AMB Wealth Management

Market Update

June 15th, 2020

In the last several trading sessions, we have seen the first real pause in the rally that took off from the March 23rd lows. All major indices were down with the more cyclical stocks being impacted the most. The 10-year Treasury note also descended from recent yield highs of 0.9%+ to below 0.7%. This move came after the Federal Reserve Chairman, Jerome Powell, released the FOMC's rate decision and outlook on the US economy. In addition to the Fed's worrying outlook, COVID-19 cases in some parts of the country are increasing, leading to fears of a second wave.

The Fed's outlook dashed the hopes of a V-shaped recovery as the FOMC board does not see the US returning to the 2019 growth rate until at least 2022. The board also believes unemployment will stay elevated for some time with estimated ranges varying from 9 - 14%. This news was not surprising to us nor should it have shocked the market; however, after the announcement and press conference, rates cratered and cyclical stocks were slammed while the VIX spiked from a recent low of 26 back to 40.

This recent move is worrisome, but the factors that drove this current rally, namely monetary and fiscal stimulus, are still in place. With the recent historic injection of liquidity into the market and the economy, more money has been channeled into risk markets over the last 2 months. A pullback from the recent euphoria was to be expected. The question that remains to be seen is if this is a consolidation of the 40% gains from the lows or if this is the beginning of another major leg down in the market.

Our view has been to expect some weakness over the summer months. The rally that preceded this recent move lower was more than we expected as was the move to the downside in March. In times of uncertainty, the market often seems to overshoot which can happen on the upside or the downside. We have taken a more cautious position in our equity portfolios and reduced our exposure during this historic upside move. The cash raised is intended to be used as a buffer to the downside and to be redeployed into stocks when the risk/reward is better aligned.

We believe that cyclical and value stocks currently offer better return profiles than the growth alternatives. Relatively, growth compared to value has not been this expensive since the 1999/2000's tech bubble and now has exceeded that valuation divergence by some measures. We are once again seeing the market being run like a casino. Fundamentals have been abandoned for hot stocks no matter their viability in the long run. We believe the disconnect between valuations and reality will be realigned at some point during the year.

In our opinion, the market conditions we find ourselves in warrant a steady approach. We will continue to look for companies that fit our objectives and discipline. We will remain focused on quality over speculation as we believe the realities of the economic situation and underlying fundamentals will once again take hold. As we navigate these unprecedented conditions, our priority remains on you, our clients, and on achieving your financial goals. As always, AMB is here to help in any way possible.

Matthew J. Roach, CFA
Vice President, Director of Portfolio Management

135 South Madison Ave
Thomasville, GA 31799
229-225-1500
www.AMBwealth.com