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Wall Street Solutions with Main Street Values!

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Stocks' Recovery Continues; NASDAQ Now Positive for the Year

Dear Great Lakes Wealth Clients & Friends,

Stocks continued to move higher in May, as the S&P 500 rallied for a second consecutive month. Continued stimulus from fiscal and monetary authorities has boosted equities, bolstering expectations for an economic rebound later this year and into early 2021. While we expect equities to be higher over the next 12 to 24 months, near-term risks include rising geopolitical tensions with China as well as potential setbacks related to COVID-19. It helps that mitigation measures have the number of new cases, hospitalizations and the percentage of positive tests trending in the right direction. Additionally, while there has been some promising data on vaccines and therapeutics in recent weeks, there remains a lot of uncertainty on the virus spread, consumer behavior and pace of the economic recovery.

U.S.-China relations will likely emerge as a leading theme in the presidential race. In May, the U.S. outlined restrictive measures targeting China on technology, capital markets and recent laws imposed on Hong Kong. Escalating confrontation between the U.S. and China may undo any progress made during the 2018-19 trade negotiations, and the relationship threatens to hit new lows in 2020.

Despite headwinds, equities pushed higher in May. The S&P 500 gained +4.53%, while the Dow Jones rose +4.26% and the Nasdaq delivered +6.75%. The S&P 500 is still down almost -6% on the year, however it has begun to regain key technical levels.

	12/31/19 Close	5/29/20 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	28,538.44	25,383.11	-3,155.33	-11.06%
NASDAQ	8,972.61	9,489.87	+517.26	5.76%
S&P 500	3,230.78	3,044.31	-186.47	-5.77%
MSCI EAFE	2,036.96	1,725.09	-311.87	-15.31%
Russell 2000	1,668.47	1,394.04	-274.43	-16.45%
Bloomberg Barclays Aggregate Bond	2,225.00	2,346.72	+121.72	+5.47%

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Performance reflects price returns as of market close on May 29, 2020.

Here is a look at some key factors we are watching, both here and abroad:

Economy

- Recent economic data continues to reflect the record decline we've seen so far in 2020, including unprecedented job losses and declines in consumer spending. Aggressive action from the Federal Reserve (the Fed) has helped to ease strains in credit markets, and fiscal support from Congress has provided some cushion against the downturn.
- The expansion of the Fed's balance sheet and the increase in government borrowing are not necessarily inflationary. In fact, we expect some downward pressure on prices given high unemployment and the excess in global productive capacity.
- After the pandemic, the U.S. will need to get the federal budget on a more sustainable path, but the current elevated level of borrowing need not have an adverse impact on longer-term growth.
- As social distancing guidelines relax, we anticipate a sharp rebound in economic growth into the second half of the year, fueled partly by the buildup of savings during the lockdown. However, without a vaccine or effective treatment for COVID-19, many individuals may be reluctant to eat in restaurants, get on airplanes, or attend concerts or sporting events. A full recovery could still take several quarters, or longer.

Equities

- The rally in U.S. growth equities relative to the rest of the world is primarily driven by a handful of companies that have benefited from heavy exposure to technology and the work-from-home environment, with large cap and growth names leading the way. Missing is the broad-based rally in more cyclical names as well as the smaller companies.
- Companies may face challenges returning to pre-pandemic profitability with double digit unemployment. The employment situation is likely to stay negative for a few years as some jobs are not coming back any time soon.
- The massive underperformance of value stocks relates mostly to those particular companies' quality and profitability, both in the U.S. and abroad.

International

- During May, equity markets outside the U.S. continued to build on the gains of late March and April, although the strengths of these gains typically were lower than those seen in the mainstream American markets, reflecting lower technology sector weightings.
- Across Europe, both COVID-19 new cases and death rates moderated, allowing for tentative loosening of lockdown rules.

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- Economic data – including corporate earnings results – remained exceptionally weak; however, both consumer and business survey data started to improve.
- Regional government stimulus efforts included an extension of the U.K.'s wage support scheme until the end of October and a Franco-German plan to bolster the eurozone's recovery.
- Interestingly, the European Union plans to put significant funding behind its "green recovery," making it more than just a buzzword. The EU proposed its largest-ever budget, including investments for the European Green Deal, the largest decarbonization initiative in world history. The EU plan to sustain its post-crisis recovery focuses strongly on green initiatives, such as low-carbon electricity generation, including support for countries such as Poland and the Czech Republic, which have been heavily dependent on coal.
- China and some other parts of East Asia continued their more advanced economic recovery, avoiding any notable COVID-19 second wave so far.

Fixed income

- Overall, May was a very positive month for credit, for balance sheets and for issuance, with one notable exception – the drop within municipal spreads. The big drop reflects very low Treasury rates coupled with investor appetite for high-quality yield.
- However, we also saw significant spread compression as well as a growing new issue calendar for corporate and municipal bonds.
- These conditions have allowed state and local governments to tap the capital markets at much lower yields. Furthermore, there's an expectation that a second round of COVID-19 relief could provide additional money to aid state and local governments with revenue shortfalls and budget deficits. If that happens, we could see municipal yields fall even further.
- The Treasury offered its first 20-year bond since 1986, and it was a hit. The Treasury has said that it will need to raise $3 trillion in the second quarter of 2020, and the reopening of the 20-year bond helps to let the Treasury finance well out on the yield curve at just over a 1% rate.

Bottom line

- **The unprecedented decline in the global stock markets has created a generational buying opportunity!**
- Savvy investors can consider using market pullbacks to add exposure to favored sectors.
- In times of volatility, a disciplined investment strategy should help as markets tend to overreact on both the downside and upside as headlines drive fear and over-optimism.
- Depending on your timeframe, current investment strategies should be based on what's happening "Now," "Next," or "Later."
- Gold has broken thru $1700 and recently touched $1750 oz. We expect to see continued higher prices, to $1900+ per ounce.
- We currently have a "Buy" on 11 of our strategies, while our *International Opps Portfolio* is currently on a "Hold" - which one(s) is right for you? That just depends on your risk tolerance, ultimate objective, etc.

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- Be sure to set aside emotion before thoughtfully adding to your portfolio. While opportunities exist, they come at various levels of risk for both stocks and bonds. Be patient and steadfast.
- Our current approach continues to be – Discipline and patience when both buying and selling. Volatility creates opportunity.

With states continuing to re-open this month, please know that we are thinking of you and your family and wishing you all good health. As always, feel free to reach out with any questions you may have – about the markets, your financial plan or anything else that we may be able to help with. Thank you for your continued trust in us.

As always, we'll continue to keep you updated. If you have any questions or would like more information on becoming a Great Lakes Wealth client, call us at 248.378.1200.

Sincerely,

Your Investment Team at Great Lakes Wealth