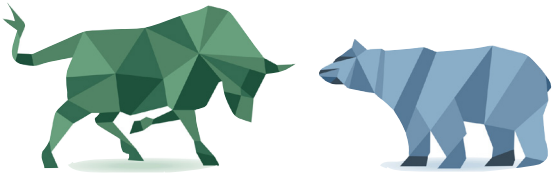
Braeburn Observations



Michael A. Poland, CFA®
Wealth Advisor / Portfolio Manager

LOWRY'S 6/26/2020

The intermediate-term uptrend is still intact and healthy, although the current consolidation could last for a while. Evidence of renewed Demand, in the form of multiple strong buying days - 90% Upside or consecutive 80% Upside Days - will be the sign that the trend is resuming.

U.S. MARKETS

Worries over the resurgence of the coronavirus offset the enthusiasm over some positive U.S. economic reports; most U.S. markets gave back all of the previous week's gains—and then some. The Dow Jones Industrial Average fell 859 points finishing the week at 25,016—a decline of -3.3%. The technology-heavy Nasdaq Composite gave up half of last week's gain declining -1.9%. By market cap, the large cap S&P 500 retreated -2.9%, while the mid cap S&P 400 fell -3.7%, and the small cap Russell 2000 ended down -2.8%.

INTERNATIONAL MARKETS

Major international markets finished mostly to the downside. Canada's TSX fell -1.8%, while the UK's FTSE 100 declined -2.1%. On Europe's mainland, France's CAC 40 retreated -1.4%, Germany's DAX gave up 2.0%, and Italy's Milan FTSE ended down -2.5%. In Asia, China's Shanghai Composite managed a 0.4% gain, while Japan's Nikkei ticked up 0.1%. As grouped by Morgan Stanley Capital International, developed markets finished the week down -0.9%, while emerging markets rose a scant 0.1%.

U.S. ECONOMIC NEWS

The number of Americans claiming first-time unemployment benefits fell last week, the 12th decline in a row. The Labor Department reported initial claims for unemployment insurance declined by 60,000 to 1.480 million. Economists had expected a reading of just 1.35 million. Despite the improvement, claims remain far above the levels seen at the beginning of the year (between 200,000-300,000). Continuing claims, which counts the number of people already receiving benefits, declined for a third consecutive week. Continuing claims fell by 767,000 to 19.522 million, indicating the peak was likely seen in early May. More than 50 million applications for benefits have been filed in the past three months.

New home sales surged last month as pent-up demand to purchase a home was unleashed. New home sales jumped 16.6% in May, the government reported, the most in nearly a year and the second-largest gain since 1992 to a 676,000 unit annual rate. The reading exceeded the consensus forecast for an increase of 640,000. Three of the four regions posted double-digit gains in May, however sales fell in the Midwest by 6.4%. The median sales price for new homes sold in May was $317,900. At the end of the month, there were 318,000 new homes estimated to be up for sale, which equates to a 5.6-month supply. A 6-month supply of homes is generally considered to be indicative of a balanced market.

Sales of previously-owned homes continued to slide in May as the coronavirus continued to weigh on the U.S. real-estate market. The National Association of Realtors (NAR) reported existing-home sales occurred at a seasonally-adjusted annualized pace of 3.91 million. The reading was a 9.7% decline from April, and its lowest level since in 10 years. Compared with the same time last year, sales were down almost 27%. Lawrence Yun, chief economist for the NAR put his best construction on the report's release writing, "Home sales will surely rise in the upcoming months with the economy reopening, and could even surpass one-year-ago figures in the second half of the year." All regions reported

Continued on page 2

111 W. Western Avenue
Muskegon, Michigan 49442
231.720.0743 Main
866.577.9116 Toll free
info@braeburnwealth.com

Continued from page 1

a decrease, but sales fell most notably in the Northeast where they were down 13%.

Orders for goods expected to last at least three years, so-called "durable goods", rebounded at their fastest pace in 6 years in May. The Department of Commerce reported durable goods orders rose 15.8% last month. Economists had expected an increase of 9.8%. The rebound in manufacturing and other key parts of the economy suggests the U.S. may have already exited what could turn out to be the shortest and deepest recession in American history. In the details, orders for automakers climbed 28% last month, although they still remain well below pre-crisis levels. Of note, aircraft manufacturers (and Boeing in particular) got good news of sorts. The giant manufacturer reported essentially no new orders in May, but cancellations declined. That accounted for almost half of the increase in durable-goods orders last month. Stripping out cars and planes (ex-transportation), orders grew by 4%--the most in almost ten years.

Consumer spending surged last month as the economy reopened, according to the latest report from the government. The Commerce Department reported its Personal Consumption Expenditures (PCE) index rebounded a record 8.2% in May. Analysts had expected an even larger 8.7% gain. The index had nosedived in April by a revised -12.6% amid widespread shutdowns triggered by the COVID-19 outbreak. However, despite the positive report Tim Quinlan and Shannon Seery, economists at Wells Fargo, reminded investors, "Before we celebrate the return of the consumer prematurely, [keep in mind that] personal consumption expenditures are still down 11.7 percent from their February peak."

A pair of economic reports from research firm Markit showed the economic downturn in the U.S. appears to be nearing its end. IHS Markit reported both its 'services' and 'manufacturing' flash Purchasing Managers' Indexes (PMI) hit 4-month highs this month. The flash U.S. service sector PMI rose 9.2 points to 46.7 in June, while the manufacturing sector PMI advanced 9.8 points to 49.6. Though both readings improved significantly, they remained below the crucial 50-level which indicates worsening conditions. The flash estimate is typically based on approximately 85%-90% of total survey responses each month. The composite index rose to 46.8 in June from 37 in the prior month, still in the sub-50 contraction territory.

The Chicago Fed reported its National Activity Index (CFNAI) rebounded in May by both a record increase and to a record high level as the economy began reopening after the pandemic-related shutdown. The CFNAI surged 20.5 points to 2.61 last month. The index's three-month moving average, used to smooth the monthly volatility, improved to a -6.65 reading from -7.5 in April. The index is a weighted average of 85 economic indicators with 72 of its indicators improving in May while 13 deteriorated. A zero value for the index indicates the national economy is expanding at its historical trend rate of growth.

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perceptives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time prefessional money manager who developed an in-depth expertise in computerized analysys and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.

BRAEBURN Wealth Management