22260 Haggerty Rd., Suite 160
Northville, MI 48167
T 248.378.1200
F 248.378.1200

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# Wall Street Solutions *with* Main Street Values!

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**Second quarter GDP report reflects early pandemic response**

Dear Great Lakes Wealth Clients & Friends,

The U.S. economy contracted 9.5% through the second quarter, the worst single-quarter decline in gross domestic product (GDP) since the Commerce Department started tracking it in 1947. It was expected the report would show a dip, but it's important to recognize what that dip represents. It does not indicate the economy's current trajectory, just the most stringent period of pandemic lockdown.

Potential tailwinds for a stronger third quarter include U.S. Federal Reserve support (with a commitment to keeping interest rates low until at least 2022), leading vaccine candidates reaching the third phase of trials, and the expectation that Congress will pass a new round of fiscal stimulus. But as Federal Reserve Chairman Jerome Powell said, the shape of the recovery will be dictated by the coronavirus, efforts to contain it and the degree of government support.

Congressional and White House negotiations continue. Between the Senate's $1 trillion opening position and the House's $3 trillion package, we expect they will settle on a package of around $1.5 trillion to $2 trillion to support spending, employment and the pandemic response. The fate of unemployment insurance and the effect of adjustments on consumer spending will be closely watched. A second round of small business loans will provide critical assistance to small businesses and prevent an uptick in unemployment.

Through July, the S&P 500 and NASDAQ Composite indices saw steady gains, with NASDAQ outperforming the S&P 500 – the 10th month in a row the more tech-focused index saw greater returns.

| | 12/31/19 Close | 7/31/20 Close | Change Year to Date | % Gain/Loss Year to Date |
|---|---|---|---|---|
| DJIA | 28,538.44 | 26,428.32 | -2,110.12 | -7.39% |
| NASDAQ | 8,972.61 | 10,745.27 | +1,772.66 | +19.76% |
| S&P 500 | 3,230.78 | 3,271.12 | +40.34 | +1.25% |

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|---|---|---|---|---|
| MSCI EAFE | 2,036.96 | 1,820.21 | -216.75 | -10.64% |
| Russell 2000 | 1,668.47 | 1,480.43 | -188.04 | -11.27% |
| Bloomberg Barclays Aggregate Bond | 2,225.00 | 2,396.78 | +171.78 | +7.72% |

Performance reflects price returns as of market close on July 31, 2020.

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We're looking at a number of ongoing developments as we enter into August, both here and abroad.

**Economy**

- Rising COVID-19 cases and weekly claims for unemployment benefits remain at high levels, which could be significant headwinds for recovery.
- GDP fell sharply in 2Q20. Weakness was widespread, but especially pronounced in consumer services, transportation equipment and energy exploration.
- Consumer spending figures for May and June showed a sharp, but partial rebound, but the future patch will depend on the virus, efforts to contain it and the amount of fiscal support.

**Equities**

- Positive S&P 500 performance is masking pressures below the surface, since about half of the index's companies are technology or health care, two sectors well positioned for the pandemic environment. Looking outside the index, 40% of all stocks are down over 20% from their 52-week high points.
- We continue to stick with the sectors best positioned for this environment – tech, health care, communication services, and consumer discretionary – because of pockets of strength with e-commerce and the effect of government stimulus boosting consumer spending.
- Second-quarter corporate earnings season surprised on the upside, with aggregate results 11.5% above estimates, and well above the five-year average of 4.7%.

**International**

- A number of major global currencies gained value against the U.S. dollar in July, including the euro, British pound, Japanese yen and Chinese yuan.
- The continuation of suppressed coronavirus cases in Asia and across Europe manifested in firmer near-term economic indicators for the regions, providing additional hope for recovery.
- There are growing concerns about new legislation impacting Hong Kong's relationship with mainland China. The U.K. has followed the U.S.'s lead in blocking major Chinese suppliers from

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participating in 5G wireless network buildouts. Other nations have shown reluctance in following this lead.

**Fixed Income**

- It appears that the bond market is taking very little direction based on economic data, as it has been driven primarily by central bank policy.
- State and local government revenues are far behind budgets, but spending has remained largely where it was at the beginning of the year. Municipal bond buyers will be paying special attention to see if states and municipalities are included in the next federal stimulus package.
- Investment-grade BBB-rated corporate bond spreads narrowed again for the third consecutive month. Demand for high-quality corporate bonds remains strong.
- High-yield spreads have also narrowed, in part due to demand and continued investor pursuit of any kind of yield in the current environment.

**Bottom line**

- Currently, the markets will be watching stimulus package developments in Washington closely, but after that, attention will likely turn to the November elections as candidates reveal policy plans.
- The coronavirus numbers are troubling, but continued fiscal and monetary support are expected to blunt the worst of the economic effects of the pandemic.
- We believe the positives of global stimulus and low rates outweigh the potential negatives. Though we expect volatility over the next few months, moments of market weakness should be seen as a buying opportunity.
- Gold has broken thru $1,900 and recently touched $2,000 oz. We expect to see continued higher prices, to $2,300+ per ounce.
- Depending on your timeframe, current investment strategies should be based on what's happening "Now," "Next," and "Later."
- We currently have a "Buy" on 10 of our strategies. Which one(s) is right for you? That just depends on your risk tolerance, ultimate objective, etc.
- Be sure to set aside emotion before thoughtfully adding to your portfolio. While opportunities exist, they come at various levels of risk for both stocks and bonds. Be patient and steadfast.
- Our current approach continues to be discipline and patience when both buying and selling. Volatility creates opportunity.
- **The unprecedented decline in the global stock markets has created a generational buying opportunity!**

As life continues despite seemingly massive challenges, we hope you are finding moments of joy and that you and your families are experiencing good health and wellness. As always, we encourage you to

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reach out if you have any questions, about the markets, your financial plan or anything else. Thank you for your continued trust.

We'll continue to keep you updated. If you have any questions or would like more information on becoming a Great Lakes Wealth client, please call us at 248.378.1200.

Sincerely,

Your Investment Team at Great Lakes Wealth