INVESTMENT COUNSEL
INSPIRE TRUST. INVEST WELL.

July 1, 2020

This past quarter has been bittersweet. The Covid-19 virus exceeded almost everyone's worst expectations with global cases now above 10 million and the number of deaths above 500,000. For much of the quarter investors were somewhat dumbfounded as the economy obviously declined significantly while asset prices rose strongly with the S&P 500 up 21%.

We expect rising virus numbers to continue to co-exist with resilient, if volatile, equity markets. There likely won't be a significant slowing in the number of existing cases going forward as it will be difficult to slow the spread given there are now so many active infections. Government financial support will continue for the economy both in the form of fiscal spending and central bank monetary policies including lower interest rate policies, credit supports, and additional injections of liquidity. Higher equity valuations may not be the stated goal but will continue to be a beneficiary of the excess money in the economy. We expect excess liquidity to continue to prop up equities while the economy rebounds off its lows and improves towards prior levels.

Equities have already priced in much of this expected rebound in the economy so the potential for future appreciation from here is less than normal. Economic growth expectations will continue to get pushed out as the Covid-19 virus continues to depress consumption and investment sentiments in the near term. The redirection of global supply chains will bring additional costs to businesses which will impact profit margins. Ballooning fiscal deficits may also be a harbinger of higher corporate tax rates in the future potentially reversing the positive earnings impact from the tax cuts of a few years ago. Earnings growth will be challenged.

Yet, there will also be positive surprises for companies that fit particularly well with the changing landscape and recent work-at-home environment. Going forward, stock picking will become more critical to portfolio returns as will a more disciplined focus on buy/sell decisions and the risk/reward merits of each equity. We believe dividend returns will be an important component of total return in this environment.

Markets may need time to recalibrate the impact of accelerating Covid-19 infections on near term growth as hope for a vaccine may help equities remain resilient. However, we have concerns about Main Street and believe difficult times are ahead. Intense economic pressures among lower-income families will worsen as state and local governments struggle to maintain services currently being provided. Lower income service jobs are also more customer facing and at higher risk of infection. So, it is bittersweet to report a positive Q2 investment report while recognizing we are all still managing our way through an extraordinarily challenging time.

801 South Figueroa Street | Suite 2100 | Los Angeles CA 90017 | 213.612.0220 *t* | 213.612.-0329 *f* | sfeic.com
SEC Registered Investment Advisor