

# HUDSON ADVISOR SERVICES, INC

## OUR VIEW OF THE MARKET

By William N. Hudson, Jr., David D. Burrows, William Hudson III, Evan Coppola, & Jeremy Hudson

Volume 84

July 2020

This our second quarterly market commentary issued during the strange world of the Covid virus. Traditional methods to forecast economic and financial market trends are confounded with a virus that is so treacherous and unpredictable.

We expect that more definitive information will emerge in the months ahead. The best hope is for progress on treatments and a vaccine for the virus. Once we have that information, perhaps by time of our next newsletter, we should have better understanding of when the economy can start to normalize and how the market will respond. We should have more ability to forecast GDP, corporate earnings, and the trajectory for equity and fixed income investments.

At the moment, however, the outlook is highly mixed. U.S. economic activity and employment showed encouraging strength in May and June. But now the virus is raging and spreading in most states. We face the prospect of continued economic disruption and shutdown along with the usual uncertainty of a national election year. One analyst described the stock market outlook as: "A Thrill Ride That May Go Either Way."

Given all the uncertainty, we are cautious and defensive at Hudson Advisors. We are not pulling client monies out of equities. But we are careful and selective on where we might commit new monies. We are helping clients to evaluate their liquidity needs. Our goal is to protect client assets at the same time we seek areas for future growth.

**Equity Market:** The market was strong in the first six weeks of the year, continuing the bullish trend seen in most of 2019. Then the coronavirus panic hit as business around the world came to a standstill. The overall market lost nearly 40% of its value in a five week period. The low point for the S&P 500 was on March 23. Then investors regained confidence as the Federal Reserve and Congress responded with massive packages of monetary and fiscal stimulus. The market leaped back in April and May and then leveled off in June.

The Dow Jones Industrial Average gained 14.83% in the second quarter, but was still down 11.66% for the year-to-date. The S&P 500 was ahead 19.95% for the quarter and down for the year by 4.04%. The Nasdaq Composite index was ahead 30.63% in the quarter and 12.11% for the year. Its performance was driven by the strength of the large technology companies. The Russell 2000 index was up 25.0% in the quarter and negative 13.61% for the June 30 year-to-date.

**Fixed Income Market** Prices of Government bonds rose as investors sought some place to stash their assets. The yield on the 10-year Treasury note, used as a benchmark for everything from mortgages to student loans, fell 1.218 points to .691% in the first quarter. (Yields move inversely to prices.) The yield declined somewhat further to .678% in the second quarter. While long term government bonds were basically flat in the quarter, the average bond fund grew 6.5%. The drivers were high yield corporate debt and emerging market debt.

### MARKET TRENDS

The accompanying chart summarizes stock and bond market prices for the first half of the year. So far, 2020 is indeed a paradoxical year. The Dow Jones and S&P 500 just recorded their best second quarter performance in over two decades. But the 2Q rebound was not quite strong enough to recover from the market rout that occurred in March. Both those indexes had their worst first half performances since the 2008 fiscal crisis. Meanwhile, investors rushed to the perceived safe haven of U.S. Government bonds and drove yields to unprecedented low points.

### MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrials Composite PR	-11.66
S&P 500 Index PR	-4.04
Russell 2000 Index PR	-13.61
NASDAQ Composite PR	12.11
EAFE Index NR	-11.34
Barclays Aggregate Bond Treasury TR	8.71

Source: Morningstar® as of March 31, 2020

## THE OUTLOOK

**The Economy:** The U.S. lost over 20 million jobs in April and the unemployment rate had reached 14.7%. But employers brought back over 6 million workers in May and June and unemployment fell to 11.1%. This is good news for an economy highly dependent on confident consumers. That sentiment could be further bolstered if the Administration and Congress agree on another major stimulus package in the weeks ahead.

However, the new surge of the virus in the Sunbelt and other states is dampening that optimism. Major states such as Florida and Texas are slowing and reversing their re-opening plans. Federal Reserve Chairman Powell is a prominent voice warning that economic rebound will be limited if governments and businesses cannot make people feel safe working or spending money indoors. Over 15 million people remain unemployed. Their return to work will be stalled as long as the virus keeps raging. While forecasts vary, the U.S. GDP is expected to be negative for 2020.

**The Market:** Investors have two major worries. First, over 200 companies in the S&P 500 have withheld their customary forecasts about how business will perform in the months ahead. Most analysts expect corporate profits to decline about 40% when 2Q earnings are reported. Second, the possibility of a Democratic takeover of Congress in November would mean likely rollback of the 2017 tax cuts – constraining corporate profits and hurting stock prices.

Given all these worries, some bullish analysts believe the stock market will look ahead a year or two until when the pandemic has run its course. U.S. equities will emerge stronger than other equity markets around the world. The power of the large U.S. technology companies will be significant. The contrarian bearish view is that stocks will follow the pattern of the Great Depression: initial crash, partial rebound, and prolonged slump as the challenges of economic recovery are recognized.

At Hudson Advisors, we believe the stock market most likely will trade in its current range for the rest of 2020 until the course of the pandemic is clearer and the outcome of the elections is known. As we enter 2021, we should know better whether the bullish or bearish viewpoints for the market will be more accurate.

## OUR STRATEGIES

**Asset Allocation:** In this environment, we are not putting much emphasis on the usual models of asset allocation. We are willing to look at each client situation. We recognize that many clients may need increased liquidity in the period ahead. We might recommend more cash than usual. Other clients should stick to portfolio strategies previously identified.

**Preferred Equities:** As always, despite market conditions, we look for long-term equity opportunities. Our focus is on companies that can weather both the short-term period and flourish in a longer time frame. We want fundamentally sound companies with reasonable valuations and that pay dividends. In that context, we are looking at these sectors:

**TECHNOLOGY:** We are holding but not expanding our allocation to the FANG stocks which are strong but maybe highly valued at the moment. Stocks in bio-tech companies that offer potential cures or treatments for the virus are interesting.

**CONSUMERS:** The consumer staple companies are a base in this situation. The discretionary companies have promise as more people go back to work.

**FINANCIALS:** Low interest rates are problematic for traditional banks – but diversified financial companies and non-banks are good opportunities.

**Other Assets:** Our aversion to long-term bonds remains. We like maturities under two years and cash and alternative investments such as municipal tax liens. We are also looking at precious metals, especially gold, at this time.

### Dow Jones U.S. Sectors Total Return (Percent Change for YTD, Ending June 30, 2020)

Source: Morningstar®

Oil & Gas	-35.78	Consumer Services	2.31
Basic Materials	-7.90	Telecommunications	-12.10
Industrials	-9.23	Utilities	-11.98
Consumer Goods	-3.08	Financials	-18.92
Health Care	0.79	Technology	16.35

**William Hudson, Jr., William Hudson, III CFP®, Jeremy Hudson, & Evan Coppola**

4445 North Hwy A-1-A, Suite 233 • Vero Beach, Florida 32963 • (772) 231-8101

237 Main Street, Suite 600 • Buffalo, New York 14203 • (716) 803-6587

**David Burrows**

29 Hillside Drive • Greenwich, CT 06830 • (203) 302-3530

[www.hudsonadvisors.com](http://www.hudsonadvisors.com) • (877) 504-1964

**Top 25 Performing Stocks 2020 (2nd QTR) - US Listed companies with a market cap above \$5 Billion. Source: Telemet ®**

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
NVAX	Novavax Inc	\$ 98.30	\$ 5,697.33	1994.22%	Biotechnology
GNBT	Generex Biotechnology	\$ 0.60	\$ 22,803.38	585.48%	Pharmaceuticals
FSLY	Fastly Inc	\$ 96.16	\$ 9,173.76	324.17%	Software
ZM	Zoom Video Communications, Inc	\$ 266.32	\$ 78,613.67	272.63%	IT Services
MRNA	Moderna Inc.	\$ 61.58	\$ 22,859.97	228.27%	Biotechnology
VIR	VIR Biotechnology, Inc.	\$ 46.07	\$ 5,431.74	225.81%	Biotechnology
LVGO	Livongo Health, Inc.	\$ 96.82	\$ 9,470.64	200.04%	Health Care Providers & Services
QDEL	Quidel Corporation	\$ 237.48	\$ 9,973.92	198.20%	Health Care Equipment & Supplies
GSX	GSX Techedu Inc.	\$ 78.21	\$ 19,691.24	174.43%	Diversified Consumer Services
SE	Sea Ltd ADR	\$ 124.46	\$ 57,524.67	166.63%	Software
TSLA	Tesla, Inc.	\$ 1,365.88	\$ 253,194.68	158.12%	Automobiles
BILI	Bilibili Inc ADR	\$ 46.67	\$ 15,313.18	148.76%	Health Care Providers & Services
BVXV	BiondVax Pharmaceuticals Ltd.	\$ 32.20	\$ 13,156.82	144.89%	Pharmaceuticals
ETSY	Etsy, Inc.	\$ 111.90	\$ 13,280.06	139.80%	Internet & Direct Marketing Retail
SHOP	Shopify Inc.	\$ 1,017.30	\$ 118,443.20	138.74%	IT Services
BILL	BILL COM HOLDINGS INC	\$ 90.46	\$ 6,565.48	137.08%	Software
ZS	Zscaler, Inc.	\$ 120.85	\$ 15,773.13	135.48%	IT Services
DOCU	DOCUSIGN INC	\$ 206.35	\$ 37,867.05	132.37%	Software
SMICY	Semiconductor Manufct Intl ADS	\$ 26.08	\$ 26,288.64	130.87%	Semiconductors and Semiconductor Equipment
DDOG	Datadog, Inc	\$ 96.13	\$ 31,511.51	130.15%	Software
TDOC	Teladoc, Inc.	\$ 224.53	\$ 16,716.99	127.95%	Health Care Providers & Services
PDD	Pinduoduo Inc. ADR	\$ 92.31	\$ 107,312.96	126.97%	Diversified Consumer Services
TWLO	Twilio Inc	\$ 243.61	\$ 34,118.30	123.26%	IT Services
W	Wayfair Inc Class A	\$ 221.48	\$ 20,959.67	118.67%	Internet & Direct Marketing Retail
NET	Cloudflare Inc	\$ 38.40	\$ 11,369.36	110.73%	Software

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CUK	Carnival PLC	\$ 12.72	\$ 6,713.84	-73.88%	Hotels Restaurant & Leisure
AZUL	Azul SA	\$ 12.03	\$ 15,140.15	-73.88%	Airlines
CCL	Carnival Corporation	\$ 15.32	\$ 8,086.17	-67.70%	Hotels Restaurant & Leisure
ICAGY	International Consol. Airlines	\$ 5.40	\$ 11,842.41	-66.16%	Airlines
RCL	Royal Caribbean Cruises Ltd	\$ 50.07	\$ 10,483.93	-62.32%	Hotels Restaurant & Leisure
UAL	United Airlines Holdings, Inc.	\$ 32.53	\$ 9,447.76	-60.71%	Airlines
BBD	Banco Bradesco SA	\$ 4.17	\$ 39,711.89	-57.43%	Banks
BSBR	Banco Santander Brasil SA	\$ 5.51	\$ 41,316.91	-56.97%	Banks
OKE	ONEOK Inc.	\$ 27.36	\$ 11,324.50	-56.10%	Oil Gas & Consumable Fuels
OXY	Occidental Petroleum Corp	\$ 17.28	\$ 15,552.31	-55.59%	Oil Gas & Consumable Fuels
TV	Grupo Televisa SA	\$ 5.57	\$ 15,858.73	-55.33%	Media
FANG	Diamondback Energy, Inc.	\$ 40.23	\$ 6,348.93	-54.96%	Oil Gas & Consumable Fuels
AAL	American Airlines Group Inc.	\$ 11.99	\$ 5,070.52	-54.43%	Airlines
SLB	Schlumberger Ltd.	\$ 18.07	\$ 25,077.78	-54.25%	Energy Equipment & Services
SPG	Simon Property Group Inc.	\$ 65.71	\$ 20,090.65	-54.10%	Equity Real Estate Investment Trusts (REITs)
CVE	Cenovus Energy Inc.	\$ 4.44	\$ 5,456.32	-53.99%	Oil Gas & Consumable Fuels
NTTY	Nippon Telegraph & Telephone	\$ 23.12	\$ 95,360.37	-53.98%	Diversified Telecommunication Services
BDORY	Banco Do Brasil SA Spns ADR	\$ 6.50	\$ 18,123.41	-53.82%	Banks
RBS	RBS Group Plc ADS	\$ 3.09	\$ 18,685.09	-52.64%	Banks
SCGLY	Societe Generale	\$ 3.43	\$ 9,077.40	-52.62%	Banks
WFC	Wells Fargo & Co	\$ 24.55	\$ 100,654.94	-52.42%	Banks
DAL	Delta Air Lines, Inc.	\$ 27.01	\$ 17,227.96	-52.03%	Airlines
CIB	BanColombia S.A.	\$ 28.38	\$ 6,824.17	-51.98%	Banks
PAA	Plains All American Pipeline	\$ 8.84	\$ 6,435.99	-51.93%	Oil Gas & Consumable Fuels
AVAL	Grupo aval acciones y valores	\$ 4.69	\$ 104,497.97	-50.00%	Diversified Financials Services
MGM	MGM Resorts International	\$ 16.30	\$ 8,039.45	-49.50%	Hotels Restaurant & Leisure