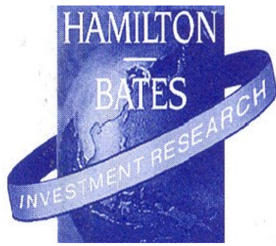


Hamilton-Bates
Market Update

August 28, 2020

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

A Long Hot Summer
Its been a hot summer across the US, with heat indexes near record levels and wildfires blazing. Death Valley Ca saw what is believed the highest recorded temperature on earth—at a sizzling 130 degrees. Most folks who live in seasonal climates are now eagerly awaiting the cooling that Fall brings.

The stock market has been pretty hot itself, moving higher throughout the summer months, even with lingering Covid concerns and a lack of a stimulus deal in Washington. The S&P and NASDAQ reached all-time highs, and the DJIA is within a few % of doing so as well. Now that the end of summer is approaching, we believe once we hit September the markets will begin to turn to the Election prospects just 2 months away.

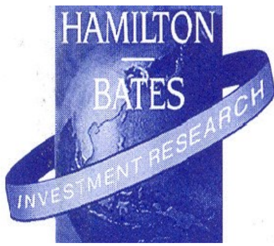
The Fed—A Bridge Loan or A Bridge Too Far?
Operation Market Garden was the largest air-drop operation of World War II, undertaken in September of 1944 with the intention of capturing a series of key bridges for the Allies to rush across into Germany and end the war quickly. Two of the three bridge targets were taken, but the final bridge happened to be defended by two full German tank divisions, and the operation stalled and ultimately failed. Thus in modern times when a plan is considered overly ambitious, people wonder if it is "a bridge too far".

In late March when the Fed jumped into the game by providing a backstop to the credit market (the most important financial market by far), their actions were intended to stabilize the financial markets to provide a bridge so that fiscal stimulus and a quick recovery from Covid would come and allow the economy to heal. Even though the stock market has hit new highs, things haven't quite gone to plan, and plenty of concerns over the economy remain. We are seeing clear signs of Wall Street diverging from Main Street. The stock market has followed the blueprint for a 'V' recovery, or maybe an elongated 'checkmark', steady and up to the right on the charts. The economy, on the other hand, has started to recover but not nearly as much as the stock market has moved. Covid has lingered longer than expected, and much of the real economy remains on shut-down or partial shut-down.

Part of this divergence between Wall St and Main St comes from the fact that the stock market represents the biggest and most liquid companies in the US and the World, and even 'small-cap' companies are in reality quite large employers. The typical small-cap company is still probably one of the largest employers in its given county. By and large these companies have resources and can access funds and credit as needed. Mom-and-Pop stores, smaller retailers, and local businesses like dry-cleaners, florists, and auto repair shops are another matter. These small businesses do not have access to the capital that larger companies have, and localized shut-downs can have catastrophic consequences for businesses with just 1 or just a few locations in hard hit locales.

While these 'local' businesses are small, there are many of them, and in normal times they provide 1/3 to 1/2 of business activity and new hiring. Unlike the market averages, many of these companies remain in turbulent times. Many restaurants will never come back. When Wall St and Main St diverge it is a very challenging time, as we see the conditions around us and find it difficult to reconcile that with bullish face of the market averages. For now, what the Fed has done has worked, in so far as it has allowed some companies to continue and provide employment. But it was not a perfection solution. The question that remains is whether if what the Fed has done will provide a bridge to further fiscal policy measures and Covid recovery, or will the challenges prove to be "a bridge too far", with the economy faltering toward a double-dip. We believe the next few months will give us the answer.

Disclosures:
This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report.



Hamilton-Bates
Market Update

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

Earnings and Economic Data

The improvement in the real economy has been much more muted, with 15-16 million Americans receiving unemployment insurance, compared to the 700-900K that might receive it during 'normal' slowdowns. 2020 is anything but normal. Companies aren't even bothering to provide earnings guidance, and reported earnings reflect what is happening in the real economy more than the market averages do right now. The Fed released its latest thoughts at their Jackson Hole summit—during which chairman Powell said essentially that they will tolerate higher inflation, and won't rush to hike rates anytime soon. In their mind, seeing inflation would indicate movement in the economy, something they are desperate to see.

Market Outlook

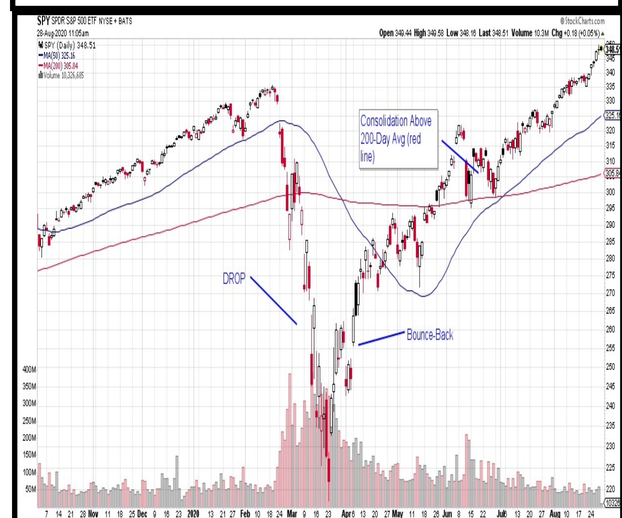
The Fed's actions were intended to stimulate the financial markets, and in that regard they have been remarkably successful. The major averages are all at or very near their high-water marks. The current trend remains bullish and things have been very favorable since the last correction in June. However, we are starting to see signs that another pullback could be near. The persistent market advance since March has started to become pretty narrow—meaning that the rise has been propelled by a decreasing number of stocks s it has moved higher. Investors have sought out companies that seem immune to Covid turmoil while offering growth upside as things normalize. Technology fits this bill perfectly and this has pushed a good deal of money toward this sector and into mega large-cap stocks like Apple and Amazon. This is called a narrowing of market breadth is normally seen ahead of corrections. We are also seeing volatility measures rise with the market, when normally they move opposite to each other. Such a rise in volatility expectations also tends to occur ahead of pullbacks. Finally, we are wrapping up a terrific August, with the S&P gaining 5.7% for the month. That is an outsized gain for a normally sleepy month known for vacations rather than market gains. The last two times the market gained 5% or more in August, September saw declines of 5%. So even though we remain bullish, what we are seeing in the market now has us looking for more signs of a pullback.

Managed Accounts

The recovery has been broad and strong for client accounts, with nearly all positive for the year and at their high-water values. By losing less in Q1 during the decline, accounts recovered quicker during the bounce since then. We will use recently elevated cash positions to buy back into the market during what we expect will be a temporary 'growth scare' over the coming month; perhaps coupled with election and Covid Stimulus Policy jitters.

S&P 500 Chart (below)

After breaking above the 200-day average the S&P successfully tested it twice, before moving higher to where we are now—above the prior high from March. However, the market is once again pretty stretched above the 200-day average (red line), so a correction of 3-5% to ease these conditions, back toward 3350 makes sense.



Disclosures:
This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report.