GAMBLE JONES | CAPITAL MANAGEMENT
A Division of Gamble Jones Investment Counsel

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Dear

Unlike most amusement parks during the Covid-19 pandemic, Mr. Market's Wild Ride has remained open for business. Following the fastest fall in history from a record high to a bear market over the course of February and March, the S&P 500 staged its quickest-ever rebound from a bear market to a new record high, which was reached in August. The entire whirlwind round trip took place in just 126 trading days. To put that into perspective, a typical peak-to-peak recovery takes an average of more than 1,500 trading sessions, equivalent to about six years. The market's rally is even more striking when set against the backdrop of an economy that is attempting to claw its way back from one of the sharpest recessions in U.S. history stemming from a pandemic that has yet to be contained.

Given that the Federal Reserve played a key role in boosting stocks during the record 11-year bull market that ended so abruptly in March, it is no surprise that the Fed has also been integral in this year's historic recovery. The Fed responded to the virus-induced recession with quick and aggressive action that was historic in its own right, including slashing short-term interest rates to near zero and pumping trillions of dollars into the economy through its bond-buying programs. In fact, the Fed has already done twice as much quantitative easing (bond buying) in just a few months as during the entire global financial crisis period from 2008 to 2010. In addition, the Fed announced in August a new policy framework that abandoned its longtime strategy of preemptively lifting interest rates to stave off higher inflation. In doing so, the Fed has effectively taken the threat of a rate hike off the table for the next few years. As one market pundit put it, the Fed is now not even thinking about thinking about raising rates. This ultra-low rate environment should continue to serve stocks well, as the dwindling yields that can be earned on fixed-income investments are likely to persist in forcing investors to turn to the stock market for returns. In fact, this phenomenon has become so widespread that it has its own increasingly familiar acronym: TINA, or There Is No Alternative to stocks.

Another major factor underpinning the market's rally is investor optimism that the worst of the economic pain is in the rear-view mirror and that both the economy and corporate earnings are on a path to recovery. While this has been the deepest recession in the U.S. since World War II, it should also prove to be the shortest one since the war. In addition to the monetary support provided by the Fed, the economy has also benefited from a massive fiscal relief package and better virus control, which has allowed many businesses to reopen with the easing of lockdown restrictions. As a result, the economic data has by in large been encouraging over the past few months. Manufacturing activity has accelerated, nearly half of the 22 million jobs that were lost in March and April have been regained, and areas such as housing and retail sales have already bounced back above pre-pandemic levels. Following the path of the economy, corporate earnings also likely bottomed in the second quarter and appear set on a course for recovery.

While the economy has certainly shown encouraging signs of improvement, its ultimate recovery still lies at the mercy of the pandemic. A resurgence of Covid-19 cases could once again lead to complete or partial lockdowns of the economy that would disrupt its comeback. In addition, many parts of the service sector

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(including travel, restaurants, and entertainment) remain severely stressed by social distancing. As a result, the economy will not really be on firm footing until the pandemic has truly been contained through the widespread distribution of a vaccine, which is expected to take several more months. Until then, we expect the economic improvement to continue at an uneven pace, with a return to pre-pandemic levels not likely until well into next year.

Following its impressive rally to new highs, the market cooled off a bit in September. Still, the market as a whole appears to be pretty fully valued, having already priced in a lot of optimism for a recovery in both the economy and corporate earnings. With the market continuing to receive powerful support from the Fed yet contending with uncertainty over the paths of the pandemic and economy as well as the outcome of the upcoming elections, we expect this year's heightened volatility to persist. As such, now as much as ever, it is important to own a diversified portfolio of quality, financially strong companies that are positioned well to weather such an environment and emerge on the other side in a position of strength. Where appropriate, we will also utilize assets that are uncorrelated with equities, including fixed-income investments, gold, and cash to further take the edge off of portfolio volatility. An appropriate level of cash will also provide the dry powder necessary to selectively take advantage of opportunities that the market volatility may provide. The road ahead may well prove to be a bit bumpy, but we think our clients remain well situated for long-term investment success.

Sincerely,

Alison

Alison Gamble, President
Gamble Jones Capital Management