Performance Dashboard as of 05/31/2020							
INDEX:	**MSCI ACWI**	**S&P 500**	**Russell 2000**	**MSCI EAFE**	**MSCI EM**	**Barclays Global Bond Agg.**	**Gold**
MAY:	+4.66%	+4.76%	+6.51%	+4.42%	+4.42%	+.02%	+2.6%
YTD:	-9.72%	-4.97%	-15.95%	-14.03%	-14.03%	+1.95%	+14.04%

May Rundown:

May was a positive month across the board for most widely followed stock, bond, and commodity indices. While most stock indices are still negative for the year, strong performance in April and May has pushed markets significantly above March lows. One reason for rising stock prices may be upbeat news related to the development of a Coronavirus vaccine. Last Wednesday Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Disease said, "We have a good chance, if all the things fall in the right place, that we might have a vaccine that would be deployable by the end of the year, by November – December." The successful development of a vaccine this year would obviously go a long way to restore confidence in people to return to normal daily activities. This would be a huge positive change, but in our view the successful development of a vaccine is already priced into financial markets based on current valuations. Progress in developing a Coronavirus vaccine is encouraging and is justifiably getting much attention.

While risk to the economy as it relates to the Coronavirus may be subsiding, other risks, such as geopolitical risks, are rising. For example, relations between the U.S. and China seem to be taking a troubling turn for the worse. Last week, China's legislature approved a sweeping new national security law to expand its authority within Hong Kong. Citizens of Hong Kong have been vocal in protest, viewing the law as infringing on the present "one country two systems" arrangement. The Chinese government argues this action is necessary to prevent riots that began last year over a proposed extradition bill. U.S. Secretary of State Mike Pompeo has informed Congress that "Hong Kong is no longer autonomous from China, given facts on the ground." President Trump subsequently announced new sanctions on Chinese officials for "smothering" Hong Kong's freedom. Additionally, President Trump has terminated relations with the World Health Organization (WHO), claiming China has total control over the WHO, citing his belief that China has engaged in a cover up of the Coronavirus, accusing China of instigating the pandemic.

The desire to "decouple" economically from China seems to be gaining support from both Democrats and Republicans. Hundreds of bills are being considered in Congress that address U.S. & China relations. Several of these bills are related to Chinese companies being de-listed from American stock exchanges and also the termination of investment in Chinese companies within the Federal Government TSP retirement plan. Top concerns cited by lawmakers include these companies lack of transparency, inadequate financial disclosure, and insufficient access for regulators to conduct audits. Coincidentally, Luckin Coffee, a Chinese Company listed on the Nasdaq stock exchange, recently saw shares plunge over reports of fraud.

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In our view, these are pivotal moments in worsening relations between the U.S. and China that would be difficult to unravel. It is no longer as simple as renegotiating trade agreements between the U.S. and China to resolve relations. **Portfolios we manage have little to no exposure to Chinese stocks as we prefer alternative options at this point.** We are still finding good opportunities to invest, but we maintain a cautious outlook for an economic recovery which we expect to be uneven and gradual.

Debt Management:

If you want to build a skyscraper, start by building a strong foundation. If you want to build wealth, it's important to have a strong "financial foundation". This foundation is to follow a budget, eliminate non-housing consumer debt, and set aside 3-6 months of household expenses into an emergency fund. In the HWM March 2020 newsletter, we discussed some ideas around budgeting. This month, we tackle the subject of debt management. While avoiding debt in the first place is optimal, 82% of working Americans have debt, so for the majority of people debt management should be a topic addressed in the financial planning discussion.

In most cases, freeing oneself of non-housing consumer debt is an achievable goal within 12-36 months. The most important step is to commit to stop borrowing and design a plan to pay off debt. Nevertheless, some are hesitant to make eliminating debt a top priority. One common objection is that it's smart to borrow at today's low rates. However, our view is the cost of debt goes beyond the cost of interest. Debt increases risk and stress. Money issues, frequently stemming from debt, are the leading cause of divorce. Also, research shows that one will spend more borrowing to buy something versus saving and paying for it because it psychologically feels different.

Ancillary benefits to being debt free include improved career flexibility and investor behavior. With fewer financial obligations, one is freer to make career changes, start a business, or relocate should an opportunity present itself. Without debt and with an emergency fund in place one is less likely to tap into their investments during difficult economic times such as we are experiencing now. According to Transamerica, 33% of Millennials, 15% of Generation X, and 10% of Baby Boomer workers have, or plan to, tap into their retirement savings this year to make ends meet.

What's the best way to pay off debt? If you take a mathematical approach, the "best" way is to focus on eliminating the highest interest debt first because this results in the lowest amount of interest paid. In a strategy referred to as the "avalanche" method, one focuses on making extra payments to the highest interest debt until it is paid off, while making minimum payments on other debts. Once the highest interest debt is paid in full, cash flow is "avalanched" to increase payments on the debt with the next highest rate and so forth until all debts are paid in full.

The avalanche method makes good sense, but research by Harvard shows that the "debt snowball" method, popularized by author and radio personality Dave Ramsey, is successful more often. In this method, debts are listed from smallest to largest regardless of interest rate. Minimum payments are made on all debts except the smallest, but as much as possible is paid on the smallest debt until it is paid in full. This is repeated until each debt is paid off. The reason why people have greater success with the snowball method may be psychological. Getting some "wins" by quickly

eliminating smaller debts is motivating and increases the likelihood one sticks with the plan. It's not dissimilar to trying to lose weight and seeing immediate results. Ultimately, either the "avalanche" or "snowball" method can be successful, but we would lean towards recommending the snowball method due to the psychological boost.

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