

WEEKLY MARKET UPDATE

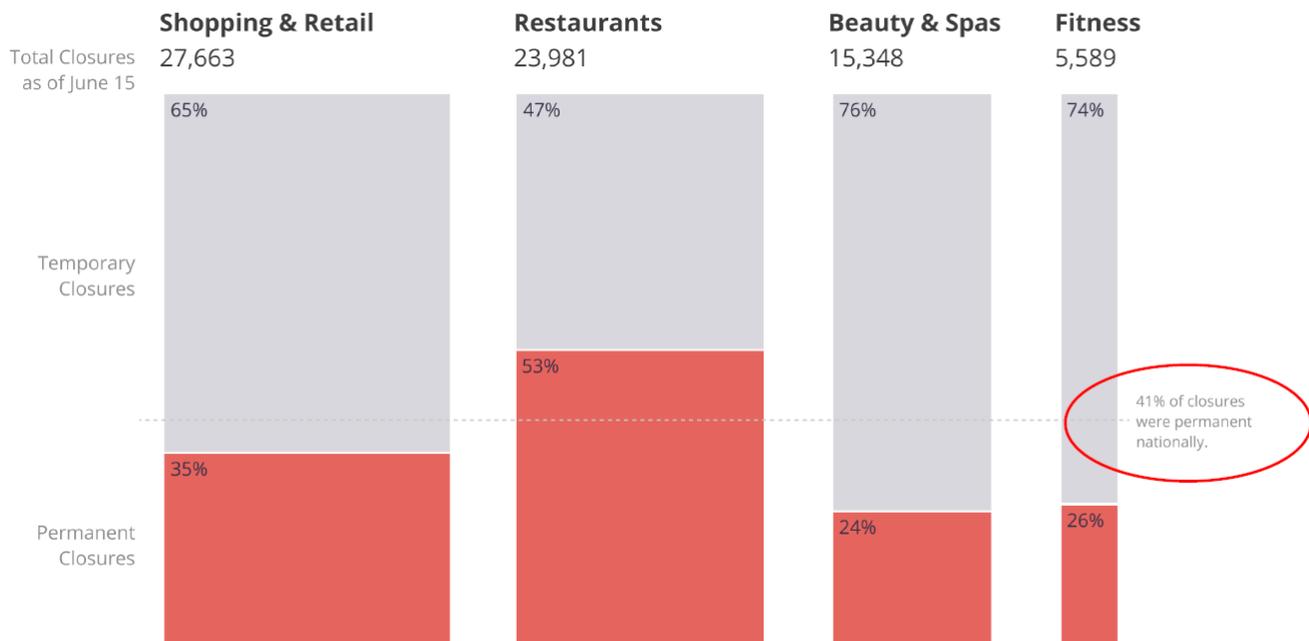
June 30, 2020



Another look at the Glass

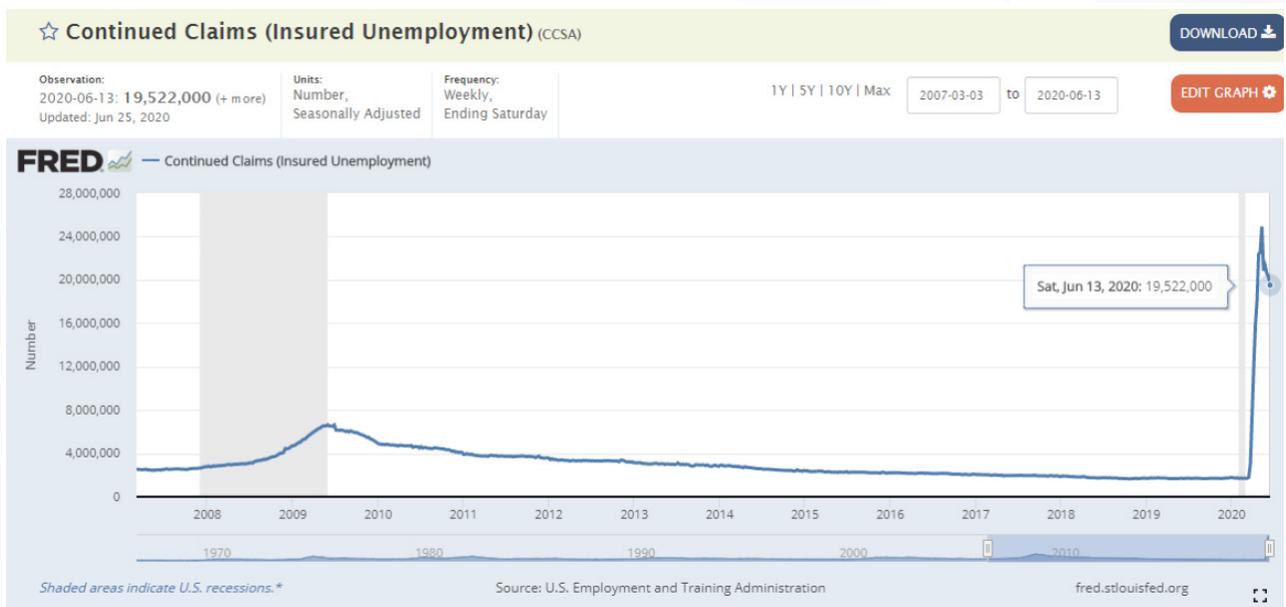
We've talked many times about whether the glass is half full or half empty. Of course, it usually depends on your general outlook and disposition, as well as what industries you are viewing. Big corporations that haven't closed down are doing just fine, while small businesses, especially in the service sectors, are struggling to stay alive. The "market" has generally looked past small businesses to focus on the large corporations that have more or less sailed through this time with relatively minor disruptions. Seeing the dislocation between the 'market' and the 'economy,' pundits have pointed out that the market and the economy are not the same thing. True...but they are related. We believe a reckoning has to happen here, as the economy is dependent on a healthy small business sector, and these large businesses are dependent on a healthy economy.

Here's a look at recent Yelp information, which indicates that as many as 41% of businesses have closed permanently (see chart below).

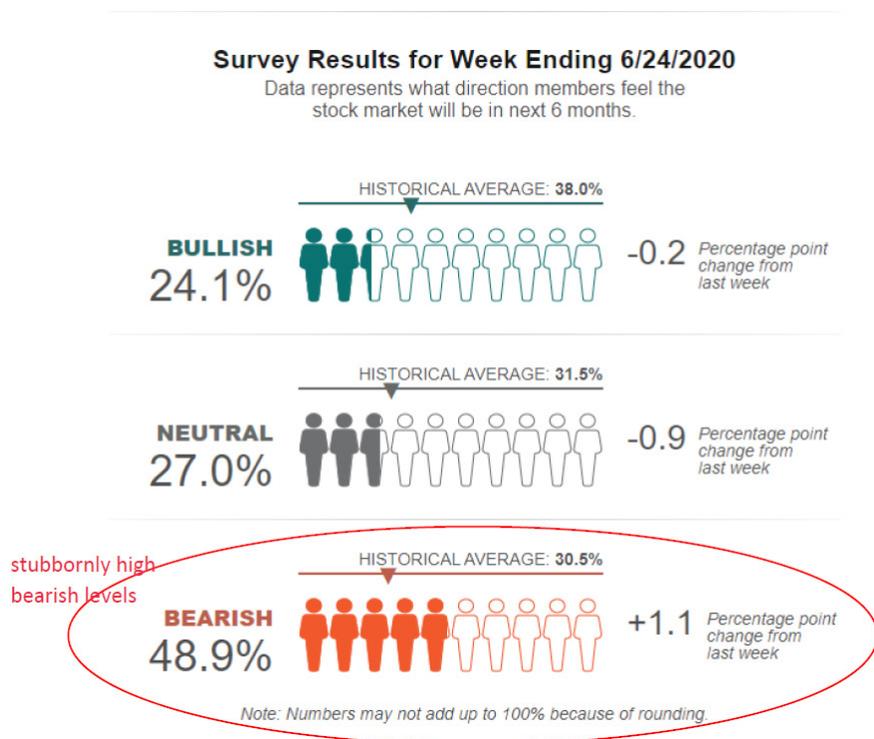


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It's not hard to see how restaurants are some of the hardest hit. They are businesses that run on the slimmest of margins to begin with. They also represent a sizable portion of GDP in the US. Will some of these reopen under a different name, with new owners? That remains to be seen, but I think many of them will not return and that will be a drag on the economy through reduced jobs and profits, as well as bankruptcies. If you ask me, aside from the health issue, this remains the biggest concern and question to how the economy recovers. At this point nobody really knows the answers. We will find out more when PPP funds are spent how many layoffs were simply postponed rather than avoided. Here is a quick look at continuing unemployment claims (this still largely represents payroll covered by PPP).



Those are part of the glass half empty case. So what are investors thinking about all of this? This market bounce off the bottom has consistently been one of the most hated in history. Despite the torrid rally for the better part of Q2, individual investors remain in the 'bearish' camp. As we've noted before, this is a contrarian indicator - meaning it sets up well for continued growth in stock prices.

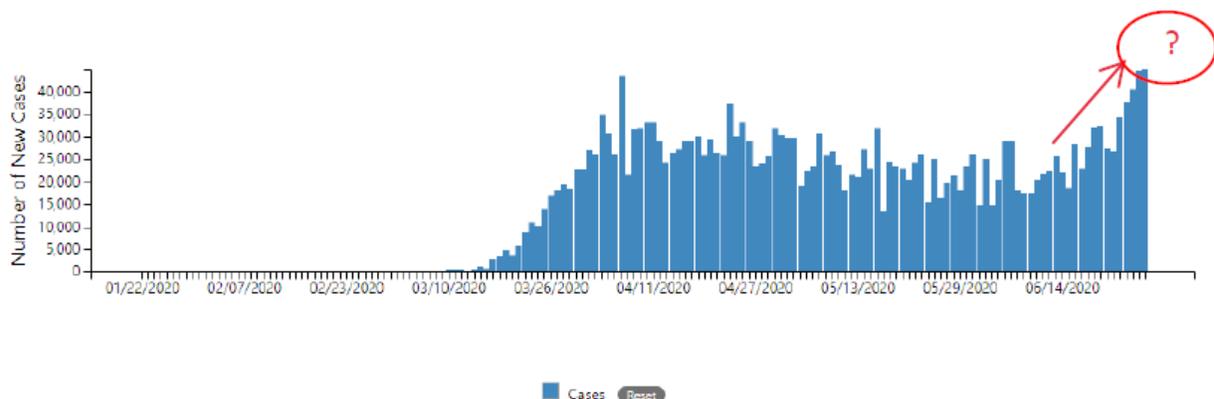


Now let's look at some potential 'half full' news. While the airlines continue to struggle, Boeing got some good news over the weekend and will go through several days of new testing for the 737 Max plane (how long they'll keep that tarnished model name remains to be seen). I think everyone in the PNW hopes those tests go well and will pave the way to get the plane certified and back in the air around the globe soon. The big question that remains is how many of those planes that have been ordered will actually be delivered (reports this morning indicate Norwegian Air canceled nearly 100 jets, most of which were the Max). Before today's cancellation, Boeing's latest backlog of plane orders was down to 4,774, its smallest number since 2013. Most of those are 737 Max planes. We will see how that works out over the next few years as air travel slowly recovers and airlines take delivery of these newer, more fuel efficient jets.

Lastly, let's look at something we are all paying attention to. As we are starting to reopen the economy the number of new COVID-19 cases is on the upswing again. You can see in the chart below that we are at the highest levels since the pandemic started. Half empty! The good news in this is that the fatality rate continues to come down, as we are protecting the more at-risk population and leveraging an increased body of knowledge on how to care for those acutely infected. Half full!

New Cases by Day

The following chart shows the number of new COVID-19 cases reported each day in the U.S. since the beginning of the outbreak. Hover over the bars to see the number of new cases by day.



As always, we welcome your comments and questions. In the meantime, we'll continue to test our assumptions, dig into our research, and lean into our model as we seek to be ever mindful of risk while pursuing long-term returns for your portfolio. We wish you and yours a wonderful 4th of July! It will look different, but we trust you'll find ways to make it fun.

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