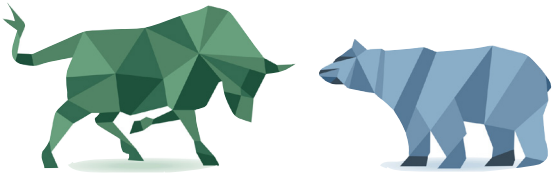
Braeburn Observations



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LOWRY'S 8/7/2020

While the market moves sideways to higher, depending on the index viewed, the most important piece of the puzzle is still missing – the return of strong Demand. A change in the trend of Buying Power would be a good sign that Demand is returning. However, until it does, there are many reasons, from breadth to participation to Sector rotation, to remain patient and optimistic.

U.S. MARKETS

U.S. stocks recorded solid gains for the week, pushing the technology-heavy NASDAQ Composite index to new highs and lifting the S&P 500 to within roughly 1.2% of its February record peak. The small cap Russell 2000 outperformed by a wide margin, helping it to recover some of its lost ground for the year to date. The Dow Jones Industrial Average added over 1,000 points ending the week at 27,433, a gain of 3.8%. The NASDAQ Composite rose an additional 2.5% following last week's strong gain. By market cap, the large cap S&P 500 added 2.5%, while the mid cap S&P 400 jumped 4% and the small cap Russell 2000 surged 6%.

INTERNATIONAL MARKETS

Major international markets were green across the board. Canada's TSX added 2.3%, as did the United Kingdom's FTSE. France's CAC 40 gained 2.2%, Germany's DAX added 2.9% and Italy's Milan FTSE rose 2.2%. In Asia, China's Shanghai Composite rose 1.3% and Japan's Nikkei gained 2.9%. As grouped by Morgan Stanley Capital International, emerging markets rose 1.3% while developed markets finished the week up 2.5%.

U.S. ECONOMIC NEWS

The Labor Department reported the number of Americans seeking first-time unemployment benefits fell by 249,000 last week to 1.186 million. That is its lowest reading since March and below the consensus of 1.4 million. The improvement reversed the upticks in the prior two weeks putting the series back on track toward normalization. Still, the level is far higher than normal and nearly twice as high as levels seen at the height of the Great Recession. Continuing jobless claims, which counts the number of people already receiving benefits, fell by 844,000 to 16.107 million—its lowest level since April. There are currently about 14.0 million people receiving pandemic unemployment assistance or emergency unemployment compensation, funded through the CARES Act. However, since these programs expired last week, analysts expect a significant downside to personal income and spending growth in the near future as Congress has yet to agree on a compromise to continue the program.

The employment recovery continued in July but it still has a long way to go Friday's jobs report showed. Nonfarm payrolls increased 1.763 million, above the consensus of 1.482 million, while the unemployment rate fell -0.9% to 10.2%. Private nonfarm payrolls increased 1.462 million for its third gain in a row. Private payrolls have so far recovered about 45% of the losses in March and April. The majority of job gains last month were in leisure and hospitality and retail trade, two of the hardest hit industries during the lockdown. Government payrolls jumped by a record 301,000 with nearly all of it in state and local education. Despite the improvement, analysts note a quick return to pre-recession labor market conditions is unlikely as both consumer behavior and business practices are seemingly changing in response to COVID-19.

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The *Braeburn Observations* is our means of sharing with clients and interested parties what it is we are reading in our research. These are research items, news and statistics that are being considered as we make investment decisions for our clients. Items noted do not necessarily drive an investment decision in and of itself. We are trying to make the best decisions we can given all that we are looking at. We also highlight key financial metrics that will provide a "point in time" glimpse of how the financial markets are behaving. Again, it is often the trend in these metrics and/or anticipated movements that drives our decision making in our clients' portfolios. All observations are taken at a point in time and should not be used to infer our opinion or to rely upon as a matter of fact that we are currently acting upon.

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Private payroll processor ADP reported payrolls increased by 167,000 in July, its third gain in a row. However, the reading widely missed the consensus of 1,000,000 net new jobs. Slower hiring reflects the resurgence of COVID cases across the country. Private payrolls have so far recovered only about 40% of the losses in March and April as labor market conditions remain far from normal. The slowdown in hiring was evident across all firm sizes and sectors. Medium-sized firms (50-499 employees) actually shed jobs, particularly in financial activities, information, construction, and mining. Analysts note that this raises the risk that as the health crisis continues, its negative economic impact will go beyond the industries initially hit hardest like leisure, hospitality, and retail trade.

Manufacturing activity expanded in July for the third month in a row, but senior executives say production remains well below its pre-pandemic levels. The Institute for Supply Management (ISM) reported its manufacturing index rose to 1.6 points to 54.2 marking its highest level in 15 months. Economists had forecast the index would reach 53.6. However, the high level of the index is somewhat misleading economists say. Chief economist Ian Shepherdson of Pantheon Macroeconomics stated, "Diffusion indexes like the ISM capture rates of change of activity, not levels, and output remains depressed." Other economic signposts such as durable-goods orders, industrial production and the monthly U.S. jobs report show that companies are producing significantly fewer goods and employing fewer workers than they were before the pandemic. The index had fallen to an 11-year low of 41.5 in April during the height of the crisis.

For the vast services side of the U.S. economy, ISM reported its Non-Manufacturing Index (NMI) increased 1.0 point to 58.1—its highest level since February 2019. Analysts had forecast a decline of 2.1 points to 55.0. Still, it was the second straight month above the 50-level that signifies growth versus contraction. The increase in the NMI was led by a 6.1 jump in new orders to 67.7, a record high. Business activity moved up 1.2 points to 67.2, its best level since January of 2004. And order backlogs grew at their quickest rate in over a year indicating some operating capacity pressures. Even so, employment shrank for the fifth month in a row. The same caution as noted above for the manufacturing index applies here, economists point out.

The Commerce Department reported factory orders rose 6.2% in June, up for the second consecutive month. Economists had expected just a 4.9% increase. The combined gain for May and June was a record, confirming a recovery from the pandemic slump in the prior two months. Even so, factory orders are still down 11.9% from their level in February—underscoring just how deep the contraction was. Non-durable goods orders surged 5.0%, the most since March 1996, led by petroleum. Durable goods were revised up to 7.6% from 7.3% led by vehicles. Nonetheless, year-over-year factory orders are down 16.5% near their steepest decline since October of 2009.

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