Market Commentary – June 2020

The news continues to dominate everyone's awareness of the COVID-19 virus. Deaths are now in six figures and 40 million Americans are filing for unemployment. Most recently, we are also grieving and angry over racial injustice and the riots that have followed. Among all the bad news, the financial markets are rebounding as if they are oblivious to the rioting and not expecting another downturn. There seems to be a "disconnect" between the financial markets and our reality.

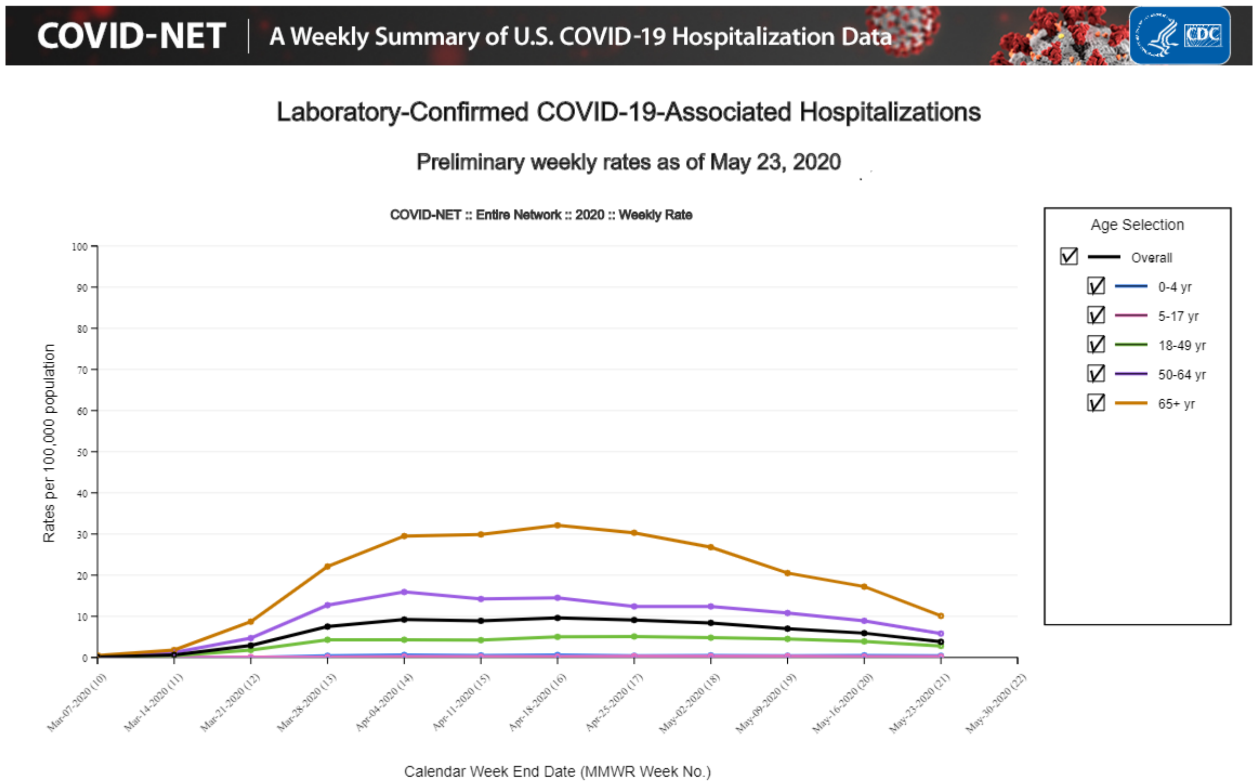
We believe the primary reason for the market's recovery and its apparent indifference to the political unrest is the FED's massive stimulus. The FED has pumped liquidity into the market, while relief programs initiated by congress and the Treasury have distributed funds to individuals and small businesses in efforts to prevent the health crisis from becoming an economic crisis. The combined stimulus equals more than 25% of the U.S. GDP this year, according to the Congressional Budget Office (CBO). This amount of stimulus is greater than the 2008 recession stimulus.

The stimulus has had both good and questionable results. Personal savings of disposable income is up 33%, and household net worth is still historically high. The combination of enhanced unemployment benefits and direct stimulus checks to individuals has been a lifeline for debt reduction and savings opportunities. Recent surveys have shown that about 60% of laid off workers have been made more than whole, receiving more in government benefits than they would have in their regular paycheck. While this is a blessing for those individuals, it should not be the intent or the result of stimulus that will eventually have to be paid back to the government through taxes. It is also a disincentive for those collecting the benefits to return to work sooner rather than later. This could be harmful to their employers trying to restart their businesses as soon as possible.

It is significant to note the reaction of the stock market since its peak on February 19 and the subsequent drop of 35, compared to where we are now. The behavior of the market may be misleading as to where we are going from here. We still have a lot of damage to companies of all sizes, and their earnings will be affected for at least the balance of this year. However, the DOW is within about 11% of its all-time high, the S & P within 9% and the NASDAQ within 2%. This is another example of that "disconnect" between the markets and our reality.

Interestingly, there were 4 major announcements regarding treatments for COVID-19 that added 2,679 points to the DOW, indicating there was a large degree of "hopium" in those numbers. It will take much more than media announcements to sustain any meaningful recovery. The second quarter earnings will begin reporting around July 10th. This will be another reality check for the financial markets. Historically, recoveries don't start this quickly and strongly. There are some sectors that have not been hurt by the virus, such as technology and healthcare. Since mid-May, the strength has been returning to cyclical sectors such as industrials, real estate and financial stocks. This is a healthy trend and a more normal sign of recovery. Additionally, more than 95% of stocks are now trading above their 50-day moving averages, but less than 50% are trading above their 200-day moving averages. So, it is too early to say we are going to have a "V" shaped recovery.

As new COVID-19 cases and hospitalizations have been declining since the second week in April, most areas of the country have begun reopening their economies. While business is not "back to normal," people are starting to venture out and lessen personal restrictions. We share everyone's hope that this is the beginning of the sustained recovery we all want. A lot of business owners are beginning to return to operations, but at a loss. They are just trying to survive until being allowed to increase capacity and staff. The chart below illustrates the confirmed COVID-19 hospitalizations weekly. Age groups are also listed and the black line is the total.



The Coronavirus Disease 2019 (COVID-19)-Associated Hospitalization Surveillance Network (COVID-NET) conducts population-based surveillance for laboratory-confirmed COVID-19-associated hospitalizations in children (persons younger than 18 years) and adults. The current network covers nearly 100 counties in the 10 Emerging Infections Program (EIP) states (CA, CO, CT, GA, MD, MN, NM, NY, OR, and TN) and four additional states through the Influenza Hospitalization Surveillance Project (IA, MI, OH, and UT). The network represents approximately 10% of US population (~32 million people). Cases are identified by reviewing hospital, laboratory, and admission databases and infection control logs for patients hospitalized with a documented positive SARS-CoV-2 test. Data gathered are used to estimate age-specific hospitalization rates on a weekly basis and describe characteristics of persons hospitalized with COVID-19. Laboratory confirmation is dependent on clinician-ordered SARS-CoV-2 testing. Therefore, the unadjusted rates provided are likely to be underestimated as COVID-19-associated hospitalizations can be missed due to test availability and provider or facility testing practices. COVID-NET hospitalization data are preliminary and subject to change as more data become available. In particular, case counts and rates for recent hospital admissions are subject to lag. As data are received each week, prior case counts and rates are updated accordingly. All incidence rates are unadjusted. Please use the following citation when referencing these data: "COVID-NET: COVID-19-Associated Hospitalization Surveillance Network, Centers for Disease Control and Prevention. WEBSITE. Accessed on DATE".

There are plenty of factors at play which could cause further recovery in the market, or create additional volatility; a second wave of infections, additional information on the lasting economic effects of the shutdown, tensions between the U.S. and China, election uncertainty and civil unrest. There is also the risk that the stock market is not reflecting longer-term economic impacts of the shutdown, including bankruptcies and layoffs. I am cautiously optimistic about the recovery and the longer term health of the economy. Our focus is on the fundamentals; diversification across sectors and asset classes, rebalancing and monitoring positions. It is important to remember that investing is a long-term process, never about specific moments in time.

Thank you for the trust you have placed in us. We value that trust, and consider it our most valuable asset. We look forward to being able to visit in person, but we will also be happy to visit via phone conference or video call. Please contact us if your risk tolerance or financial situation has changed. We look forward to visiting with you soon.

Financial Management, Inc.

CEFEX®
CENTRE FOR FIDUCIARY EXCELLENCE

Financial Management, Inc. is a CEFEX-certified
Registered Investment Advisor

ACCOUNT SERVICES

If you require account service or information (deposits, withdrawals, transfers, address or name change, etc.), please contact our office.

Please be so kind as to inform us of any and all changes that may affect our ability to service your accounts. In particular, please inform us immediately if:

1) You have any changes to your financial condition or would like to reevaluate your risk tolerance.
2) You change your "mailing" or "physical" address.
3) You change banks thereby impacting a standing "MoneyLink" or other money movement instructions.

If you wish to schedule a phone conference or meeting with your advisor, please contact our office.

BUSINESS CONTINUITY & DISASTER RECOVERY

FMI maintains a current Business Continuity and Disaster Recovery Plan to address the actions we will take should we encounter events similar to the Katrina floods, 911 attacks, or other similar disasters. The plan also addresses our response to short-term business interruptions—ice storms, extended power and/or internet outages, etc.

In the event of a bona fide disaster or short-term interruption, we will be available via normal communication modes – email and phone.

In the event you are unable to contact us during a bona fide disaster or short-term interruption and you need to access your accounts or account information, you may call Schwab directly:

Schwab Alliance: 800-515-2157

OFFICE CLOSURES

Please take note of our upcoming holiday office closures:

Friday, July 3, 2020 (Independence Day Observed)

Monday, September 7, 2020 (Labor Day)

OFFICE HOURS

Please take note of our office hours:

Monday – Friday

8:00 a.m. – 4:30 p.m.

FORM ADV, PART II

Please contact your Advisor if there are any changes in your financial situation or investment objectives. Please contact Harold F. Grubbs, President of Financial Management, Inc. (501.227.7400), if you wish to impose, add or modify any reasonable restrictions to the management of your account by your Advisor, Financial Management, Inc. Our current disclosure statement is set forth in a written disclosure brochure based on Part II of Form ADV and is available for your review upon request.

FINANCIAL MANAGEMENT, INC.
P. O. Box 17590
Little Rock, AR 72222-7590
(501) 227-7400
(800) 719-2796
(501) 227-9422 (FAX)
www.fmioffice.com

FINANCIAL MANAGEMENT INCORPORATED