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McDaniel Knutson

FINANCIAL PARTNERS

Using our **KNOWLEDGE, SKILLS and RESOURCES**
to help people increase their capacity to **LIVE and to GIVE**

MAY 2020

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- ✓ easy online access to view account
- ✓ keep up with events
- ✓ market commentaries

Help Us Help Family Promise

Since our founding, MKFP has been involved in philanthropic endeavors quite literally all over the world. It seems like a lifetime ago, but you may remember back in 2019 we announced a partnership with Family Promise of Lawrence (FPL). FPL is making Lawrence a better place through the implementation of their mission statement: Helping homeless families with children achieve and maintain permanent housing.

Undeterred by the COVID-19 pandemic and inspired by the CARES Act recently passed into law, Wayne got an idea. Wayne wondered if there was a way to get our clients and friends involved in the Lawrence community and he thought if MKFP offered to help local families that that would inspire others to do the same. We think he's onto something.

MKFP is proud to announce a partnership with Help Us Move In (HUMI) to help FPL keep at-risk families in their homes.

HUMI is a Washington-state based non-profit and working through a system of grants and partnerships with community organizations, they fund and create programs to help families facing housing crises.



Still open and serving families



MKFP and HUMI have come together to create a matching challenge fundraising campaign for Family Promise. We will match dollar for dollar up to \$20,000 of donations. If donations reach \$40,000, McDaniel Knutson will contribute an additional \$10,000, for a total fundraiser of \$70,000!

Donate your CARES Rebate Check

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act most Americans will be getting a \$1,200 check. Depending upon income

and size of family, it could be as much as a few thousand dollars. The purpose of the check is to help offset economic losses. If you do not need your check, we encourage you to donate all or part of it to help those who do! With this challenge, your

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Pursuant to CDC and others' guidelines, we are working remotely from home.

Due to regulatory and service concerns, though, we will have one person in the office during regular business hours until further notice. Feel free to call or email us with any questions or issues you have, but we are not taking any appointments and are not having regular office hours. Thanks for understanding and please stay healthy out there. We look forward to seeing you in person soon.

Market Commentary: Stay At Home Orders' Consequences Are Starting To Be Felt

Written April 21, 2020

As we all know, the coronavirus pandemic has shuttered the world, severely affecting the global economy. As of yet, shutdowns remain in effect with no real answer as to when we can fully open back up. And even if your state gave the all clear tomorrow, would you feel comfortable going to a packed movie theater, sports stadium, or Chinese buffet?

I think that the pandemic is going to change consumer behavior for a while, not just because of the fear of contracting the virus but because of much lower income. We've now seen unemployment numbers spike at a rate that has shattered prior records. Nearly 22 million Americans filed for unemployment benefits during the three weeks ending April 11th. While I don't know anyone who personally has COVID-19, I have several friends who have been laid off for the first time in their lives.

Meanwhile, corporate earnings estimates are out the window. Who can possibly guess how much a company will earn in the next quarter or two? Many companies have withdrawn guidance completely. We're in uncharted waters. But that hasn't stopped the S&P 500 from rallying over the past three weeks and regaining over 50% of what it lost in February and March. Below is a year-to-date graph:

With where the S&P 500's price is now, its forward P/E ratio (a broad measure of how expensive stocks are by taking the price (P) of a given stock (or index in this case) and dividing it by its earnings (E)) is back to pre-virus levels of 18.9 which is above its 20-year average. Stocks are expensive at these prices, especially with earnings set to go much lower.

While we don't have the official numbers yet, it's pretty much a given that we're in a recession. There's a lot of disagreement about how deep and long it will be. Gross Domestic Product (GDP) forecasts from economists range anywhere from -9% to -50% (on a quarter-over-quarter annualized basis). Economic growth in the second quarter is expected to fall to the largest contraction in real GDP since WWII.

The prospective shape of the post-virus recovery—whether it looks like a V, U, W, Y, L, or any other letter (yes those are real letter shapes that are being discussed) —has also been heavily debated among economists and investors. The simple fact is that we can't know for sure. A lot is going to depend on consumers and how safe (and financially equipped) they are to get out there and spend again.

What about stimulus measures? Germany's stimulus is now more than 20% of its GDP and the totals in Spain, France, and the U.K. exceed 15% of their respective GDPs. This is about five times the amount provided during the

global financial crisis of 2008-09. The American stimulus package is roughly 10% of GDP so far but growing rapidly. In six weeks, the Federal Reserve has lowered the federal funds rate to a range of 0.0-0.25%; increased its bond holdings by more than \$1.6 trillion; eased bank regulations to encourage more lending; opened up lending US dollars to foreign central banks; and set up facilities to increase the flow of credit to households and businesses. Yet with all of that, credit spreads remain high; although they've come down off the peak a bit, as you can see on the graph on next page.

As I've said before, high credit spreads mean a lack of confidence in the bond market. And if there isn't confidence in the bond market, it's even more difficult to have confidence in the stock market.

Plus, we're now seeing some of the consequences of an extended lock down with oil prices collapsing this month (graph on next page.)

For the first time ever, an oil futures contract went negative on April 20th. In theory, that means producers were paying people to take oil off of their hands. There simply isn't anywhere else to store the stuff, and producers are shutting down across the country. This is resulting in even more layoffs and a potential wave of bankruptcies if oil prices don't rebound in the next month or two.

The next sector I'm watching very closely is housing. While it sounds great to allow borrowers to skip their mortgage payments for up to 12 months, it creates some problems in the background. Mortgages are packaged and sold by servicers (many being banks) to bondholders, insurance companies, and investment companies. The servicers have an obligation to pay the principal and interest of those mortgages even if the borrower doesn't. Normally that's not a problem, especially if you hold high



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Market Commentary

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quality mortgages. But what happens if even those high-quality borrowers are given the option to stop paying their mortgage for a year? It's estimated that up to 25% of borrowers may take advantage of this forbearance, but servicers don't have the resources to keep making payments to bondholders when they aren't receiving payments from the borrowers. This has the potential to be a big problem, and so far, neither Congress nor the Federal Reserve have stepped in with a lending facility to help these servicers continue to make good on their obligations. If left unchecked and servicers begin to go bankrupt, that could have a severe ripple effect throughout the banking system and credit markets. My hope is that the Feds have seen this movie before thanks to 2008 and will go to great lengths to prevent this from happening, but they have a lot of fires to put out at the moment.

So what do we do now? As our clients know, we've become more defensively positioned during the market rally of the last three weeks to protect against the unknown risks. We've purchased high quality bond funds and buffer ETFs as part of that plan. If you aren't a client of ours, then the best thing to do is to make sure you have a widely diversified portfolio that matches your risk tolerance. It's also a good idea to rebalance monthly at this point to bring it back in line with original allocations. But overall, investors should be prepared for a bumpy ride—with the economic outlook so uncertain, volatility is likely here to stay for a while.**

- Victoria Bogner, CFP®, CFA, AIF®

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take in accounts the effects of inflation and the fees and expenses associated with investing.

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The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

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Exchange-traded funds are sold only by prospectus. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the investment company and can be obtained from your financial professional at (785) 841-4664. Be sure to read the prospectus carefully before deciding whether to invest.



REMINDER OF TAX DEADLINE EXTENSION

Due to the CARES Act, federal tax returns are due July 15th instead of the usual April 15th.

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Family Promise

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impact will be doubled. Donate at this link: www.givegab.com/campaigns/mcdaniel-knutson-fundraiser-for-families-in-crisis. It's actually easier if you go to the McDaniel Knutson Facebook page and follow the link, but not everyone is on social media.

How Will This Money Be Used?

The funds will be donated to Family Promise of Lawrence. Homelessness is currently mushrooming due to the COVID-19 crisis. Money donated to this fund will be used to help families through the HUMI Program. HUMI is a national partnership with Family Promise National and the HUMI Foundation. HUMI provides a model of supportive case management and community funding to ensure self-sufficiency and permanent sustainable housing. The goal is to prevent family evictions and assist families with move-in costs using:

- Rental assistance
- Support for housing arrears
- Move-in expense support
- Security deposit support

Who is Family Promise?

Family Promise of Lawrence (FPL) has built a reputation for providing shelter, food, and hope for families facing homelessness. They are in their 12th year here in Lawrence and once graduates move into housing, 91% remain sustainably housed over a 2 year tracking period. For more information on FPL, please visit <https://lawrencefamilypromise.org>.

Please Help

Today, perhaps more than ever, what is important to each of us is clearly in focus. Life is precious. Family and community are treasured gifts—more central to life than we may have realized in the hectic days before the pandemic. Through the still unknown challenges ahead, Family Promise of Lawrence strives to serve local families on the

margins. We will keep our focus as a beacon of hope and encouragement, advocacy, and support.

Family Promise is working closely with other social service providers and with community leaders to move families in need as quickly as possible into safe housing. All of us can take pride in the ongoing collaborative effort to safely house vulnerable populations.

If you need to use your CARES check for your own family, then by all means, use it. If, on the other hand, you don't need this check, we hope you'll consider donating it to Family Promise. We have gotten to know the team over at FPL quite well and we can assure you, your money will be managed wisely and it will be put to good and immediate use. And, we are hoping that by adding a matching component to it, your \$1,200 will be multiplied (literally doubled) and the impact in our community will be even more significant.

- Wayne McDaniel & Pete Knutson