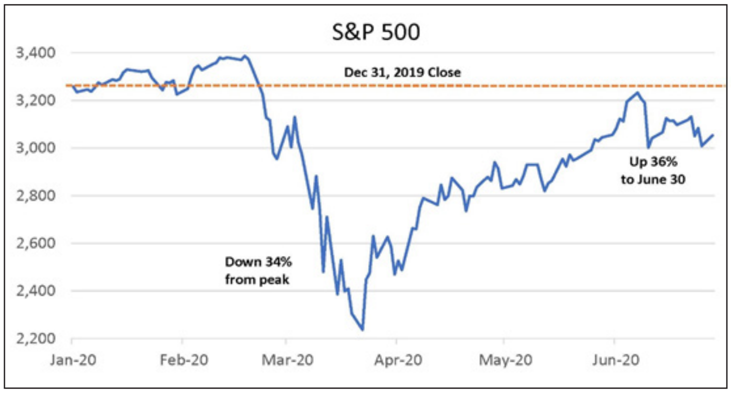
MONTIS FINANCIAL, LLC

Independence. Objectivity. Value.

Quarterly

2020 Second Quarter Investment Market Report: The Roller Coast Ride Continues

After a rapid decline in the markets in the first quarter, the markets bounced back strongly in the second quarter. If you look at a chart of the S&P 500, the recovery looks very similar to the shape of a "V".



Source: Yahoo Finance

The market declined precipitously in March when investors realized how much potential economic damage the COVID-19 virus, social distancing and the closing of many businesses could inflict on the U.S. economy. Then the market experienced one of the best quarters on record amid widespread optimism that some are even calling euphoria.

The S&P 500 index of large company stocks gained 20.54% in the second quarter after a 19.60% drop in the first quarter. As of June 30, it was down 3.08% for calendar 2020. Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 25.63% decline during the year's first quarter, and then saw a 10.56% rebound in the second. Real estate investors are still down 17.77% for the year.

	Quarter	YTD	1 Year	3 Years
S&P 500 Index TR	20.54	-3.08	7.51	10.73
Russell 2000 TR	25.42	-12.98	-6.63	2.01
Wilshire U.S. REIT TR	10.56	-17.77	-12.30	0.23

Source: Morningstar Direct; See disclosures for important benchmark information

International investors experienced the same lurching investment ride as U.S. stock holders, but with a shallower recovery. The broad-based EAFE index of companies in developed foreign economies lost 22.83% in the first quarter, then gained back 14.88% in the second quarter. Add it up, and the index is returning negative 11.34% this year. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 18.08% in the most recent quarter, making up some of the 23.60% losses in the first three months of the year. The index is down 9.78% for the year.

	Quarter	YTD	1 Year	3 Years
MSCI EAFE NR	14.88	-11.34	-5.13	0.81
MSCI EM NR	18.08	-9.78	-3.39	1.90

Source: Morningstar Direct; See disclosures for imporant benchmark information

In the bond markets, rates continue to drag on at historic lows. Coupon rates on 10-year Treasury bonds stand at an extraordinarily low 0.68%, while 3-month, 6-month and 12-month bonds are still sporting coupons just above zero.

	Quarter	YTD	1 Year	3 Years
Barclays US Aggregate Bond (TR)	2.90	6.14	8.74	5.32

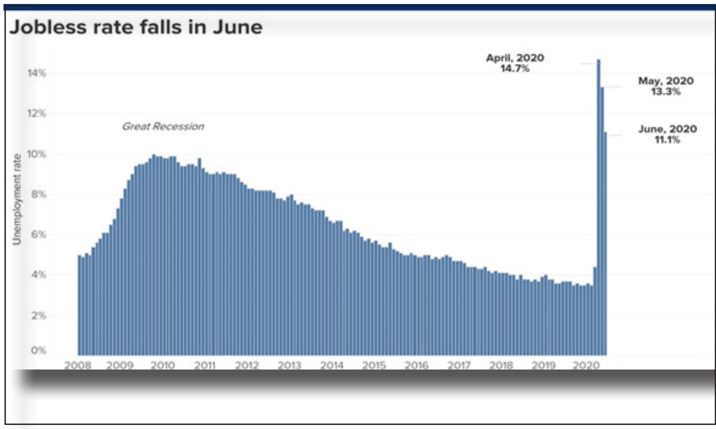
Source: Morningstar Direct; See disclosures for imporant benchmark information

A regular topic of discussion during our investment committee meetings has been the divergence of the strong stock market performance and the weak US economy. In the end, we believe there are two main factors for the divergence.

First, the extraordinary bond purchase program announced by the Federal Reserve thawed the credit markets. In the two weeks following the Fed's asset purchase announcement, nearly two hundred billion dollars of bonds were sold by corporate America, providing companies with desperately needed cash. The fear of mass bankruptcies of large corporations was reduced as companies raised cash to shore up their balance sheets. This increased investor confidence which translated to higher stock prices.

Second, stock prices are based on investors' future expectations. The stock market started to decline during the fourth week of February as investors began to fear a pandemic-induced slow down. At that time, the economy was still growing, and unemployment rates were very low, yet the stock market was falling steeply in anticipation of an economic downturn. Over the last twelve weeks we have experienced the inverse of that situation. Despite unemployment levels at historic highs and a weak economy, stock prices are moving higher based upon the hope of an improving economy. In short, investors are counting on 2021 being better than 2020 and they are buying stocks in anticipation of that improvement.

Where do we stand now? June hiring data showed a sharp reversal from May's 2.7 million job losses. The ADP National Employment Report showed that more than 3.3 million workers were hired in the private sector in June. In addition, the most recent manufacturing indices were stronger than expected.



Source: Data/St. Louis Federal Reserve; Chart/CNBC

Still, by the end of the quarter, 17 U.S. states have paused their phased reopening programs due to the coronavirus, as the number of new daily cases continues to rise. Some hospitals in Texas, Florida, Arizona and California are reportedly near or at capacity. It is a highly worrisome trend, though we have seen an improvement in care and outcomes for sick individuals.

> ***Coronavirus is the biggest and most important factor moving the markets****, but it's not the only one. There is still trade tension between the U.S. and China, Brexit is continuing to move forward and oil has only recently found a stable price.*

Some news outlets report optimism that multiple companies including Moderna and Pfizer–a component of the Dow Jones Industrial Average and the S&P 500–have reported encouraging trial results of an experimental coronavirus vaccine. And a therapeutic made by Gilead Sciences called Remdesivir has also shown promise — as have combinations of other medicines.

Coronavirus is the biggest and most important factor moving the markets, but it's not the only one. There is still trade tension between the U.S. and China, Brexit is continuing to move forward and oil has only recently found a stable price around $40 per barrel. Trying to follow and act upon all of it would be nearly impossible and would be counterproductive.

In making asset allocation decisions we start with a focus on stock market valuations. For decades, our research has tracked U.S. stock market metrics and we have a substantial data set to use as a comparison to today's levels. Our metrics are telling us that after a nearly 40% move from the March lows, stocks are now expensive.

Although we continue to believe that over the long term stocks will be the best performing asset class, in the intermediate term, expected rates of return from stocks will be below historical norms. We have been adjusting portfolios accordingly, by reducing the allocation to stocks, changing funds and increasing cash, and we will be ready to make further adjustments as the roller coaster continues.

As always, we are grateful for your continued trust and confidence. Please stay healthy and reach out if you need anything at all. We will do whatever we can to support everyone in our Montis Family.

Financial Planning News:

More people now qualify for coronavirus-related distributions (CRD). On June 19, the IRS issued IRS Notice 2020-50 allowing more people to qualify for CRDs and adding new qualifying categories to the existing loss-of-income qualifications.

It's New! It's Improved! In less than one week in late June, the IRS expanded the relief Congress provided in the CARES Act.

First, more unwanted 2020 RMDs can be returned. With IRS Notice 2020-51, released June 23, the IRS provided relief for most unwanted RMDs. In this ruling, RMDs taken from IRAs to date in 2020 can be returned (rolled back over) to retirement accounts. The IRS also waived the once-per-year rollover rule and has allowed non-spouse IRA beneficiaries to return unwanted RMDs. This is a one-time offer as both these actions are contrary to current tax law.

Keep in mind that this relief only pertains to the RMD portion (if more has been taken) – and only if done by Aug. 31. After that time, all the regular rollover rules return. The repayment must go to the same account the funds were originally withdrawn from. And as of this writing, beneficiaries of company plans, like 401(k)s, cannot return their unwanted RMDs.

How about non-RMD rollovers? Sorry, no. The extended deadline only applies to unwanted 2020 RMDs. It does not apply to 60-day rollovers of funds.

Second, more people now qualify for coronavirus-related distributions (CRD). On June 19, the IRS issued IRS Notice 2020-50 allowing more people to qualify for CRDs and adding new qualifying categories to the existing loss-of-income qualifications.

In addition to the original CARES Act qualifications (adverse financial consequences due being quarantined, furloughed, or laid off, or having work hours reduced due to COVID-19 or being unable to work due to lack of childcare due to the virus, or due to the closing or reducing of hours of a business owned or operated by the individual due to the disease), the IRS Notice added these factors to the list: A reduction in pay (or self-employment income) due to COVID-19, or having a job offer rescinded or start date for a job delayed, due to the virus.

You will qualify for a CRD as an affected person if any of the above loss-of-income factors applies to your spouse or a member of the household, meaning "someone who shares the individual's principal residence."

This could include a child, any other relative, a friend, partner or roommate. For example, if you're not sick and suffer no loss of income, but your roommate loses her job and now cannot pay her share of the rent forcing you to have to come up with the shortfall to avoid eviction, then you now qualify for a CRD.

CRD income can be spread over three years but if any of those funds can be repaid within three years, the taxes paid can be refunded by filing an amended tax return. The IRS Notice states that an amended tax return will not be required if the CRD funds are repaid by the due date of the tax return that includes the CRD income (plus extensions). In that case, the CRD income does not have to be included on the tax return for that year.

MONTIS
FINANCIAL, LLC

Independence. Objectivity. Value.