement accounts.

The taxpayer has the option of repaying the amount and incurring no tax. If the taxpayer does not repay it, the income is included ratably over three years beginning with the year of the withdrawal.

Individuals may make eligible distributions if they are diagnosed with COVID-19, have a spouse or dependent diagnosed with COVID-19, or suffer adverse financial consequences from a quarantine, layoffs or reduced hours due to business issues or lack of childcare.

The legislation separately raises the limit on borrowing from an account from $50,000 to $100,000 (with the 50% vested accrued benefit limit also doubled), so taxpayers could, in some circumstances, temporarily withdraw as much as $200,000 from an account.

The legislation would also suspend RMDs for Section 401(k), 403(b), and certain 457 (b) plans.

It excludes employer student loan repayment assistance of up to $5,250 from taxable income in 2020.

Permanently restores the ability for taxpayers to use health savings accounts and flexible spending arrangements to purchase over-the-counter medicine.

The bill allows an above-the-line deduction for up to $300 in charitable contributions of cash for taxpayers who do not itemize deductions in 2020.

For taxpayers who do itemize, the bill removes the AGI limit on deductions for charitable contributions of cash in 2020. Contributions to donor-advised funds do not qualify.

The legislation allows employers to defer deposits of the 6.2% employer portion of

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the Social Security tax for Old Age, Survivors, and Disability Insurance (OASDI) from the date of enactment through the end of the year.

Half of the deferred payment amount is due by 12/31/2021, with the other half due by 12/31/2022. Individuals paying self-employment tax are provided with equivalent relief.

Required Minimum Distributions under CARES Act

There are two key changes regarding required minimum distributions (RMDs) in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Both were designed to give people more control over their money and to help manage selling investments during an emergency.

One provision allows retirees to forego taking RMDs from Individual Retirement Accounts (IRA) or 401(k) style plans this in 2020.

The other provision allows people who have inherited 401(k)s, IRAs or Roth IRAs to suspend distributions in 2020. While RMDs don't apply to people with Roth IRAs, they do apply to investors who inherit Roth accounts.

For accounts owned prior to 1/1/2020, an account holder can forgo a 2020 distribution and resume distributions in 2021 where they have been taking RMDs from an inherited account using the life-expectancy method set by the Internal Revenue Service.

For account owners who passed away on or after 1/1/2020 and left the IRA to an adult child, the new 10-year rule would start in 2021. The beneficiary would have until the end of the 10th year to withdraw the entire account.

If you have already taken a distribution from an IRA or 401(k)-style plan this year, you may be able to roll the funds back into the plan.

On the other hand, if you have already taken a distribution from an inherited IRA in 2020, you may not be allowed to put that money back.

We recommend you contact your tax or legal professional to understand how it might impact your situation.

Frankly Funny

Most of us over the age of 65 were Home-Schooled in many ways......

MY MOTHER TAUGHT ME:

APPRECIATE A JOB WELL DONE: "If you're going to kill each other, do it outside. I just finished cleaning."

RELIGION: "You better pray that will come out of the carpet."

FORESIGHT: "Wear clean underwear in case you are in an accident."

THE SCIENCE OF OSMOSIS: "Shut your mouth and eat your supper."

STAMINA: "You'll sit there until all that spinach is gone."

WEATHER: "Your room looks like a tornado went through it."

HYPOCRISY: "If I told you once, I've told you a million times, don't exaggerate!"

ANTICIPATION: "You just wait until we get home."

RECEIVING: "You are going to get it from your father when he gets home!"

MEDICAL SCIENCE: "If you don't stop crossing your eyes, they are going to get stuck that way."

HOW TO BECOME AN ADULT: "If you don't eat your vegetables, you'll never grow up."

MY ROOTS: "Shut that door behind you. Do you think you were born in a barn?"

WISDOM: "When you get to be my age, you'll understand."

ON THE OTHER HAND MY FATHER TAUGHT ME:

TIME TRAVEL: "If you don't straighten up, I'm going to knock you into the middle of next week!"

LOGIC: "Because I said so, that's why."

IRONY: "Keep crying and I'll give you something to cry about."

And... My father taught me the meaning of **JUSTICE:** "One day you'll have kids and I hope they turn out just like you!"