MERIDIAN ADVISORS

Financial & Economic Review

In the second quarter of 2020, the broader markets staged a remarkable comeback from the 35% correction in Q1. As coronavirus forced slowdowns and shut downs in many industries, the business world is learning to adapt, even as social distancing weighs heavily on the productivity of many industries. Retail sales and employment are beginning to intensify, as pent up demand begins to emerge. The Federal Reserve implemented unprecedented efforts to support the U.S. economy, including buying corporate bonds and ETFs to ensure liquidity in equity and bond markets during this turbulent time. In Q2, GDP fell below depression-like levels, but is expected to recover by year-end 2020 and into 2021, as vaccine candidates are developed, tested and fears begin to subside. One noteworthy occurrence in Q2 was that crude oil traded at a negative intraday level for the first time in history, as no storage was available worldwide for the glut in production. While not directly altering the broader markets as yet, we saw wide scale civil unrest in cities across America after the death of George Floyd, followed by a reduction in police department budgets in several large American cities. We will be keeping tabs on how and if this begins to affect markets.

In our opinion, the recovery in Q2 was in large part due to the fact that there are very limited alternatives to equity markets for return on investment (ROI) in today's environment. With interest rates remaining pegged at zero, cash and most lower-risk, shorter-term bonds continue to pay investors very little. After several weeks or months earning almost nothing, investors begin to limp back into equity markets. As long as the Fed maintains the zero interest rate environment, we should see increased market volatility and selloffs being bought up faster than would ordinarily occur in a normal rate environment.

We concluded Q2 with the S&P500 posting its best quarterly performance since 1998, up 20.5%. The DJ Industrial Average and NASDAQ Composite Index rose 18.5% and 30.9% for the quarter respectively. Internationally, the EAFE rose 14.9%. The best performing sectors were Consumer Cyclical, Energy and Technology, gaining 36.2%, 34.7% and 31.7%. The worst performing sectors still posted positive returns, as Utilities, Consumer Defensive and Real Estate, gained 2.3%, 11.4% and 14.6% respectively. Gold continues to benefit from worldwide money being printed, ending the quarter up 12.1% and 16.7% year-to-date. Crude oil ended the turbulent quarter up 91.7%, but still down 35.7% for the year. The most undervalued sectors at the end of the quarter were Energy, Financial Services and Industrials, trading at 68%, 92% and 96% of fair value. The most overvalued sectors were Technology and Healthcare, trading 16% and 4% over fair value[1]. Overall, we view the broader equity market as 71.4% overvalued based upon the historic P/E ratio, but expect this anomaly to continue, as long as the Fed keeps interest rates at zero, making other investment options less attractive.

We sincerely appreciate you allowing us to manage your investment and retirement assets, as we navigate markets worldwide looking for new opportunities and value. We look forward to continually earning your trust and respect in the second half of 2020.

Jack A. Kennedy
Chief Investment Officer

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[1] Results referenced from Morningstar.com

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