Quarterly Commentary: July 2020

VALLEY NATIONAL
FINANCIAL ADVISORS

Equities:

The S&P 500 posted a greater than 20% gain during Q2. For the 50 days ended June 3rd, the U.S. stock markets experienced the greatest two-month rally in history, increasing nearly 40%. The breadth of the equity climb was also apparent, as the Russell Mid-Cap and Small-Cap indices reported yet greater performance than did the S&P 500, signaling an embrace of potentially riskier stocks. International stocks also attended the rally, although gains abroad were milder than those in The States.

There are three important points about the rally on the front of our minds. First, the equity performance in Q2 is all-the-more extraordinary when contrasted to what occurred at the conclusion of Q1, when the stock market was in the midst of the steepest bear market entry of all time. The dynamics of the last four months illustrate just how challenging an investment strategy is market timing. Second, the Federal Reserve's commitment to purchase trillions of dollars of fixed income securities was instrumental in the market bounce. The Fed injected an unprecedent degree of liquidity into the markets, which forced interest rates downward and equipped investors with newfound cash, ultimately working to increase the relative attractiveness of stocks versus bonds. In addition, the Fed's actions allowed companies to issue new debt to weather the COVID-19 storm, increasing investor confidence in the resiliency of many major companies. Last, the stock market rally was encouraged by economic data that improved with rapidity in May and June as social distancing guidelines were relaxed, demonstrating that something akin to a V-shaped recovery may be a real possibility.

Bonds:

The Barclay's Aggregate Bond Index returned just under 3% during Q2, while fixed income strategies with risk profiles more analogous to equities – such as those focused on consumer credit or below-investment grade corporations – offered better performance. Interest rates remain near zero as the yield curve – the difference between rates on short-term and long-term treasury instruments – is quite flat. Fed Chairman Jay Powell shared in an interview during Q2 that the U.S. Central Bank is "not even thinking about thinking about raising rates". Interest rates are likely to remain low for the foreseeable future as monetary actions attempt to facilitate an economic recovery.

Outlook:

As most states have begun the reopening process, new COVID cases are accelerating while economic data is improving. Several states who have reported the greatest number of new cases, namely Florida, Texas and Arizona, have walked back much of their reopening measures in an effort to mitigate viral spread. If more states experience coronavirus surges and pivot to stricter social distancing guidelines in response, economic data is likely to worsen and financial markets may react negatively. In addition, the presidential election will be heating up over the next three months, and asset price volatility has historically heightened during pre-election periods. With this said, the power of the monetary and fiscal stimulus by the Federal Reserve and the U.S. Treasury is not to be discounted, and both forces are near certain to continue to support asset markets over the coming quarters. With uncertainty as pronounced as ever, we believe that investors are best off adhering to their carefully constructed long-term financial plans.

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