Canandaigua National Trust Company

QUARTERLY PERSPECTIVE
SUMMER 2020

Mid-Year Outlook 2020

As 2019 grew to a close, forecasts of economic global growth were trending lower based upon several factors including geopolitical uncertainty, trade tensions and the fading impact of corporate tax cuts. Yet stock markets continued to climb as record low unemployment and low and stable interest rates buoyed investor sentiment, and most discounted the possibility of a near-term recession. However, after making new highs in early February, the rally began to sell off with the realization that dramatic steps would need to be taken to combat the virus that was no longer contained to China.

STEPHEN KRAUSS, CFA®
Vice President
Wealth Advisor

Stephen is a member of the Investment Committee, which is responsible for the oversight of CNB's Wealth Management process. He is also responsible for the daily management of client investment portfolios. He holds the professional designation of Chartered Financial Analyst.

He may be reached at (941) 366-7222, ext. 50604 or SKrauss@CNBank.com.

Market Returns

	2nd Quarter 2020	YTD 2020
S&P 500 Index	20.5%	-3.1%
Russell 1000 Value	14.3%	-16.3%
Russell 1000 Growth	27.8%	9.8%
Russell 2000	25.4%	-13.0%
DJ US Real Estate	13.9%	-13.8%
MSCI EAFE	14.9%	-11.3%
MSCI Emerging Markets	18.1%	-9.8%
Barclay's High Yield Bond	10.2%	-3.8%
Barclay's 1-5 Yr. Credit	4.6%	3.4%
Barclay's Aggregate Bond	2.9%	6.1%

Source: Zephyr StyleADVISOR

By mid-March, a large portion of the global economy was in a forced shutdown, which resulted in the sharpest and deepest economic contraction in modern history, to say nothing of the human cost. However, just when investors were feeling the market had few reasons to rebound, global markets staged a comeback that also made modern history. From the lows of March, markets staged a significant rally based on government interventions along with optimism around potential treatments and vaccines.

An Unprecedented Event Requires an Unprecedented Response

Fortunately, both the government and the Federal Reserve wasted little time in responding to the crisis at hand. The Fed quickly cut rates to zero, began massive bond buying and explicitly stated that it would not raise rates anytime soon. As a result, Treasury yields fell to record lows and bonds rallied significantly across all categories.

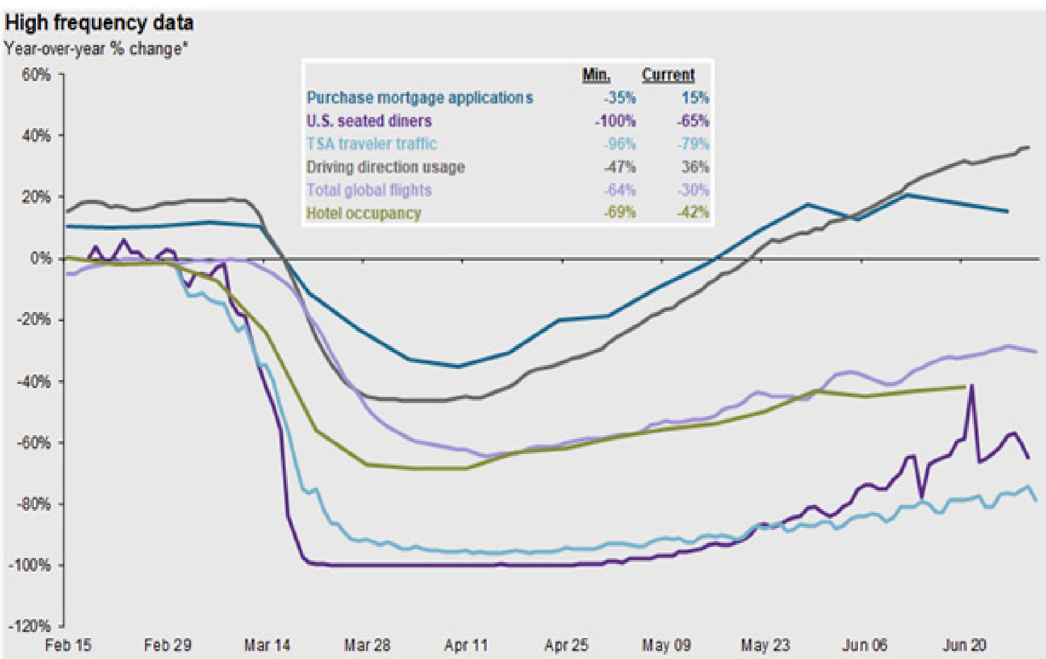
In addition, the Fed launched two new programs to benefit small businesses. First, the Paycheck Protection Program Lending Facility was established to lend money to banks so that they could lend money to small businesses through the Paycheck Protection Program. The Main Street Lending Program also was launched in April to initially help for-profit businesses, but was recently expanded to include nonprofit organizations, which have been hard hit by the pandemic, too. Meanwhile, the U.S. government also stepped in and passed three main relief packages and one supplemental one, totaling $2.8 trillion through March and April. They included: a one-time direct cash payment of $1,200 per person, plus $500 per child, an additional $600 of unemployment per week until July 31, 2020, waived early withdrawal penalties for

(continued on page 2)

401(k)s for amounts of up to $100,000 until year end and $500 billion in government lending to companies affected by the pandemic—among many other measures—to quickly shore up consumers and businesses financial stability.

By the end of the second quarter, governments and central banks around the globe had shifted monetary and fiscal policies. The coordinated moves, along with the unprecedented size of the actions, led to the strong rebound in both equity and fixed income markets, and some of the worst effects of the economic downturn were blunted.

Domestically, consumer spending, which accounts for 70% of GDP, fell precipitously as businesses were forced to close, laying off millions of workers in the process. It remains to be seen whether permanent changes in consumer behavior take hold as activities like travel, tourism, dining, shopping, sports and entertainment are currently in a depressed state. Data from countries where the pandemic has been brought under control suggest that consumers have adopted workarounds and adjustments to re-establish old habits.



Source: JP Morgan Asset Management

Looking Ahead

The combination of low interest rates, low inflation and record fiscal stimulus provided the support that lifted markets in Q2. We expect those factors to continue, though the amount and timing of additional fiscal stimulus has yet to be determined.

For the foreseeable future, opportunities in fixed income will likely remain constrained. Yields will remain low, especially in high quality credits, and investors seeking income will need to look outside of the traditional sources. Bond portfolios will need to be well diversified to include higher yielding areas of the market such as emerging market debt, preferred securities and below investment grade bonds. While these may have been outside of the comfort zone for some investors historically, we believe that modest allocations to good managers in these areas may provide meaningful benefits when placed in a portfolio alongside traditional bond asset classes.

In an environment of such uncertainty, high quality equity investments are also likely to provide some dampening of the inevitable volatility. As earnings season continues, it is likely that those companies with financial transparency and quality earnings will continue to outperform, as we have seen thus far throughout the pandemic. We continue to rely on a disciplined asset allocation process, based on capital market assumptions, to build and maintain quality portfolios designed to weather the storms that investing in capital markets bring.

With less than 100 days to go, the election has become a focal point for investors despite data showing that markets are resilient regardless of who occupies the White House. Investors, however, will surely react as potential outcomes become more apparent, but longer term a strategic, well-diversified portfolio will compensate for any short-term dislocation.

Ultimately, the resolution to our economic problems lies in a vaccine or treatment for COVID-19. Until then, getting a handle on the spread of the virus depends upon the comprehensive adoption of the guidance provided by health officials. The key for investors is to remain patient and stick to their long-term financial goals, as the volatility is likely to remain until a clearer path is defined.