Birch Hill
INVESTMENT ADVISORS

Market View

July 2020

Market Indicators		6/30/2020
TOTAL RETURN		
US Stock Markets	12 Mos	Year-to-date
S&P 500 Index	7.5%	-3.1%
S&P 400 Mid Cap	-6.7%	-12.8%
Russell 2000 Small Cap	-6.7%	-13.0%
Int'l Stock Markets		
ETF Returns in US$		
EAFE Index (Europe, Australasia, Far East)	-5.0%	-11.1%
Japan (MSCI Index)	2.6%	-6.6%
China (Xinhua 25)	-4.7%	-8.2%
Emerging Mkts Index	-4.3%	-10.4%
US Fixed Income Yields	12/31/2019	6/30/2020
6 Mo US T-Bill	1.60%	0.18%
2 Yr US T-Note	1.58%	0.16%
10 Yr US T-Note	1.92%	0.66%

Equity markets rebounded in the second quarter as COVID-19 infection rates slowed in many of the hardest hit areas. Very low interest rates have encouraged investors to buy stocks. The rebound was uneven, favoring technology companies. The future path of economic growth and equity prices are highly uncertain due to the unprecedented response to the COVID-19 pandemic and the search for a successful vaccine.

REBOUND

Stocks rebounded during 2020's second quarter. As of June 30, the Standard & Poor's 500 Index had a three-month return of 20.0%, resulting in a six-month return of –3.1%.

Essentially all of the rebound happened in April and May as infection rates slowed and in anticipation of the future development and wide use of a Covid-19 vaccine, which would allow a return to normal economic activity. In June, stock price volatility continued but major market indices ended the month close to where they began it. Smaller stocks and international stocks rebounded to a lesser extent during the quarter.

By June 30, the broad market, as defined by the Standard & Poor's 500 Index, recouped more than 70% of its decline from February's record high to the low set on March 23. The S&P 500 rebound was concentrated in the Technology sector, which ended June 15.3% higher than at the start of the year (see graph). The Consumer Discretionary sector, due to its domination by Amazon.com, also finished the first half of the year in positive territory. Most other major sectors, including Energy, Financials and Industrials were down significantly for 2020.

The strength of tech stocks is understandable in a time of social distancing and working from home, when the world relies on some technology companies to an unprecedented degree. However, the further elevation of technology stocks (plus Amazon), which started the year at high valuations, has pushed the fundamental valuations of many technology companies to levels much higher than those of other sectors. Historically,

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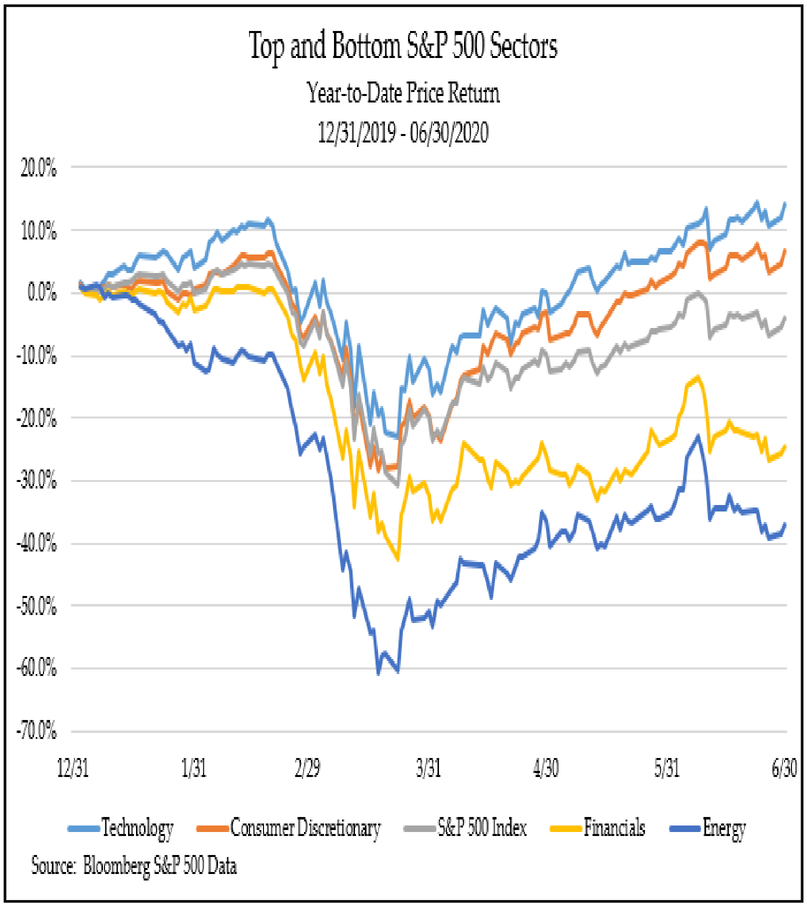

wide differences in fundamental valuations are not sustainable. This suggests either future outsized price increases in the sectors that have recently lagged, a decline in technology stock prices, or a combination of the two.

LOW INTEREST RATES

To reduce the negative economic impact of fighting Covid-19, the Federal Reserve and most other central banks drastically reduced short-term interest rates in March and took other measures to reduce medium and longer-term rates. The yields on Treasury securities have stayed close to the lows set in March. Yields on corporate and municipal bonds initially fell by much less, but they succumbed to the downward pressure during the quarter. Bonds of all sorts now offer paltry yields that are often only a fraction of stocks' dividend yields. At the end of June, the S&P 500 Index offered a dividend yield of 1.8% versus 0.66% for the yield on the 10-year US Treasury note. We continue to look to fixed income assets as the stable component of portfolios.

UNCERTAINTY AHEAD

The fight against Covid-19 has disrupted economic activity to an unprecedented degree. This is not a typical recession. The US and major developed economies have never experienced anything similar, making it hard to predict the path of the recovery. In the short-term, massive government aid—including central bankers' financial stimulus—has helped to support many businesses and individuals. It is not yet clear if the much-discussed additional government support will follow. The path of economic recovery depends partly on government's next steps. A mid-June increase in Covid-19 infection rates in Southern and Western states slowed the pace of some states re-opening their economies. This reminds us that controlling Covid-19 may not proceed in a straight line. Until an effective vaccine is produced and administered to most of the population, the virus is likely to continue disrupting the economy.

INVESTING IN TURBULENT TIMES

Investing in a time of unprecedented uncertainty requires discipline and patience. We continue to believe that investors should have a long-term focus and a holding of cash sufficient to avoid the need to unexpectedly sell stocks. Decision-making should be driven by each investor's long-term goals and investment horizon, not reactions to short-term market moves. We continue to focus investments in high quality, financially strong companies that are leaders in their industries. The current environment will provide opportunities for long-term investors.

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