



# STRATEGIC CLIENT NEWSLETTER

## SECOND QUARTER 2020

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#### Market Performance [www.bloomberg.com](http://www.bloomberg.com)

#### Dow Jones Industrial Average

This Quarter	17.78%
Year-to-Date	-9.55%

#### S&P 500

This Quarter	19.95%
Year-to-Date	-4.04%

#### Nasdaq Composite

This Quarter	30.63%
Year-to-Date	12.11%

*Indices are unmanaged and you cannot invest directly in an index*

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## Markets Show Some Recovery in the Second Quarter, but More Volatility Expected for the Remainder of 2020

The coronavirus pandemic continued to create volatility in the stock markets during the second quarter. While much of the year's earlier losses have been recovered, we expect the volatility in the markets to continue throughout the rest of this year.

Economic news is starting to show what we believe are signs of a looming recession:

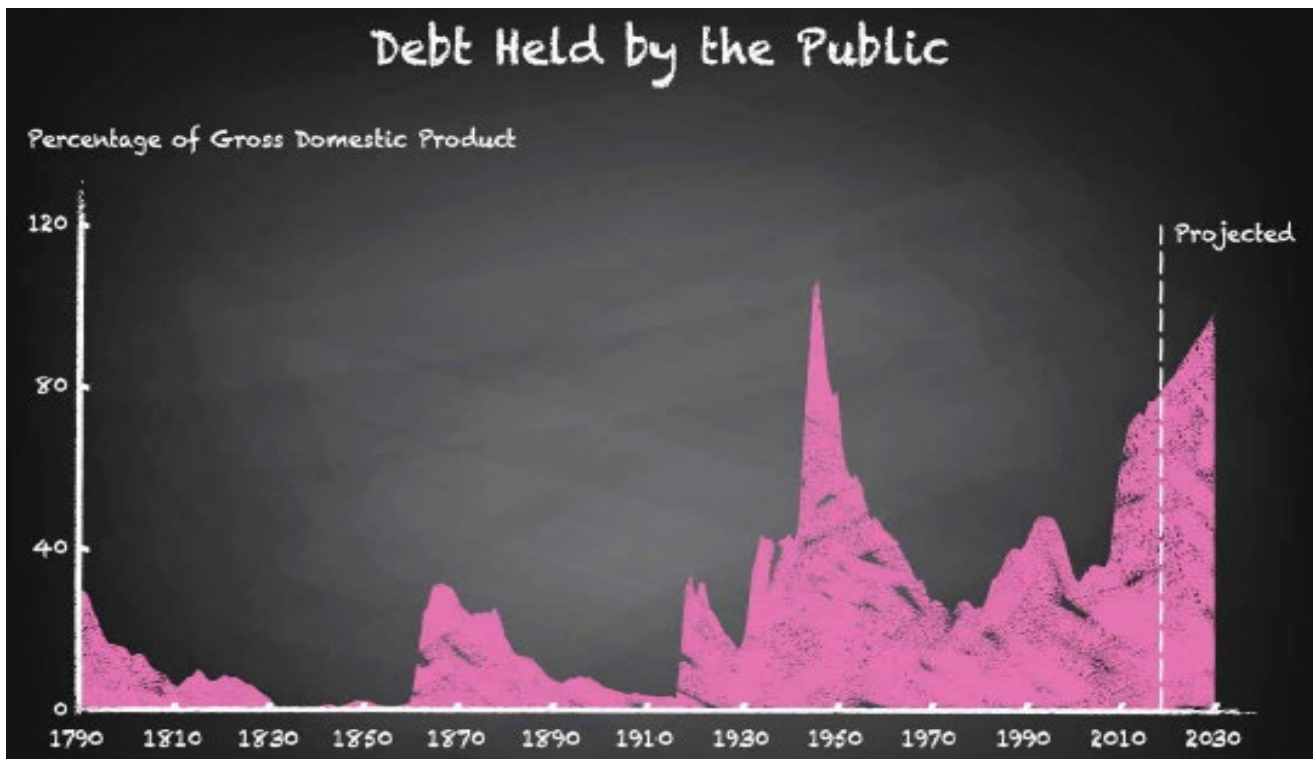
- In the first quarter of 2020, the nation's Gross Domestic Product (GDP) decreased 5.0 percent. This followed an increase of 2.1% for the fourth quarter of 2019 (Source: [www.bea.gov](http://www.bea.gov)). Much of the GDP decrease in the first quarter was due to decreases in consumer spending, inventory investment, exports and business investment.
- The National unemployment rate remained low in the beginning of the year (February 2020: 3.5%; March 2020: 4.4%) before jumping to 14.7% in April 2020 and 13.3% in May 2020. As expanded unemployment benefits end and quarantine measures are relaxed, we expect the unemployment rate to return to lower levels. (Source: [www.bls.gov](http://www.bls.gov))
- Nonfarm productivity decreased in the first quarter of 2020 by -.9%, with decreases in output (-6.5%) and decreases in hours worked (-5.6%). From the first quarter of 2019 to the first quarter of 2020, nonfarm productivity increased .7%. (Source: [www.bls.gov](http://www.bls.gov))
- The Consumer Price Index (CPI), which measures changes in the price level (inflation) of consumer goods and services, decreased -.4% in March 2020, decreased -.8% in April 2020 and decreased -.1% in May of 2020. (Source: [www.bls.gov](http://www.bls.gov))
- Personal Income percent changes from previous months for 2020 were .6% (January 2020), .5% (February 2020), -2.2% (March 2020), 10.8% (April 2020), -4.2% (May 2020). (Source: [www.bea.gov](http://www.bea.gov))
- Corporate profits decreased in the first quarter of 2020 by \$262.8 billion, following an increase in the fourth quarter of 2019 of \$53.0 billion. (Source: [www.bea.gov](http://www.bea.gov))

**Investment and Insurance Products: NOT FDIC Insured / NO Bank Guarantee / MAY Lose Value**

## On the Horizon: U.S. Debt and Deficit

While overall the U.S. economy and stock markets have been growing over the past several years, Federal government spending has also increased. And with the United States continuing to issue debt, we're becoming concerned with the higher servicing costs of this debt as interest rates continue on an upward trend.

Even though the debt levels have increased, the interest payments on that debt have remained low as long-term interest rates were kept close to 0% by the Federal Reserve between 2009-2016, and only slightly increased before returning to near zero levels in 2020. Once the Federal Reserve begins raising interest rates again, we're concerned with the lack of attention by the Federal government to buy down the debt to keep down what we expect to be higher interest payments in the future.



Source: Congressional Budget Office

## Mid-Year Outlook

We believe the following will contribute to increased volatility for the remainder of 2020:

1. Quarterly Earnings: With the quarantine and shutdowns that were put in place, we expect to see a decrease in expected corporate earnings for the second and third quarter.
2. Presidential Election: We typically see increased market volatility during the Presidential election cycle.
3. Coronavirus Pandemic: We expect to see volatility in the markets as we experience spikes in reported cases, vaccine trial news and the re-opening of businesses and schools.

We believe a recession is likely this year, as the impact of the coronavirus is felt throughout the economy and stock markets. While we still believe the recession will be mild to moderate, we feel that the length of the

recession will be determined by how quickly businesses are able to re-open and how quickly they are able to recover from the quarantine/shutdown.

We believe household spending will likely decrease overall, driven by the higher unemployment rates and general uncertainty in the marketplace.

We remain cautious as we move through the remaining year and into 2021 for increasing interest rates, as well as inflation, which may impact earnings and stock market growth.

## Regulation Best Interest (Reg BI)

Beginning June 30, 2020, all broker-dealers and investment advisers must establish a “best interest” standard of conduct when making a recommendation to a customer regarding securities transactions, investment strategies and types of accounts. This requires all recommendations made to retail clients to be in the clients’ best interest.

The new regulation requires broker-dealers and investment advisers to provide a brief relationship summary to clients, including any potential conflicts of interest and financial incentives received by the broker-dealer to have certain products.

***As part of complying with Regulation Best Interest, Wells Fargo Advisors will be sending out updated disclosures to clients to clearly communicate important facts regarding customers’ account relationships. It also clearly describes the differences between brokerage and advisory services, fees, conflicts, service levels and standards of conduct.***

Please call our office with any questions.

## CHB Investment Group Observations

- We believe stocks have a moderate potential for additional earnings growth throughout the rest of the year, and have a bias in value stocks, in addition to suggesting a slight overweighting in mid-large cap stocks.
- We believe the Federal Reserve will keep interest rates at or near zero this year, and we remain underweight on U.S. Treasuries, due to their sensitivity to interest rates.
- We have a **neutral bias** in residential and a **neutral bias** in corporate real estate, as we expect housing markets to be negatively impacted during a recession.
- We have a **neutral** bias towards corporate debt, as we continue to see interest rates rise, with the softness in the short-term.
- **We expect market volatility for the next two quarters.**

*This is provided for informational purposes only. We need to review your investment objectives, risk tolerance and liquidity needs before we introduce suitable managers/investment programs to you. All investing involves risk, including the possible loss of principal. Mid-cap stocks are generally more volatile, subject to greater risks and are less liquid than large company stocks. There are special risks associated with an investment in real estate, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.*

**CHB Investment Group**  
A Limited Liability Corporation

**Christopher H. Brashier**  
Managing Director  
[chris.brashier@wfafinet.com](mailto:chris.brashier@wfafinet.com)

**Debra T. Jones**  
Registered Associate  
[debra.jones@wfafinet.com](mailto:debra.jones@wfafinet.com)

**Christopher Lindenthal**  
Portfolio Administrator  
[chris.lindenthal@wfafinet.com](mailto:chris.lindenthal@wfafinet.com)

31 North Main Street  
New Hope, PA 18938  
Phone: 215-862-6900  
Fax: 215-862-5700  
Toll Free: 855-862-6900  
[www.chb.wfadiv.com](http://www.chb.wfadiv.com)

*Investment products and services are offered through Wells Fargo Advisors Financial Network, LLC (WFAFN). CHB Investment Group is a separate entity from WFAFN.*

## CHB Investment Group News

**For clients who are signed up to Wells Fargo Advisor's Access Online, you can suppress the quarterly performance reports and receive them paperless. Delivery preferences can only be updated by clients through the Access Online website.**

- Our office has been open and fully staffed throughout the entire Covid-19 crisis. We are not meeting face-to-face with clients at this time, but we are here to help you and answer any questions or concerns you may have. Please contact us for any issues that are concerning you.
- The Trenton Thunder will not be having a 2020 season due to the coronavirus pandemic. We are hoping for a 2021 season, with tickets available for our clients, as we've done in the past.
- **We continue to see more and more scam and phishing attempts, with clients receiving more sophisticated e-mails, phone calls and text messages that appear to come directly from Wells Fargo or our office. If you suspect a scam or unauthorized attempt to access any of your account/personal information, please call our office immediately; do not click on any links, respond to any e-mails or call any provided phone number that you may be suspicious of.**
- For clients who are age 70 ½ and over, required minimum distributions from deferred retirement accounts are suspended for 2020 as part of the CARES act. Required minimum distributions will resume in 2021. Please call our office if you have any questions.

**For clients who would like to receive non-confidential information regarding general market conditions and CHB Investment Group updates, please send your preferred e-mail address to [chris.lindenthal@wfafinet.com](mailto:chris.lindenthal@wfafinet.com)**

**Reminder: Emergency Order Placement Number** – If there is ever a need to place an order during market hours, and we cannot be reached due to phone problems or weather issues, please call (877) 246-6976, option #2.

Past performance is no guarantee of future results.

Indices are unmanaged and you cannot invest directly in an index.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

Generally, CDs may not be withdrawn prior to maturity. CDs are FDIC insured up to \$250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued by out of state institutions.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product clarification and competitive strengths to endure adverse economic conditions. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. All fixed income investments may be worth less than original cost upon redemption or maturity.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Diversification does not guarantee profit or protect against loss in declining markets.

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