KEIM ASSET MANAGEMENT, LLC
Preserving Your Lifestyle

David E. Keim, ChFC, AIF®
President

October 12, 2020

Where Are We Now?

Dear Investor:

In my last letter, "War on the Coronavirus", I talked about the massive financial intervention that has been provided by the Federal Reserve and the US government, as they have attempted to fight the devastating economic fallout from the virus and the related loss of jobs. The second quarter of the year is now behind us, and we saw that the economy dropped over 31%. This was an approximate loss of $2 trillion in economic output, on top of the 5% loss from the first quarter. The good news is it's clear we have bottomed and are moving forward again. There's a very wide range of forecasts for this quarter, with growth estimated to be up anywhere from 14% to 30%. The expected growth in the fourth quarter is much smaller, currently running in the range of 5%. Remember that these numbers are annualized, so the actual quarterly increases in growth are much smaller. We probably won't achieve our prior level of GDP until sometime in early 2022, but at least we are on the road of recovery.

The path of the virus will have a strong influence on how our recovery goes for quite some time. There are many signs the virus is still not under control to the degree we need to see. There is a very distinct possibility of a second wave as colder weather approaches and many outdoor activities are substantially reduced. We also know that social distancing can become very tiring to maintain, and it's likely that many will relax their diligence in this area as the weeks and months drag on. On the other hand, there is enormous progress being made by the pharmaceutical industry in developing testing and treatments that will be effective in fighting this virus. When a safe and effective vaccine is finally available, it will take many months for people to be protected. Even in a best-case scenario, it's likely that only half of the population will be vaccinated by the end of next year. Many of our citizens are lacking in confidence that products developed on a rapid timeline will actually be safe, and it will take time to convince them. There may also be limits on the manufacturing capacity. As long as the virus is lingering, it will continue to contribute to reduced economic activity.

Another big item is government support through legislation. We know that the programs put in place last quarter had a very dramatic effect on helping to get things going again. We've seen negotiations for another relief package go back and forth for the last several months with no compromise being reached. As of right now there is still no package, even though the parties have seemed to get much closer. Some groups believe we have done enough and we can make it from here, while others insist, we will turn back down into recession without more government help. While things could change in a moment, right now it looks like nothing will happen until after the election.

Regardless of what's going on in the government, Fed policy has continued to drive the markets. They are signaling that we will have low rates for perhaps several more years. They have changed their position on inflation and have indicated that they will be more liberal in allowing a possible overshoot of

5788 Widewaters Pkwy • DeWitt, NY 13214
P: 315-701-5750 • F: 315-701-5751 • dkeim@keimassetmanagement.com
www.keimassetmanagement.com

their 2% target for some length of time. This is interesting, as we were not able to maintain a 2%inflation rate during the entire historic recovery coming out of the Great Recession. You may remember that we had the lowest jobless claims and unemployment rate in the last 50 years. That means a lot of people had money to spend. Even in that environment, the inflation rate averaged around 1.6% over the ten years. Right now, the Fed is buying over $1T dollars of bonds a year, and they have been talking about increasing that. Investors are realizing that we may have rock bottom interest rates for a very long time, and that is driving the market higher. Most of us have concluded this is the reason that both the equity markets and the credit markets seem to be far outpacing the recovery in the real economy.

As the reopening has gained momentum, there has been a big change in unemployment. To review for a minute, last February the economy was booming. We added 273,000 jobs that month according to government reports, and the unemployment rate hit a 50 year low of 3.5%. In March when the virus hit, the official report showed over 700,000 jobs lost and the unemployment rate rising to 4.4%. According to economists, this vastly understated the real numbers based on new jobless claims. They state that over 10 million jobs were lost, and the real unemployment rate was in the range of 10%. That clearly showed up in April when the report showed over 20.5 million jobs lost and an unemployment rate of 14.7%. The broader measure of unemployment known as U6 was over 23%, which is a post-World War Two high. As states began reopening in May, we regained over 2.5 million jobs, and jobs have been coming back every month since then in varying amounts. As of September, the current unemployment rate was 7.9%, with the broader U6 unemployment at 12.8%. In round numbers, economists say that we have recovered a little over half of the jobs lost.

To briefly summarize, I have to conclude that everything is moving in the right direction. We are rebuilding our GDP, and I think we can expect to recover in the next year or perhaps two. We have made a lot of progress fighting the virus, but in no way can we declare victory right now. It could be with us in some degree for many years, but I expect that it will become a much smaller factor as we continue to find ways to reopen the economy. It's unknown what further intervention the government may provide. It seems very likely that whoever wins the upcoming election will consider putting additional relief into place. I expect the rate of unemployment to continue to decline, but obviously this is tied very closely to our ability to control the virus. As for the stock market, we did recently experience a modest correction in the range of 6%, but it is moving up again. Earnings will continue to improve as long as the reopening gains traction. Progress should be more gradual from here, with the market continuing to favor companies with strong growth prospects.

Please contact me anytime to discuss your portfolio.

Best Regards,

David E. Keim