



July marked the fourth straight month of gains, with the S&P Total Return gaining 5.6% for July. The index has gained at least 2% in each of the last four months. In this letter, we will discuss the latest economic news and what needs to occur for the stock market recovery to continue.

Requisites for the Recovery

The first thing we want to see is more broad-based participation in the stock market recovery. Apple, Amazon and Facebook announced blowout earnings on July 30 and were up big on July 31, but the rest of the market was down. Likewise, while the largest 100 companies in America (and the Nasdaq 100) have made new highs since June, the rest of the S&P 500 together with the Dow Industrials, midcap and small cap stocks have not. The chart below

shows that the midcaps in red led the recovery into June, but the largest S&P 100 stocks in blue have led since June:



Second, many of the measures put in place by Congress and the Fed assumed that Covid-19 peaked in April and that the nation would be getting back to normal by August. Thus, extended unemployment benefits expired August 1, and the federal eviction moratorium a week before that. We need to see these extended.

For example, 70% of the economy is consumer spending. The recovery was fueled by a record 8.5% jump in consumer spending in May and a 5.6% increase in June. With June's increase, consumer spending has regained all but 7% of its pre-pandemic level. But with Covid infections rising to an average of 65,000 per day in July, consumer sentiment measured by the University of Michigan fell to 72.5 this month. This reading now hovers barely above the pandemic low, erasing most of the gains made in May and June.

Richard Curtin, the chief economist for the Michigan survey, said massive federal aid has kept U.S. from sinking into an even deeper recession, but he fretted that the economy could suffer another dip unless Washington provides more financial relief. Tens of millions of unemployed Americans lost \$600 in additional weekly jobless benefits on August 1 after the White House and Congress failed to reach an agreement to extend the supplement. The

uncertain status of the supplement, which has allowed these Americans to pay rent and buy food among other expenses, has weighed on sentiment and will show up in the consumer spending numbers if left unaddressed.

Likewise, we'd like to see the federal moratorium on evictions reinstated. The moratorium, which expired last week, covered approximately 43 million Americans living in federally backed housing. It is estimated that up to half of those are at risk for eviction by September 30 according to the Covid-19 Eviction Defense Project, especially if unemployment benefits are not extended. These renters are now subject to state eviction laws, which vary widely. Why is this important? Should there be a tsunami of evictions, there will be a ripple effect throughout the housing market as a whole and a negative effect on the economy.

Did You Know

Depending on investment income level, a married couple in retirement can potentially move \$24,000 per year from a traditional IRA to a ROTH IRA tax free. In addition, they may be able to transfer up to \$43,000 per year from traditional to ROTH with a tax rate as low as 4.4% and up to \$103,000 per year with a tax rate as low as 8.8%. These funds would become available for withdrawal in the ROTH five years after the transfer. For more information on this low tax conversion process, please call us anytime.

In Closing

As we close the book on the strangest summer on record with kids heading back to "school" (virtual or otherwise) in August and an election for the ages coming in November, we are reminded of the ancient Chinese curse:

"May you live in interesting times."

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About Kerns Capital

Kerns Capital is a family wealth adviser serving a select group of successful professionals, business owners and executives who among other things aspire to financial independence. Founded in 1996, we have developed and **The OnCourse FORMula** to address the critical financial events in their lives.

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