

July 23, 2020

Good Afternoon,

With stocks maintaining lofty levels, we are concerned that markets are well ahead of actual economic fundamentals. The apparent imbalances are mostly a function of Government intervention. Unfortunately, the Government does not create real economic activity, jobs, or corporate profits. We will be monitoring whether the economy can recover before the effects of monetary and fiscal stimulus begin to recede, or if the unintended consequences of these interventions lead to ever larger imbalances in the economy and asset prices.

While it is still early, and with only about 15 percent of S&P 500 companies reporting so far, the initial earnings reports seem to show that things were really rough in Q2. According to FactSet, quarterly earnings are down, so far, by 44 percent. If this number holds, it would be the second-worst quarterly drop since the end of 2008 during the financial crisis. Scary news—but not unexpected. There are real signs that parts of the economy are improving more quickly than expected and that could drive much better earnings in the coming quarters. It may also mean we are on the path to full economic recovery. But it's a long path with sharp drop offs on either side.

California has passed New York in the number of confirmed cases of COVID-19. It is likely that Florida will also pass New York this weekend, with Texas to follow next week. While New York was clearly unprepared for the onslaught that began in mid-March, no one really understood the magnitude of potential spread back then. The states currently experiencing skyrocketing cases really have no excuses. Unfortunately, the nature of the virus – and human behavior – is such that we will have to remain vigilant for quite some time. What seemed like a temporary arrangement in changes to our daily lives will likely remain the norm for the next 12 months. While there are 197 vaccines for COVID-19 in the development stage (according to the Milken Institute), none have FDA approval.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Don't worry, I'll be bringing humor back to the updates eventually. I hope to have you laughing through your face mask.

Wade

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