Investment Management of Virginia

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Interesting Charts and Commentary

The Mountain of Money Overrides Weak Economic Growth

- In March, market volatility reached a level only seen two other times in the last 35 years. Those periods (1987 and 2008) reflected extreme panic and indiscriminate selling in the equities market. This time was no different. However, along with the fastest recessionary contraction in U.S. economic history, we also experienced the quickest equity market rebound in market history. After falling 34% from February 19th through March 23rd, the S&P 500 Index has surged nearly 39% through the end of the quarter, gaining 20% for the April-June period.

- Concurrently, as in the past two crises, The Fed flooded the market with liquidity. Only this time, printing "whatever it takes" has created an unprecedented "Mountain of Money" (MZM), one that stands out in immediacy and scope versus other intervals. This phenomenon is not unique to the U.S.; an unimaginable level of cash is getting zero to negative returns around the world.

- The huge levels of cash have led to a disconnect between Wall Street and Main Street. While the market has rebounded, many parts of the economy, such as travel and leisure, remain stagnant. Although the macroeconomic data remains fragile, recent readings have been "less bad". The "less-bad-than-expected" results appear to have created a floor for stabilization, a platform for optimism, and a returning growth trajectory in 2021/2022. Ultimately, health considerations will tell the tale.

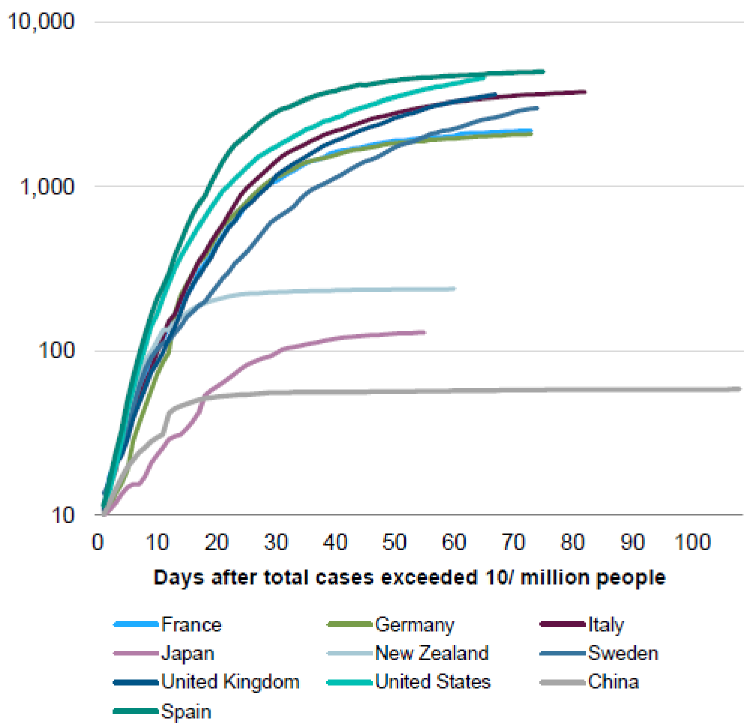
- Taking into consideration that liquidity is abundant, cash returns are zero, high-quality debt financing is the cheapest ever, and corporate dividend yields far exceed those of U. S. Treasury yields, the market may not be as extended as one may think.

A Small Economic Bounce Is Apparent

Global lockdowns are easing (although that may reverse if cases keep rising) and people are getting back to work, albeit slowly.

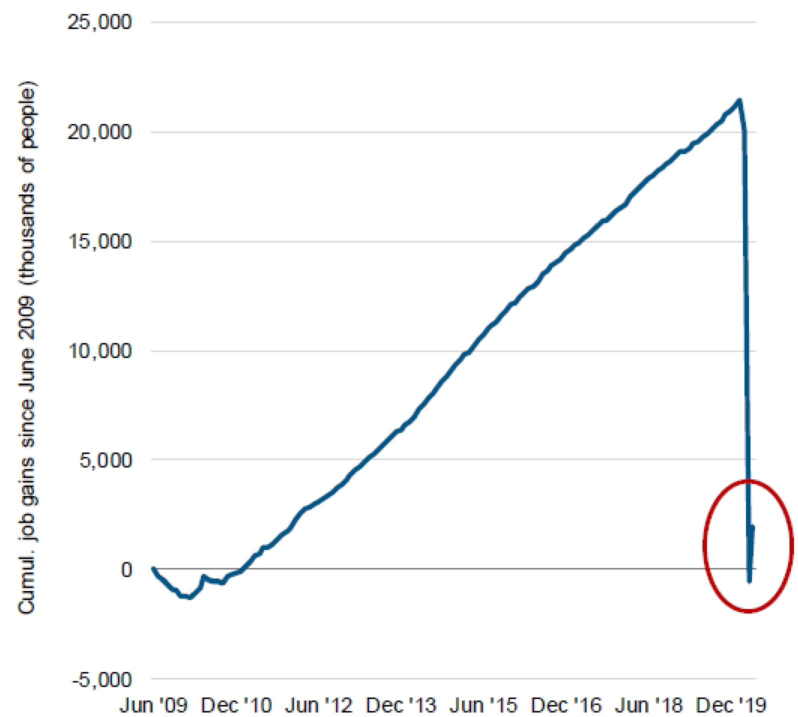
Moderation in virus cases (less so in U.S.) helping spur easing in lockdowns

Cases per million



Impact on labor market has been severe, but some bounce back is apparent

U.S.: Total job gains since the last recession



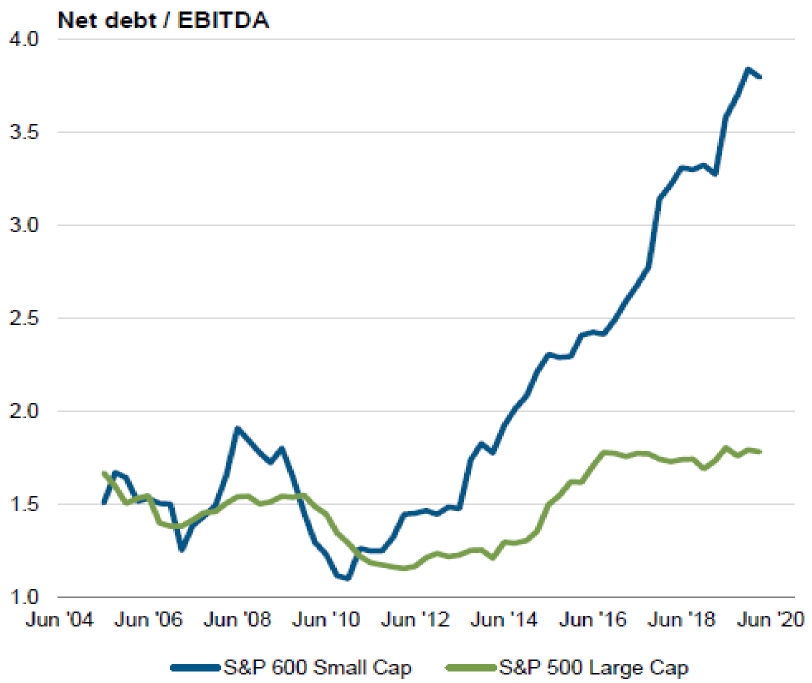
As of June 2020
Source: Haver, Our World in Data, Bureau of Labor Statistics, PIMCO

Source: PIMCO

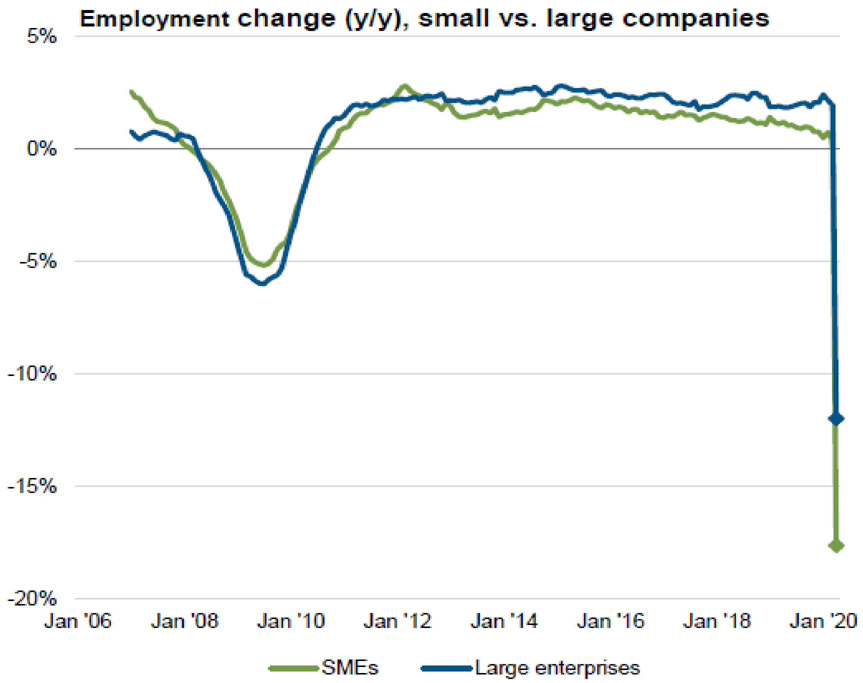
Main Street Businesses Have Been Hit Hard

Larger businesses have weathered quarantine and other restrictions better than small ones, at least from a leverage perspective.

SMEs entered this crisis from a challenged position and may need additional support to survive more shutdowns



Increasing business closures could make job losses permanent



Left chart as of 1Q 2020. Right chart as of April 2020.
Source: Haver, PIMCO, Census Bureau
Refer to Appendix for additional outlook and risk information.

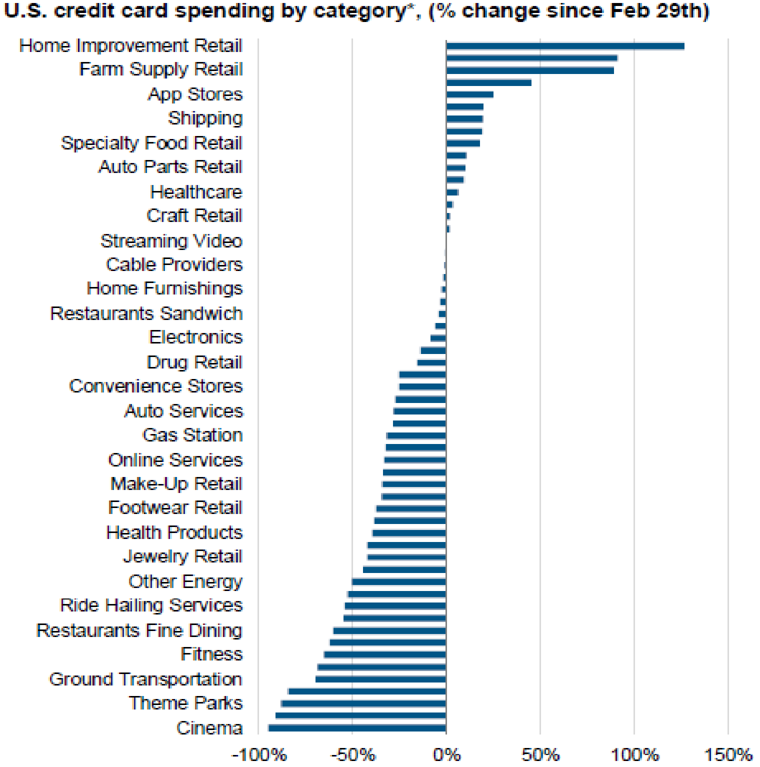
Source: PIMCO

People Are Slowly Returning to Prior Routines

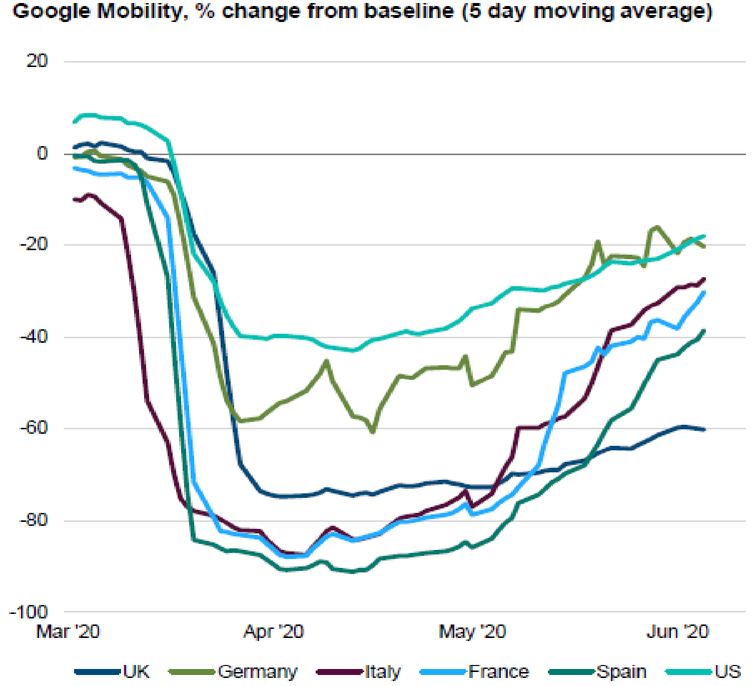
While quarantined, Americans invested time and money in their homes at the expense of other traditional spending options.

People are emerging from their homes. Absent setbacks, improving mobility trends bode well for "normal" spending.

Spending improving (with fiscal support), but dispersion high

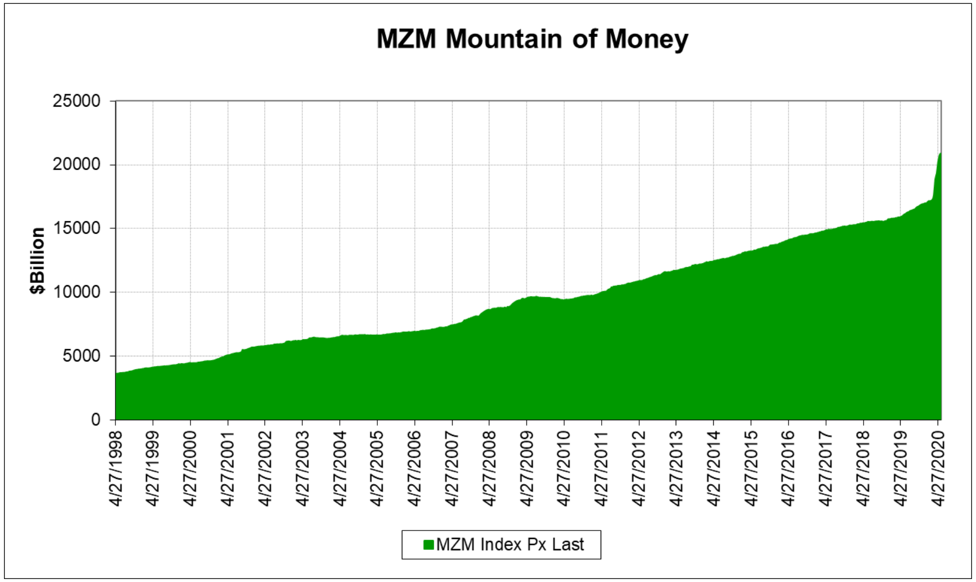


Mobility data show recovery



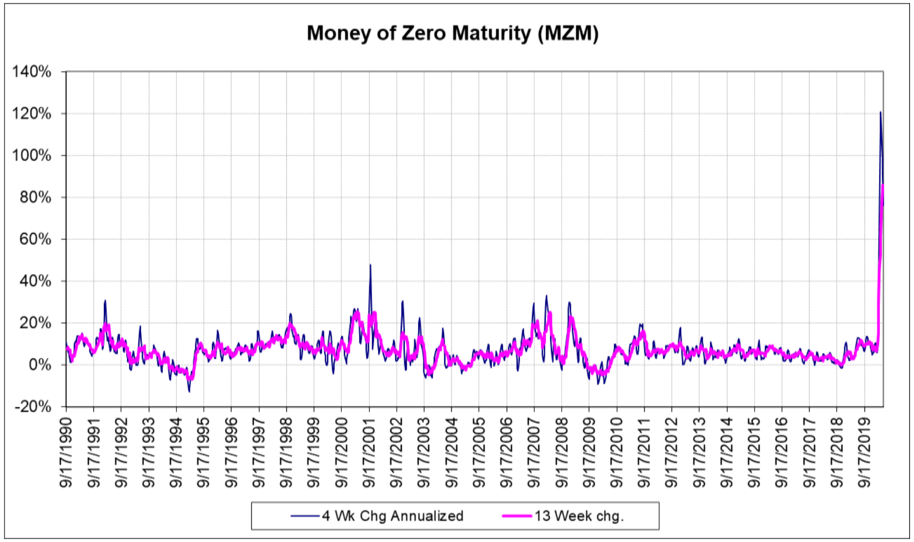
Source: PIMCO

A Mountain of Money Awaits A Home



The recent, massive, and unprecedented amount injection of money into the financial system stands out visually – and in every other way – versus historic trends.

The Treasury and Fed added approximately $3 trillion of cash into the economy. That's the same amount as the quarterly GDP in the U.S. This money currently is earning 0% – and will seek a home over time.



Source: Bloomberg, LP and IMVA

Low Interest Rates May Portend Strength For Dividend Stocks

With the S&P 500 and DJIA currently yielding close to 2% and 2.5%, respectively, after-tax returns on dividend income for these indices is greater than the forecast yields for the 10-year U.S. Treasury Note and those of other major economies. Note: The actual yield on the U.S. 10-Year was below 0.7% on 6/30.

Wells Fargo Securities International Interest Rate Forecast

(End of Quarter Rates)

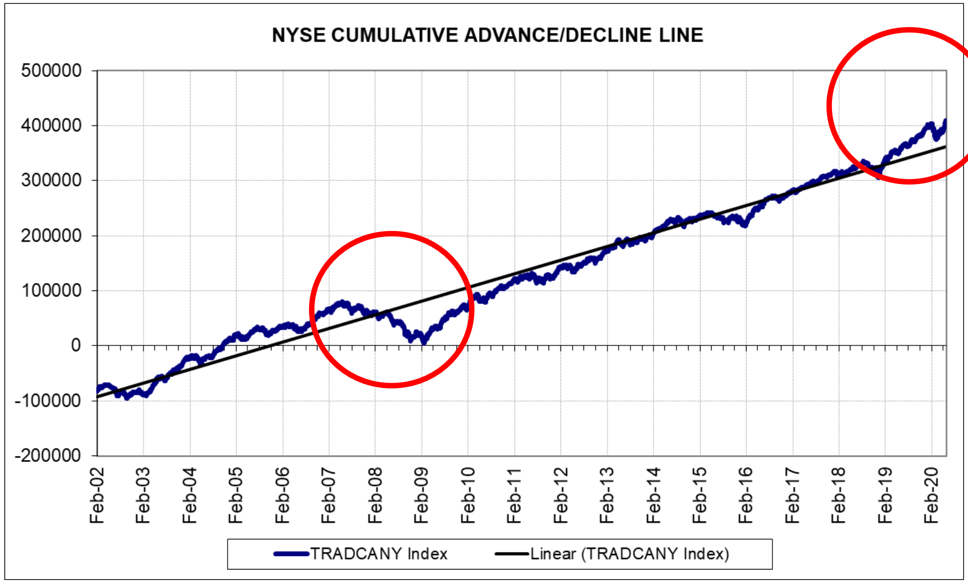
	Central Bank Key Policy Rate					
	2020			2021		
	Q2	Q3	Q4	Q1	Q2	Q3
United States	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Eurozone[1]	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%
United Kingdom	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Canada	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
	2-Year Note					
	2020			2021		
	Q2	Q3	Q4	Q1	Q2	Q3
United States	0.20%	0.20%	0.25%	0.30%	0.40%	0.50%
Eurozone[2]	-0.60%	-0.55%	-0.50%	-0.40%	-0.30%	-0.15%
United Kingdom	0.05%	0.15%	0.25%	0.35%	0.45%	0.55%
Japan	-0.15%	-0.15%	-0.10%	0.00%	0.05%	0.05%
Canada	0.40%	0.40%	0.45%	0.45%	0.50%	0.60%
	10-Year Note					
	2020			2021		
	Q2	Q3	Q4	Q1	Q2	Q3
United States	0.90%	1.05%	1.15%	1.25%	1.30%	1.40%
Eurozone[2]	-0.30%	-0.20%	-0.10%	0.00%	0.10%	0.20%
United Kingdom	0.35%	0.50%	0.65%	0.70%	0.75%	0.80%
Japan	0.00%	0.05%	0.10%	0.10%	0.15%	0.15%
Canada	0.75%	0.85%	0.95%	1.00%	1.05%	1.10%

Forecast as of: June 09, 2020

[1] ECB Deposit Rate [2] German Government Bond Yield

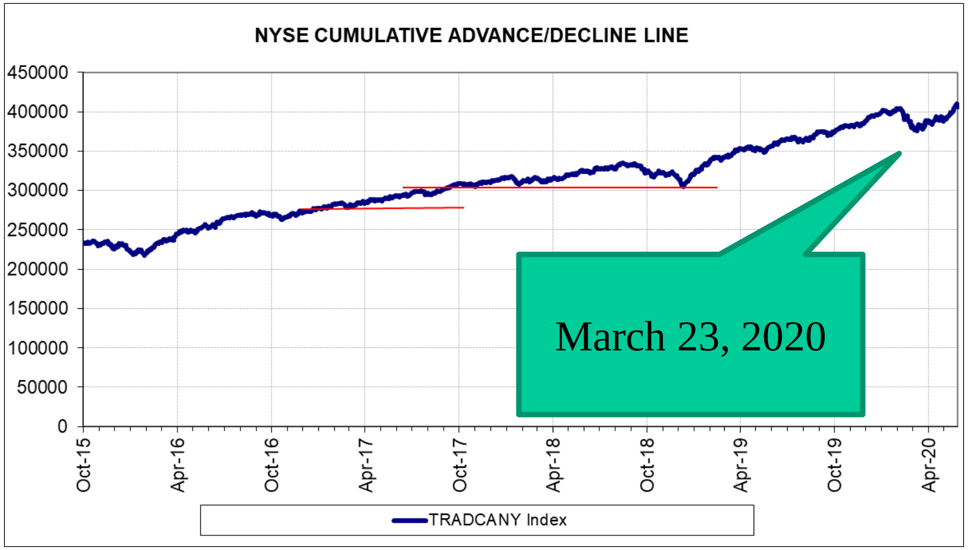
Source: Wells Fargo Economics

The Mountain of Money Has Lifted Most Stocks



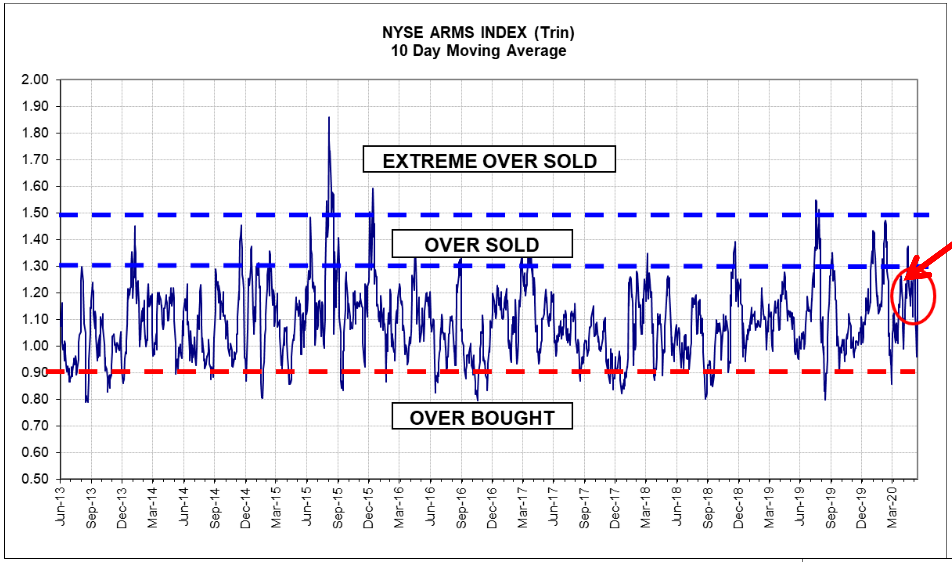
As equity markets recovered, breadth broadened, in sharp contrast to the 2007-2008 time period.

The cumulative Advance/Decline line has reached old highs.

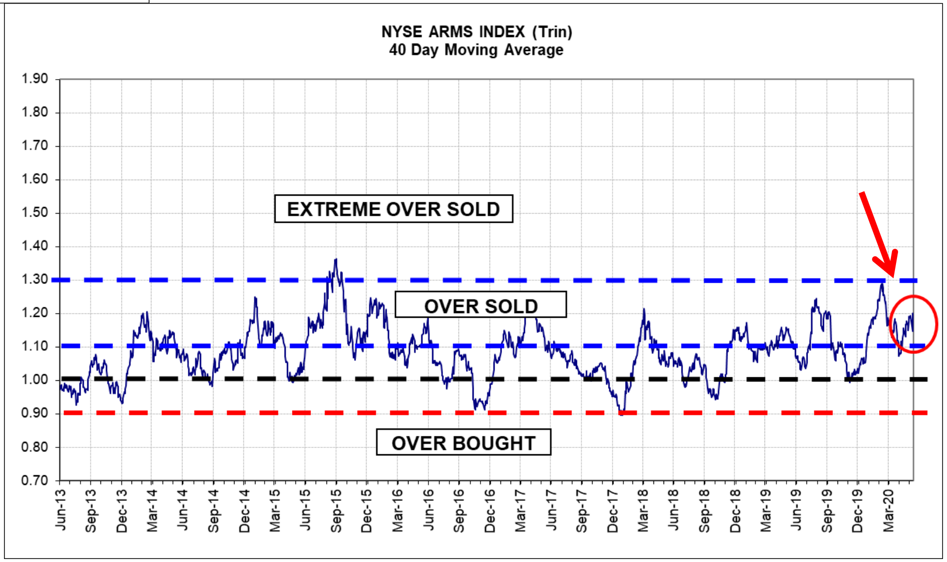


Source: Bloomberg, LP and IMVA

Technical Measures Appear to Remain in A Healthy Range



Market indicators are not as "over bought" as one might imagine.



Source: Bloomberg, LP and IMVA

Conclusion

- In the second quarter of 2020, the market reflected historic volatility, declines, and investor fear. Generally, getting or keeping exposure to the equity market over such timeframes, though nerve-racking in the short-to-intermediate term, has worked out more favorably over the long-term.

- The U.S. economy was doing well prior to the unprecedented, near total shutdown ushered in by the Coronavirus. It remains to be seen if, when, and for how long personal and professional habits may change. Recent indications suggest that people are traveling and spending in areas that have reopened.

- Some economists predict a “V” shaped recovery, while others have talked about a “U” or “L” shaped recovery (or lack thereof). Various policy responses and stimulus packages that have been enacted or are being proposed by the government will certainly help. Ultimately, however, health concerns and restrictions need to dissipate such that supply chains are restored, businesses – both large and small – reopen, and people resume some semblance of normal activity (working and spending).

- Billions of dollars left the markets between March and June. With interest rates in the U.S. and around much of the world around 0%, those funds will eventually seek a home somewhere.

Disclosure: