WINFIELD
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Winfield Quarterly

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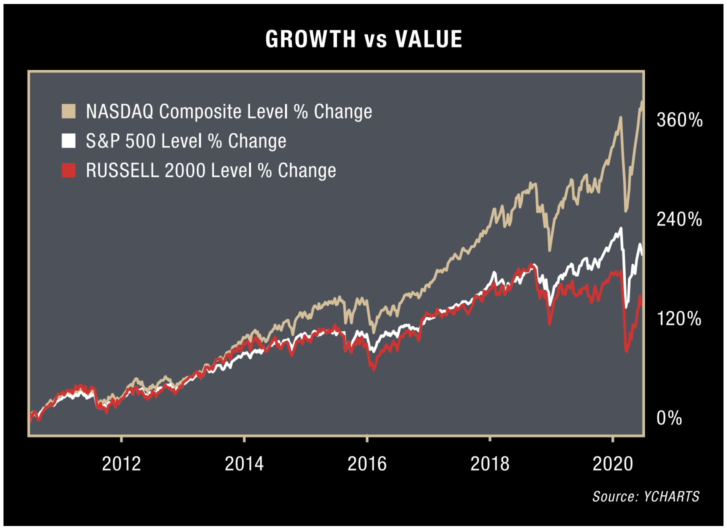
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

The spectacular rally in equities during the second quarter of 2020 was perhaps even more remarkable than the sharp declines in the first quarter. Despite unemployment peaking at 14.7% in April, a level unmatched since the Great Depression, equities staged one of the fastest recoveries on record. The S&P 500 spiked 42.9% from the pandemic-induced lows of late March to the end of the second quarter. This 2-month trading period's performance is only surpassed by the Great Depression-era periods of August-September 1932 (up 109.2%) and May-June 1933 (up 73.2%). As we discussed in our April *Market Commentary*, the recovery in stock prices began immediately after the signing of the CARES Act on March 27, sparking a 17.3% rally in just three days. The unprecedented speed, scope, and scale of the monetary and fiscal responses of the Federal Reserve and federal government eased exceptionally high levels of uncertainty regarding the pandemic, sparking investors' enthusiasm. Although many of the Federal Reserve's programs have either not actually been implemented or only partially so, market participants have bid securities prices higher driven by the expectation that policy responses will thwart any and all liquidity crises.

While the recent improvement in employment has bolstered market optimism, uncertainty remains regarding the resurgence of COVID-19 infections and trends in corporate revenues. Nonetheless, equities, and in particular the technology sector, have continued their rapid rise. In the graph below, we compare the 10-year performance of three equity indexes: the technology-heavy Nasdaq Composite; the large capitalization S&P 500 Index; and the small capitalization Russell 2000 Index.



From mid-2010 through the end of 2014, the three indexes performed largely in-line with each other, with the Nasdaq only slightly outperforming the S&P 500 and the Russell 2000. Beginning in 2015, however, advances in technology such as smart phones, cloud computing, social media, artificial intelligence, and genetic testing generated extraordinary growth for many of the companies included in Nasdaq Index. Large technology companies like Apple, Microsoft, Facebook, Google, and Amazon invested heavily in innovation preparing for the coming wave of productivity enhancements. Interrupted only briefly by the Federal Reserve's missteps at the end of 2018, the Nasdaq climbed 89.5% during the five-year period ended December 2019 while the Russell 2000 rose only 38.5%.

As COVID-19 spread rapidly in the first quarter of 2020, innovative technology companies were already preparing for a future unlike the past. Remote work environments, cloud-based computing, virtual communications, and digital drug design were emerging as solutions to complex issues. The pandemic accelerated tech disruption across many industries, changing the way businesses reach their customers, handle supply chains, deal with employees, discover new ways to fight disease, and build their brands. From an investment perspective, COVID-19 has widened the gap between many of these large capitalization technology stocks (growth) and most cyclical stocks (value). As of the end of June 2020, the Nasdaq was up 381.4% over the past 10 years while the S&P 500 was up 202.3%, and the Russell 2000 had lagged, up 134.2% over the same period. Large cap technology's outperformance has lifted the market capitalizations of the Nasdaq's five largest companies (Amazon, Apple, Facebook, Google, and Microsoft) to 24% of the S&P 500 from 18% just six months ago. Moreover, the technology sector now commands a 27% weighting in the S&P 500 versus a 21% weighting at the end of 2015.

S&P 500 SECTOR WEIGHTINGS

Source: Standard & Poor's

SECTOR	6/30/2020	12/31/2015
Communications	11%	-
Consumer Discretionary	11%	13%
Consumer Staples	7%	10%
Energy	3%	6%
Financials	10%	17%
Health Care	15%	15%
Industrials	8%	10%
Technology	27%	21%
Materials	2%	3%
Utilities	3%	3%
Real Estate	3%	-
Telecoms (discontinued)	-	2%

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The market's concentration in technology is reminiscent of the Dotcom era when Standard & Poor's categorized 33% of the S&P 500 as technology. However, there are many differences today. The large cap technology leaders, as mentioned above, dominate their respective industries, having earned their leading positions by decimating their competition. They have attracted the best talent from all over the world and have invested heavily in research and development to disrupt market incumbents. And, most importantly, they have very strong balance sheets that are the result of innovative, cash flow-producing business models. In 2000, technology accounted for roughly 15% of the index's profits whereas in 2019, earnings for the technology sector accounted for over 25% of the index's profits. While the rapid rise in technology stocks in 2020 is similar to the Dotcom bubble era, the fundamental picture is very different, justifying in part premium valuations for the sector.

Valuations for equities are also bolstered by record low interest rates. In January 2000, the yield of the 10-year Treasury bond was 6.58%, a level ten times greater than the current 0.64% yield as of the middle of July. Consensus estimates for S&P 500 earnings in 2020 are $132, resulting in a price to earnings ratio of 24x as of the end of June. However, estimates for 2021 are $171 which exceed the actual earnings reported in 2019 and equate to a price to earnings ratio of 19x. While stocks seem expensive even with an improved earnings outlook, the Fed's commitment to low interest rates until inflation emerges sets a new paradigm for equity valuations.

Our investment strategy for the second half of 2020 remains the same. We recommend that investors focus on quality in equity and debt markets. The uncertainties surrounding the COVID-19 pandemic remain our greatest concern, and the companies most likely to succeed not only have the strongest balance sheets but have the strength to invest through the downturn. Innovation has always led us through our most difficult challenges, and we remain optimistic that developments in testing, therapies, and vaccines will provide the building blocks to exit the pandemic, returning the world to strong economic growth.

FINANCIAL PLANNING CHECKLIST

With the 2019 tax season finished, now is a good time to review and update financial goals and plans. Some important issues to consider:

- *Review your long term investment objectives*
- *Locate wills, trusts, real estate deeds, birth certificates, social security cards*
- *Make a list of assets including bank and retirement accounts, life insurance statements/contracts, stock certificates, location of safety deposit boxes*
- *Document passwords*
- *Consider a Heath Care Power of Attorney designating a responsible person(s) to be your representative, in the event you are unable to make or communicate decisions about your health care*
- *Consider a Financial Power of Attorney designating someone to handle your financial matters on your behalf*
- *Plan for 2020 tax year by maximizing retirement plan contributions, making charitable contributions*
- *Request free annual credit report to check for errors or fraudulent activity*

This is just a beginning checklist that can assist in your planning. We are available to discuss your specific situation and assist in data gathering as needed.

MARKET PERFORMANCE

	2Q 2020	2020 YTD
Dow Jones	18.5%	-8.4%
S&P 500	20.5%	-3.1%
Nasdaq	30.9%	12.7%
Russell 2000	25.4%	-13.0%
MSCI EAFE	14.9%	-11.3%
Barclays Agg	2.9%	6.1%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES

- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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