WHETRO ADVISORS

CAPITAL INVESTMENT ADVISORY SERVICES
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What a year 2020 has been…and we're only ½ the way through! We hope everyone is adjusting to our new societal normal while keeping family & friends close. I know for us, we're channeling the saying: "Where's the gift?" We believe that on many fronts right now, there's a real opportunity to look for the gift in the middle of the chaos. It ***is*** there if we look for it…

Thankfully for readers, we'll move from philosophy to the global economy & markets…

Volatility can go in both directions. This is the major takeaway from 2020 thus far as the 2nd quarter brought a powerful rally in U.S. stocks following the historic crash earlier in the year.

The stock market is not the economy. The old adage has survived the test of time and is critical in terms of understanding stock market movements over the short and medium term. A variety of things drive global stocks and the following is a key list of factors that we believe drove markets in Q2 of 2020:

- Government policy
- The heightened global need for return on investable capital
- Speculation

The combined global government response to Covid-19 has been unprecedented by a wide margin. All across the world, governments and central banks have acted quickly and with high conviction. This has been in an attempt to stimulate the economy and plug the massive economic hole caused by the virus induced shutdown. This liquidity in the system has boosted riskier investments of late.

Aging population demographics combined with low government bond yields in the developed world have pushed various types of institutional investors into more risky investments in a desperate search for return. Historically a large portion of investment returns came from gov't bonds. Big global pockets of money are being pushed to invest in riskier assets due to extremely low interest rates on gov't fixed income.

Speculation towards stocks has increased exponentially in recent months. From retail traders jumping into the stock market for what is basically glorified gambling all the way to hedge funds chasing short-term performance. The current backdrop has a pronounced lack of fundamental analysis as corporate earnings are being largely ignored until next year and forward expectations have shifted towards a strong rebound in 2021 company and economic fundamentals. Time will tell if this prevailing logic is correct but, for now, markets are trading on next year's expectations.

In our opinion, standard historical analysis is less useful in the current backdrop as the overall situation is highly unique. Looking out to the second half of 2020 we are highly focused on the following dynamics both in terms of risk management and potential investment opportunities:

- Despite the recent flurry of mostly amateur speculation around the "beaten up" and small companies, we continue to place emphasis on relatively large companies with quality balance sheets. We believe big, financially sound companies can become stronger in this environment.

- The current reward in corporate credit relative to the risk is unattractive. In addition, corporate credit can be positively correlated to stocks on the downside. We are favoring limited, select exposure to corporate fixed income and are instead focused on other markets as a way to generate income within portfolios. It's all about potential reward per unit of risk taken. #nofreelunches

- International equities outside the U.S. could be setting up to outperform. The US Dollar could weaken from here as global growth picks up and excess USDs from the Federal Reserve find their way into the worldwide financial system. We are monitoring specific opportunities.

As we wrote in our last quarterly update on March 20, we were buyers then. We came into last quarter more defensively tilted than many portfolio managers and had "dry powder" to put to use. Selectively buying equities at that time has turned out to be a great call for our clients. Right now, we're in more of a holding pattern…waiting patiently for what "gifts" may present themselves as volatility is here to stay for the foreseeable future.

We remain steadfast in our commitment to curate the data and make risk-mitigating decisions with our clients' hard-earned portfolio dollars. This is one of the most difficult markets we've ever participated in & are confident that anyone who claims to have it "figured out" on the market front is living in La-La Land.

As always, our team at Whetro Advisors is available at any time to discuss the specifics of your investments. One thing we hope that comes out of this is that we truly are available for our clients…whether video-chats, telephone calls, or talking through masks. Our commitment to serve your families doesn't waver.

"I can't change the direction of the wind, but I can adjust my sails to reach my destination."
–Jimmy Dean

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