2nd Quarter 2020 Market Overview
A Quandary that Defies Logic

It is certain that things haven't gone as planned in 2020. The stock market always has surprises in store for us and this year has been emblematic of the shocking turn of events.

When we consider the worst pandemic in 100 years and the subsequent social unrest, it is inconceivable that the market is barely down for 2020. We investors are simply grateful for this unexpectedly swift and unforeseen recovery.

Initially, the S&P 500 dropped 35% from the February 19 to the March 18 before a merciful recovery at the end of March.

Then, facing the *worst economy* in 80 years with over 40 million newly unemployed, the market staged a breathtaking rally which was fortified by desperate rescue packages designed by the Federal Reserve and the Government. The gain of almost 20% for the S&P 500 was the best single quarter of our generation.

Right now, the quandary for investors is to reconcile adverse economic conditions with a market near its all-time highs.

In a curious leap of faith, investors are casting worries aside and are chasing gains in the stock market as a *replacement* for actual economic activity.

Throughout the quarter, investors poured money into the powerhouse technology stocks; Apple, Microsoft, Amazon, Alphabet, Facebook, and Netflix. These are viewed as impervious from deleterious effects of the virus and now comprise 29% of the value of the entire S&P 500.

Speculative investment activity also surged throughout the stock market. Online broker Robinhood added 10 million new accounts this year from people looking to replace lost wages with trading profits. Dave Portnoy of Bar Stool sports has gained widespread notoriety with his colorful market commentary, pizazz, and his recent tweet, "the stock market never goes down."

Tesla became the quintessential beneficiary of speculative fever. It has now surpassed the value of all the major auto companies combined, yet with only a fraction of the sales.

Working from home (WFH) stocks jutted in popularity for investors. Zoom Video headed the list as its application become widely adopted in a short period of time.

When we consider this pandemic, it defies logic to be decisively favorable towards the stock market. There are reasons to be reasonably sanguine, but if a vaccine does not come soon enough and the recent spike in cases in the large southern states continues, the market may have to concede its sizeable recent gains.

Is History our Guide?

Many market pundits and brokerage firm analysts predict a new bull market emerging from the pandemic-led crash. They often lean on historical data to support this theory.

Since WWII, there have been 10 quarters where the S&P 500 has gained more than 15%. In each of these successive quarters, the S&P posted gains by an average of 9%. The same is true of the following quarter with positive returns each time for an average six month return of 13.51%. (Bespoke Investments) This provides a ray of optimism for the second half of 2020.

Peregrine Strategy

Given all of these considerations, it is reasonable plan for volatility in the upcoming months.

There is abundant and meaningful uncertainty. We count on diversified investments to insulate our clients from another downturn while producing meaningful opportunity for growth.

Current Peregrine holdings continue to emphasize companies providing essential products, such as food and household product stocks. Growth from these stodgy companies might not match highflyers but shaky worldwide economic conditions could make their steadiness more desirable.

Client holdings also include high growth companies, along with WFH stocks. These stocks have rapidly ascended so they may best serve client accounts as short term trading investments.

We continue to hold gold as a hedge for worldwide money printing. This commodity has trended higher all year.

Bond holdings continue to provide safety and income for client assets.

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