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Stock prices experienced a sharp, if uneven, recovery in the second quarter, as expectations of a "V" shaped economic recovery gained credence as the quarter progressed. The Conference Board's Index of Leading Economic Indicators increased 2.8% in May, after hitting bottom in April.

What drove most of this improvement was the surprising strength of employment as U.S. businesses added 2.5 million jobs in May, instead of cutting an anticipated 8 million workers. This improvement in employment shows no sign of abating. As I write this on Thursday, July 2 the June employment was reported earlier this morning, with a 4.8 million jobs added, far more than the 2.5 million that economists expected. Retail sales were also more buoyant than expected. May retail sales, excluding autos and gasoline, increased 12.4%, vs 4.0% expected, and April's decline was revised positively, from -16.2% to -3.9%. There were also other signs of improvement, as driving miles returned to 80% of normal, and TSA screenings of air passengers slowly rebounded from the severely depressed levels of early April.

These significant improvements have been cast in doubt by the resurgence of the virus in recent weeks, as known cases and hospitalizations have spiked in over half the states that have begun the process of re-opening their economies. New cases are now over 50,000 per day nationally. It would appear that these new cases are more concentrated among younger adults than the surge in cases in March and April, which targeted an older population. In Florida, the median age of new cases has dropped to 37, from 65 in March, and more than 50% of new cases in Arizona are among those 20 to 44 years old.

The surge has caused a pause in the rally in stock prices, as the market digests the likely implication this has for the economic recovery underway. It also has cut short a strong rally in more economically sensitive value stocks, in favor of growth stocks and technology issues. This has produced a pronounced preference for the "FAAMG" stocks (Facebook, Apple, Amazon, Microsoft, and Google), which now represent over 25% of the S&P 500 Index by value.

While the spike in new cases could well slow the economic recovery, it seems unlikely to halt or reverse it. The flash US Service Sector purchasing managers' report for June rose to 46.7 from 37.5 in May, which indicates that conditions are near positive for the first time in four months. The flash manufacturing index also vaulted to a four-month high of 49.6 in June. Even with the recent momentum in manufacturing and services, second quarter GDP is expected to fall an historic 40%

or more. But it pays to remember that the stock market discounts the future, not the present. The Congressional Budget Office (and others) expect a sharp rebound in growth in the second half of 2020. While such growth would still place GDP at year end 2021 below pre-pandemic levels, the direction of growth is more important. Also, the availability of at least one vaccine by late 2020 or early 2021, which appears to be on track at this writing, is crucial to restoring confidence in public health and the economy.

In other news, at the end of June, the Internal Revenue Service announced that anyone who already took a required minimum distribution (RMD) in 2020 from certain retirement accounts now has the opportunity to roll those funds back into a retirement account following the CARES Act RMD waiver for 2020.

The 60-day rollover period for any RMDs already taken this year has been extended to Aug. 31, 2020, this allows taxpayers time to take advantage of this opportunity. The IRS described this change in Notice 2020-51. The Notice also answers questions regarding the waiver of RMDs for 2020 under the Coronavirus Aid, Relief, and Economic Security Act, known as the CARES Act.

The CARES Act enabled any taxpayer with an RMD due in 2020 from a defined-contribution retirement plan, including a 401(k) or 403(b) plan, or an IRA, to skip those RMDs this year. This includes anyone who turned age 70 1/2 in 2019 and would have had to take the first RMD by April 1, 2020. This waiver does not apply to defined-benefit plans.

In addition to the rollover opportunity, an IRA owner or beneficiary who has already received a distribution from an IRA of an amount that would have been an RMD in 2020 can repay the distribution to the IRA by Aug. 31, 2020. The notice provides that this repayment is not subject to the one rollover per 12-month period limitation and the restriction on rollovers for inherited IRAs.

Please stay safe and remain vigilant.

Sincerely,

John E. Maloney
Chairman

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