

Weekly Market Update

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 lockdowns 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 |

S&P 500, Dow Jones Global ex-U.S., 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,

Margaret O'Meara, CFP®, AIFA®

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

Securities offered through LPL Financial, Member FINRA/SIPC.

* These views are those of Carson Coaching, and not the presenting Representative, the Representative's Broker/Dealer, or Registered Investment Advisor, and should not be construed as investment advice.

* This newsletter was prepared by Carson Coaching. Carson Coaching is not affiliated with the named firm or broker/dealer.

* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* 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.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

* Consult your financial professional before making any investment decision.

Sources:

http://www.bea.gov/sites/default/files/2020-07/gdp2q20_adv_0.pdf

<http://www.federalreserve.gov/mediacenter/files/FOMCpresconf20200729.pdf>

http://www.washingtonpost.com/business/economy/white-house-officials-democratic-leaders-convene-rare-weekend-talks-a-d3f8-11ea-8c55-61e7fa5e82ab_story.html (or go to http://peakcontent.s3-us-west-2.amazonaws.com/+Peak+Commentary/08-03-20_TheWashingtonPost-Footnote_Sides_Pandemic_Relief-Footnote_3.pdf)

<http://www.barrons.com/articles/dow-jones-industrial-average-drops-42-points-as-investors-stay-wary-51596245732> (or go to http://peakcontent.s3-us-west-2.amazonaws.com/+Peak+Commentary/08-03-20_Barrons-Why_this_Rally_Still_has_Room_to_Run-Footnote_4.pdf)

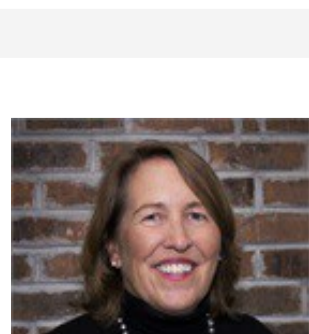
http://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_073120A.pdf

http://www.barrons.com/market-data?mod=BOL_TOPNAV (or go to http://peakcontent.s3-us-west-2.amazonaws.com/+Peak+Commentary/08-03-20_Barrons-Market_Data-Footnote_6.pdf)

<http://www.economist.com/news/2020/07/15/the-big-mac-index> (or go to http://peakcontent.s3-us-west-2.amazonaws.com/+Peak+Commentary/08-03-20_TheEconomist-The_Big_Mac_Index-Footnote_7.pdf)

<http://finance.yahoo.com/burrency-converter/> (or go to http://peakcontent.s3-us-west-2.amazonaws.com/+Peak+Commentary/08-03-20_YahooFinance-Currency_Converter-Footnote_8.pdf)

http://www.brainyquote.com/quotes/mark_twain_393535



Margaret O'Meara

momeara@omearafinancial.com

(732) 224-9900

O'Meara Financial Group, Inc.

<http://www.omearafinancial.com/>

