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2020 Q2 Investment Outlook-

Following the vicious sell off in February and March, the market has continued to rebound with strong momentum through the second quarter. The positive market trend is being confirmed by fundamental economic data. We remain at the crossroads of a secular bull and bear market, but evidence is growing in support of the bulls. We continue to be cautiously optimistic.

At the time of writing, the S&P 500 is flat for the year and the NASDAQ has pushed to new highs. The Dow Industrials and the broader NYSE remain in the red for the year to date. Strength has been narrow, primarily in growth sectors, beneficiaries of work from home, and industries least impacted by COVID-19 restrictions (tech, digital economy, health care, communications). Weakness continues to be seen in broad areas more dependent on unrestricted movement, working and retail conditions (industrials, energy, transportation, and financials).

Our investment playbook continues to overweight secular trends, innovation, and the beneficiaries of the rapidly changing social and work patterns being driven by the COVID-19 crisis. We are focusing on durable businesses, high quality balance sheets and above-average growth potential. We continue to underweight or avoid impacted areas of the market like energy, travel, brick and mortar retail, financials, and industrials. As broad economic activity improves, we will carefully add to these cyclical sectors. We remain flexible and patient for the right opportunities.

Three primary challenges for the market as we progress through summer and into the fall will be earnings expectations, the U.S. elections, and the continued backstop of monetary and fiscal policy. The virus will continue to cause volatility, but we expect economic activity to continue to improve, despite the recent spikes in cases, as the mortality rate continues to decelerate. Headwinds are otherwise being offset by record-breaking levels of government support and by businesses adapting to the current environment.

Earnings continue to be a wildcard on the company level. Compared with the first quarter, we do not see a material directional difference. Companies who did comparatively well despite the virus should continue to do so and those who were most impacted are unlikely to have made a significant turnaround. Second quarter is expected to be the bottom of corporate earnings and the market is looking past current weakness. (Chart 1)

Despite an increased probability of shifts in the executive branch and both houses of Congress, the market generally appears unphased by the upcoming U.S. elections, defense and pharmaceuticals being notable laggards. It is too early to make significant shifts in portfolio construction until we have a clearer picture of policy agenda. One exception has been to maintain exposure to gold as a hedge to inflation and the weakening dollar, which will ultimately be the result of the enormous government debt.

The Federal Reserve and Congress have provided record monetary and fiscal relief which has stabilized and facilitated the rebound of the market. The Fed continues to make a clear statement they will do whatever it takes to keep markets functioning by injecting liquidity. Fiscal policy will likely need a refresh as certain programs expire, like the additional unemployment payments. But even if we see deadlock on temporary items, we do not expect the trend to be compromised due to the size of the total stimulus. (Chart 2)

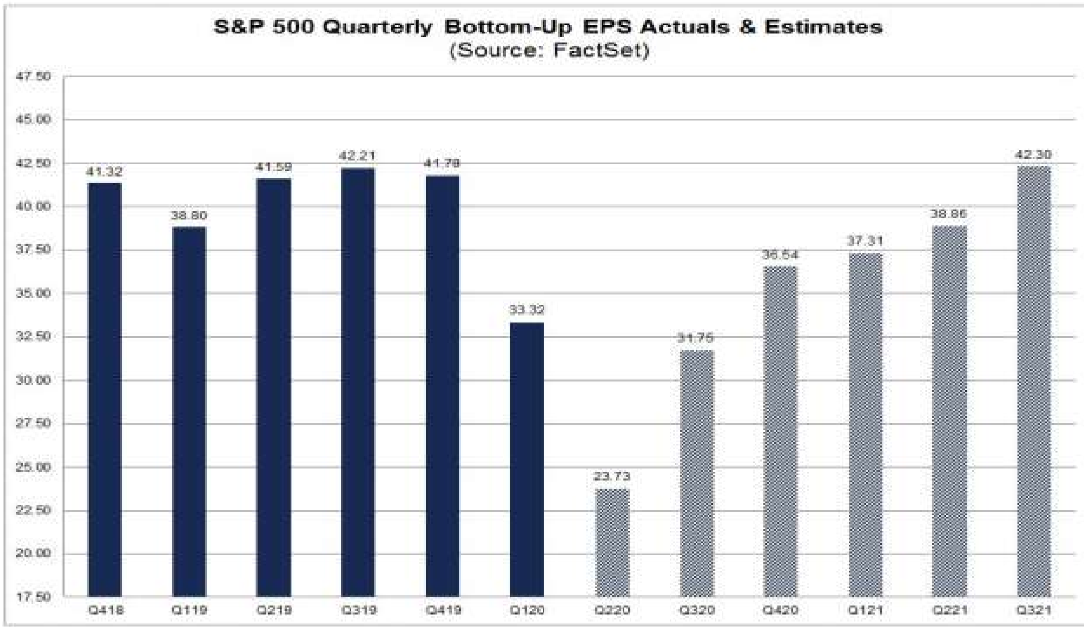
A broadening of strength across lagging industries will be needed in order to sustain the market's rise over the long term but for the time being, the path of least resistance continues to be higher.

We are disciplined, focused on the facts, fundamentals, and long-term trends most relevant to your investments.

Morse Asset Management Investment Team

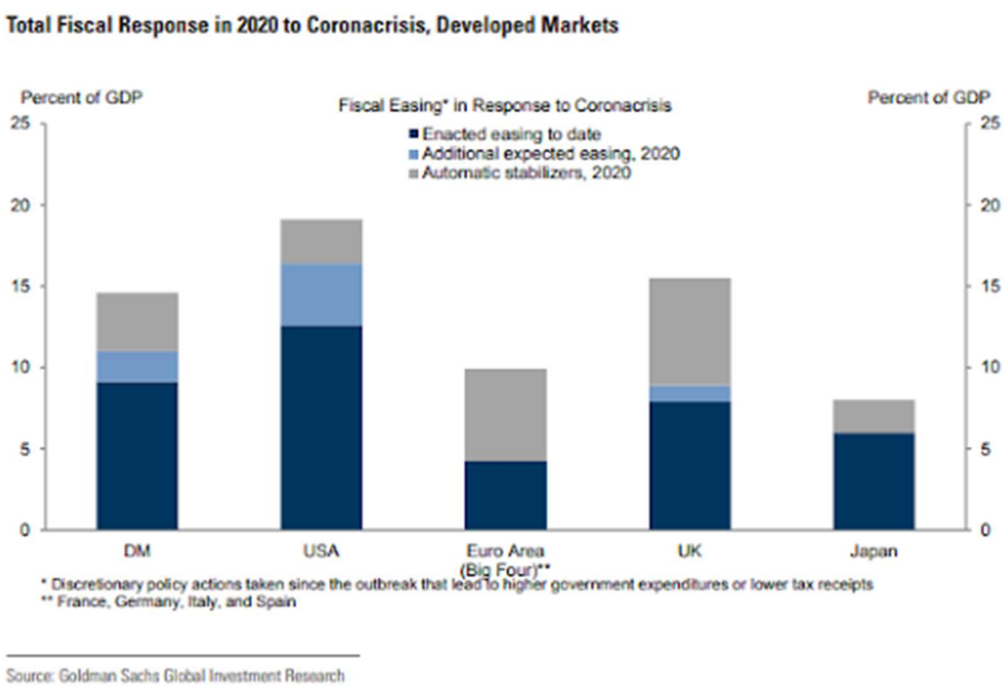
Robert B. Morse, Jian Wang, James Cushing

1. S&P 500 Quarterly Bottom-Up EPS.



Source: FactSet

2. Government response to Coronavirus crisis as a percentage of GDP.



Source: Goldman Sachs Global Investment Research