



EVERETT FINANCIAL GROUP

## Weekly Commentary

August 4, 2020



### Fighting Words

The Flintlock was invented in France in 1610 and came to American shore shortly thereafter. For more than 200 years, the flintlock played a major role in American history. Flintlock muskets and pistols were the weapons of choice in the American Revolution, the War of 1812, and the Civil War.

And though they have been obsolete for more than a century, they live on in our language.

To fire a flintlock, the shooter first cocked the hammer partway so that he could sprinkle some powder onto the priming pan- but he had to remember to cook the hammer the rest of way before firing. Otherwise the gun would go off *half-cocked*.

When the trigger was pulled, the hammer brought down a piece of flint with great force, creating a shower of sparks. If the powder in the pan ignited but failed to set off the charge inside the barrel, the result was a showy but useless flash in the pan.

*When that happened, no one knew when or if the gun was going to go off. It was said to be hanging fire.*

*By the way, the "lock" in flintlock referred to the firing mechanism. It was one of three major parts of the gun: only if you had the lock, stock, and barrel did you have everything.*

*Remember the flintlock!"*

*The most famous flintlock was the "Brown bess," used by British soldiers for more than a century, and eventually immortalized by Rudyard Kipling:*

*Brown Bess was a partner whom none could depise...*

*with a habit of looking men straight in the eyes.*

*At Blenheim and Ramillies, fops would confess*

*They were pierced to the heart by the charms of Brown Bess.*

The Greatest War Stories Never Told By Rick Beyer

## **Weekly Market Commentary**

### **August 3, 2020**

#### **The Markets**

Last week delivered a mixed bag of financial and economic news.

As many expected, the U.S. economy did not fare well during the second quarter. COVID-19 lock downs and business closings caused productivity to fall by one-third. Real gross domestic product, which is the value of all goods and services produced by our country, dropped 32.9 percent during the second quarter of 2020, reported the *Bureau of Economic Analysis*. During the first quarter of the year, productivity fell by 5 percent.

The Federal Reserve held its Federal Open Market Committee meeting last week. Fed Chair Jerome Powell committed to "...using our tools to do what we can, and for as long as it takes, to provide some relief and stability, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy."

Powell also said, "Elected officials have the power to tax and spend and to make decisions about where we, as a society, should direct our collective resources. The fiscal policy actions that have been taken thus far have made a critical difference to families, businesses, and communities across the country. Even so, the current economic downturn is the most severe in our lifetimes."

Our elected officials were unable to reach an agreement about how to support unemployed Americans whose jobs disappeared because of COVID-19. Enhanced unemployment benefits and a moratorium on evictions both expired at the end of last week. Congress met over the weekend and officials indicated they had made progress in negotiations, reported *The Washington Post*.

Earnings offered a glimmer of positive news for investors. Al Root of *Barron's* reported, "...companies are crushing overly bearish estimates...More than 300 [Standard & Poor's 500 Index] companies have reported second-quarter numbers so far. About 85 percent are beating Wall Street earnings estimates by an average of 22 percent."

Overall, blended earnings for the Standard & Poor's 500 Index (S&P 500) has declined 35.7 percent. If that is the actual change in earnings for the second quarter, it would be the biggest year-over-year decline since the fourth quarter of 2008 when earnings dropped 69.1 percent.

The S&P 500 and the Nasdaq Composites both gained last week. The Dow Jones Industrial Index finished the week lower.

Data as of 7/31/20	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.4%	1.3%	9.8%	9.8%	9.2%	11.3%
Dow Jones Global ex-U.S.	-0.3	-8.2	-1.2	-1.0	1.0	2.0
10-year Treasury Note (Yield Only)	0.5	NA	2.0	2.3	2.2	3.0
Gold (per ounce)	8.7	29.0	37.6	15.7	12.3	5.2
Bloomberg Commodity Index	3.3	-15.1	-13.0	-6.6	-5.6	-6.6

Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.  
Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**FAST FOOD FOR THOUGHT.** In 1986, *The Economist* developed a tasty way to assess whether currencies are trading as they should be: The Big Mac Index.

In theory, countries' exchange rates should allow a person to buy the same product - in this case, a burger - for the same amount of money in any currency. In reality, currencies are often undervalued or overvalued. When an analyst says a country's currency is undervalued relative to the U.S. dollar, it means a burger costs less in that country than it does in the United States.

For example, in June 2020, a fancy burger cost about \$5.71 in the United States. In Britain, it cost £3.39, which is about \$4.46 using last week's exchange rate. That makes a British burger a lot less expensive than a U.S. burger. If the currencies were aligned properly, the burger should have cost £4.34. So, the British pound is undervalued relative to the U.S. dollar.

In June, visitors to Switzerland paid more for burgers than they would have in the United States. A Swiss burger cost SFr6.50 or about \$7.15 in June 2020. If the currencies were aligned, the burger would have cost about SFr5.19.

The cheapest burger in the world was found in South Africa, where it sold for 31.00 rand or \$1.83 in June. If the currencies had been in parity, then a South African burger would have cost 96.97 rand. You also can buy a burger for less in China. *The Economist* explained, "A [burger] costs 21.70 yuan in China and \$5.71 in the United States...[This] suggests the Chinese yuan is 45.7 percent undervalued."

The Big Mac Index should be taken with a grain of salt. It's an imprecise tool some economists find hard to swallow because the price of a burger should be lower in countries with lower labor costs, and higher in countries with higher labor costs. When index prices are adjusted for labor, the Thai baht and Brazilian real are the world's most overvalued currencies relative to the U.S. dollar, while the Hong Kong dollar and the Russian ruble are the most undervalued.

## Weekly Focus - Think About It

"There are basically two types of people. People who accomplish things, and people who claim to have accomplished things. The first group is less crowded."

--Mark Twain, *Humorist*

Best Regards,



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\* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

\* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

\* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

\* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

\* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

\* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

\* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

\* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

- \* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
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