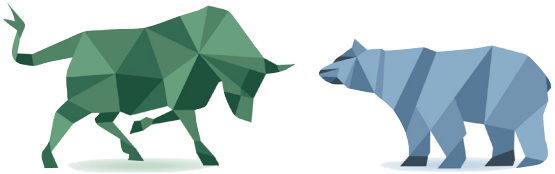
Braeburn Observations



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Short-term consolidation has progressed constructively. More importantly, the longer-term trends in the foundational balance of Supply/Demand, and market breadth remain supportive of further new price index highs.

U.S. MARKETS

U.S. stocks recorded gains this week that helped erase part of the previous week's steep declines. The technology-heavy NASDAQ Composite fared the best, almost hitting the all-time intraday high it established on June 10th. Energy and health care stocks outperformed, while the real estate and utilities sectors lagged. The Dow Jones Industrial Average rose 266 points to finish the week at 25,871, a gain of 1.0%. The NASDAQ Composite more than retraced last week's decline, rising 3.7% to 9,946. By market cap, the large cap S&P 500 added 1.9%, while the midcap S&P 400 and small cap Russell 2000 rose 1.4% and 2.2%, respectively.

INTERNATIONAL MARKETS

International markets were also a sea of green following last week's sell-off. Canada's TSX rose 1.4% while the United Kingdom's FTSE 100 added 3.1%. On Europe's mainland, France's CAC 40 rose 2.9% and Germany's DAX gained 3.2%. In Asia, China's Shanghai Composite rose 1.6% and Japan's Nikkei finished up 0.8%. As grouped by Morgan Stanley Capital International, developed markets rose 1.0% while emerging markets added 0.7%.

U.S. ECONOMIC NEWS

The number of Americans seeking first-time unemployment benefits dipped last week, but remained stubbornly high. The Labor Department reported initial claims for unemployment insurance fell by 58,000 last week to 1.508 million, its 11th straight decline. Economists had forecast 1.35 million new claims. Continuing claims, which counts the number of Americans already receiving benefits, fell by 62,000 to 20.544 million. That number is reported with a one-week delay. Overall, about 49 million new jobless claims have been filed since the pandemic began, but, shocking as those numbers are, they don't reveal much about how quickly the labor market is recovering. The more important figure to watch is continuing claims, and while they've begun to subside, they are not declining at a pace that indicates a rapid recovery in lost jobs.

Confidence among the nation's home builders rebounded as the real estate market continued to show signs of recovery. The National Association of Home Builders' (NAHB) monthly confidence index rose 21 points to a reading of 58 in June, the trade group reported. It's a marked rebound from April, when the index fell to its lowest level since June 2012. "Inventory is tight, mortgage applications are increasing, interest rates are low and confidence is rising," said Dean Mon, chairman of the NAHB. "And buyer traffic more than doubled in one month even as builders report growing online and phone inquiries stemming from the outbreak." Index readings above 50 indicate improving confidence, while a figure below that threshold would signal the opposite. April was the first time since 2014 that the index has dropped below 50.

Construction of new houses rose 4.3% last month as ultra-low mortgage rates and a re-opening economy drew more buyers into the housing market. The Commerce Department reported housing starts climbed to an annual rate of 974,000 last month. That is a significant improvement from the five-year low of 934,000 seen in April. However the reading missed economists' forecasts of starts to rise

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to a 1.13 million annual rate. Although the increase was less than expected, a sharp rise in builder permits indicates construction is on track to expand more rapidly in the near future. Permits to build new houses jumped 14.4 % to a 1.22 million annual pace.

Manufacturing activity in the New York region increased by a record amount in June, well above expectations. The New York Fed reported its Empire State General Business Conditions Index increased 48.3 points to a reading of -0.2. Economists had expected a reading of -35.0. It shows factory activity in the region has stabilized, following the record slump at the peak of the pandemic. The report is the first of six regional factory activity indexes and likely a harbinger of improving conditions across the country. In the details of the report, the New Orders and Shipments indexes both bounced back from deeply negative territory and posting close to flat readings. Just as impressive was the surge in optimism, as the Expectations Index jumped 27.4 points to 56.5—its highest reading since October of 2009.

A similar report from the Philadelphia Fed also showed improving conditions. The Philly Fed's regional business conditions index surged a record 70.6 points to 27.5 in June from a negative 43.1 the prior month. Economists had only expected a rebound to -20. The index reached positive territory for the first time since February as factory activity in the region resumed following shutdowns. Nearly all individual activity indexes returned to growth mode, led by record or near-record jumps in new orders and shipments. Employment indicators continued to decline, but at slower rate. The Future Activity Index rose 16.6 points to 66.3, its highest level since June 1992.

Sales at U.S. retailers surged to a new record last month, but the after-effects of the coronavirus continue to linger. The Commerce Department reported retail sales jumped a record 17.7% last month. Economists had forecast just a 7.7% increase. Sales had tumbled by a record 14.7% in April and 8.2% in March as the coronavirus pandemic spread across the country. The rebound in sales largely reflects the loosening of restrictions on business activity after two months of stay-at-home orders to combat the spread. Yet, despite the rebound, sales were still 6% lower than at the same time last year.

Federal Reserve Chairman Jerome Powell was quick to point out that investors shouldn't overreact to surprisingly good economic data like the May retail sales report. In testimony to the Senate Banking Committee, Powell acknowledged some economic indicators have pointed to stabilization in activity and others have even suggested "a modest rebound." "The levels of output and employment remain far below their pre-pandemic levels, and significant uncertainty remains about the timing and strength of the recovery," Powell said. The Fed chairman added that until the coronavirus disease is contained, a full recovery is unlikely.

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