WEEKLY MARKET COMMENTARY

For the Week of June 22, 2020

THE MARKETS

Stocks were up and down Friday as investors digested news of virus resurgences in pockets around the globe. At the close, the NASDAQ was up slightly, while the Dow and S&P were down. All three major indexes made gains for the week; the S&P achieved its fourth positive week in five. For the week, the Dow rose 1.07 percent to close at 25,871.46. The S&P gained 1.88 percent to finish at 3,097.74, and the NASDAQ climbed 3.74 percent to end the week at 9,946.12.

Returns Through 6/19/20	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	1.07	-8.22	0.05	8.86	10.18
NASDAQ Composite (PR)	3.74	11.39	25.83	18.07	15.50
S&P 500 (TR)	1.88	-3.19	7.99	10.25	10.22
Barclays US Agg Bond (TR)	0.20	5.92	8.92	5.15	4.20
MSCI EAFE (TR)	2.05	-10.27	-2.66	0.91	1.87

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, Barclays US Agg Bond, NASDAQ and S&P, excluding “1 Week” returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. (TR) indicates total return. MSCI EAFE returns stated in U.S. dollars.

Not Inflation, But Deflation — The Consumer Price Index fell 0.1 percent on a month-over-month basis in May, the third consecutive month of negative inflation. The last calendar year in which inflation was negative, i.e., deflation, was 1954 (source: Bureau of Labor Statistics, BTN Research).

The CARES Act Effect — The nation’s 13.3 percent jobless rate as of May 31 (released on June 5) would have been an estimated 16.3 percent if the workers who were being paid wages from funds obtained through a Payroll Protection Program loan were counted as temporarily laid off instead of actively employed (source: Bureau of Labor Statistics, BTN Research).

Great Time to Buy — The average interest rate nationwide on a 30-year, fixed-rate mortgage fell to 3.15 percent on Thursday, May 28, the lowest ever recorded in U.S. history. That means home buyers would pay just $430 per month in principal and interest payments for every $100,000 borrowed (source: Freddie Mac, BTN Research).

WEEKLY FOCUS – Short-Term vs. Long-Term Crises

It's difficult to address a long-term issue in the midst of an immediate crisis. With millions unemployed and news of firms going bankrupt because of COVID-19, the latest report on the health of the Social Security Trust Funds received little attention.

According to the report, Social Security's costs will exceed its income beginning next year, and the fund's reserves will be depleted around 2034. However, Andrew Saul, commissioner of Social Security, said the projections didn't reflect the drop in payroll taxes because of lost jobs.

Countless solutions to address the shortfall have been proposed, but Congress has largely ignored them because most are politically risky. Here are a few basic ideas:

1) Raise the full retirement age from 67 (for those born in 1960 or later) to 69. In light of extended life expectancies, this seems reasonable for those who are able to keep working. But health issues already prevent many individuals from working until their full retirement age.

2) Either cut cost-of-living adjustments (COLA) for wealthy individuals or for everyone. But benefits already don't keep pace with seniors' rising expenses since the COLA is based on the general Consumer Price Index and doesn't reflect the disproportionate rate at which housing, medical expenses and health insurance are increasing.

3) Increase payroll taxes for everyone. (Employers and employees each currently pay 6.2 percent of wages.) Or, raise the cap on earnings taxed by Social Security, which is now $137,700. Because benefits are capped at $3,011 at full retirement age, higher earners would not get more back.

4) Wait until Social Security's reserves are depleted and cut benefits by up to 24 percent (the projected deficit after payroll taxes) or dramatically raise taxes. Since solving the shortfall will become more difficult as time goes by, voters should press their representatives to work on a better solution soon.

We all may face future circumstances beyond our control. But as the old adage says, "You do what you can do." That includes prudently saving and wisely investing. Call our office if you'd like to review your retirement plan.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years.