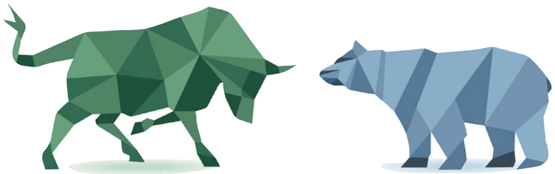
Braeburn Observations



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

LOWRY'S 7/31/2020

While evidence of an increasingly healthy market advance has continued to mount, a few disparities remain, particularly between the strongest stocks and Sectors vs. the weakest. As a result, improvement in the Financial and Energy Sectors will likely go a long way toward bridging the gap, providing a key Demand boost.

U.S. MARKETS

All but one of the major U.S. indexes ended the week higher as investors reacted to a flood of quarterly earnings reports and some prominent economic data. Large caps and growth stocks outperformed as small caps and value shares lagged. The Dow Jones Industrial Average was the only index to finish the week in the red, giving up 42 points to 26,428—a decline of -0.2%. The technology-heavy NASDAQ Composite surged 3.7% on strong earnings from Apple, Facebook, and Amazon, while the large cap S&P 500 added 1.7%. Mid caps and small caps also finished the week positively, rising 0.8% and 0.9% respectively.

INTERNATIONAL MARKETS

Unlike the U.S., most major international indexes finished the week to the downside. Canada's TSX finished up 1.1%, however the United Kingdom's FTSE 100 declined -3.7%. On Europe's mainland France's CAC 40, Germany's DAX, and Italy's Milan FTSE declined -3.5%, -4.1%, and -4.9% respectively. In Asia, China's Shanghai Composite rebounded 3.5% while Japan's Nikkei slumped -4.6%. As grouped by Morgan Stanley Capital International developed markets declined -1.9% while emerging markets rose 0.3%.

U.S. ECONOMIC NEWS

The number of Americans applying for first-time unemployment benefits rose for a second consecutive week, a sign the economic rebound could be stalling in late July. The Labor Department reported initial jobless claims rose by 12,000 to 1.434 million new claims in the week ended July 25. Economists had expected 1.51 million new claims. Until the last two weeks, claims had been on a steady decline after peaking in late March. Continuing claims, which counts the number of people already receiving economic benefits, rose by 867,000 to 17.06 million. That number is a sign workers are staying on unemployment longer and rehiring has slowed. Continuing claims are reported with a one-week delay.

Home prices continued to rise in May, but at a slower rate according to the latest data from S&P Case-Shiller. The S&P CoreLogic Case-Shiller 20-city home price index posted a 3.7% year-over-year gain in May, down 0.2% from the previous month. On a monthly basis, the index increased 0.4% between April and May. The national index noted a 4.5% increase in home prices across the country over the past year. Phoenix continued to lead the country with a 9% annual price gain in May, followed once again by Seattle with a 6.8% increase. Tampa, Fla., came in third, with a 6% uptick. However, a look at the individual cities in the index showed that home-price growth could be slowing—the pace of price growth increased in just three of the 19 cities Case-Shiller analyzed (the list didn't include Detroit again because transaction records were unavailable).

The number of home sales in which a contract has been signed but not yet closed rebounded across the nation in June. The National Association of Realtors (NAR) reported its pending

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

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home sales index rose 16.6% in June as compared with May. Compared with the same time last year, contract signings were up 6.3%. Lawrence Yun, the NAR's chief economist stated, "It is quite surprising and remarkable that, in the midst of a global pandemic, contract activity for home purchases is higher compared to one year ago. Consumers are taking advantage of record-low mortgage rates resulting from the Federal Reserve's maximum liquidity monetary policy."

Orders for goods expected to last at least 3 years, so-called 'durable goods', climbed in June as a rebound in vehicle purchases offset a decline in aircraft manufacturing. The Commerce Department reported durable-goods orders rose 7.3% last month following historic declines in the early spring. Economists had expected a 7% increase. In the details, orders for new cars and trucks leapt 86% last month as automakers made up lost ground; however aircraft manufacturers posted a whopping 462% decline in bookings. Boeing has seen demand for its planes plummet following the plunge in global travel during the coronavirus outbreak. Stripping out transportation and defense, "core" orders rose a more modest 3.3%.

Confidence among American consumers waned this month, pointing to a rockier economic recovery. The Conference Board reported its consumer confidence index declined -5.7 points in July to 92.6. Economists had expected a reading of 96.0. While still above its pandemic low of 85.7, the index remains a long way from its 20-year high of 132.6 set in February. Lynn Franco, senior director of economic indicators at the board stated, "Consumers have grown less optimistic about the short-term outlook for the economy and labor market and remain subdued about their financial prospects." In the report, the index that measures how consumers feel about the economy right now actually rose as massive federal aid has helped millions of Americans get by. However the gauge that measures how Americans feel about the next six months—the so-called 'future expectations index', sank to a four-month low of 91.5 from 106.1 in June.

Federal Reserve Chairman Jerome Powell said this week that the sharp acceleration in COVID-19 infections since mid-June is restraining the ability of the economy to recover from its historic contraction in the second quarter, during which all non-essential businesses shut down. "On balance, it looks like the data are pointing to a slowing in the pace of the recovery. But I want to stress it is too early to say both how large that is and how sustained that will be," Powell said at a press conference. Powell noted that it is likely the economy will need more assistance from the Fed and from Congress. The Fed "is committed to using our full range of tools to support the economy and help assure that the recovery from this difficult period will be as robust as possible," Powell said.

The U.S. economy contracted by about -9.5% in the second quarter, which would work out to an annualized -32.9% if the remainder of the year were just as bad. The scare-mongering headlines mostly mislead readers into thinking the entire economy shrank by 32.9% in Q2; many misguided prominent newscasters made the same error (most notably Brian Williams on MSNBC). Analysts had forecast an annualized -35% decline in GDP. The economy began to recover in mid-May after a severe contraction at the beginning of the quarter, but the U.S. faces a long road back, analysts say. Previously GDP had never shrunk by more than -10% on an annualized basis in any quarter since the government began keeping track shortly after World War Two.

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.

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