

# Market Commentary

INVESTMENT STRATEGY GROUP | JUNE 18, 2020

---

## How to Think About the Sharp Stock Market Rally

On June 8, the National Bureau of Economic Research officially announced that the U.S. economy had entered a recession in February. This determination was no surprise and has no major implications. However, on the same day that the recession was made official, the U.S. stock market regained all its losses since the recession officially began. The sharp rally in stocks has coincided with a sharp contraction in economic activity, leaving many investors wondering how they should invest when stocks have already rebounded, but the economy hasn't done the same.

Some investors who participated in the recent market rally fear that the market may have gotten ahead of itself and wonder if they should take some money off the table. Other investors, who have remained on the sidelines, question when they should reenter the market if valuations are overly inflated and the risks associated with the ongoing pandemic remain. Unsurprisingly, many investors have responded to this uncertainty by moving assets to cash-equivalents; money market funds, for example, have swelled to near-record levels of more than \$4.5 trillion.

Investor concerns are not without merit. From January 31 to May 31, the unemployment rate jumped from 3.6% to 13.3%. During that same period, one-year earnings forecasts for the S&P 500 declined 21%. And today, media reports are filled with news of widespread civil unrest and early indications of a resurgence in coronavirus cases.

With conflicting market and economic performance, how can investors decide when and how much to invest in the stock market? We believe the key is connecting asset allocation to an investor's financial plan.

Generally, money that isn't needed for at least 10 years should have a significant allocation to stocks, which have the greatest potential for building wealth over the long term. At the risk of oversimplifying, owning stocks allows us to partner with human productivity by owning companies. This ownership can create wealth for shareholders by organizing people and natural resources in a way that enhances human productivity. Over the short- and intermediate-term, however, stocks are so volatile that they typically pose a significant risk to achieving desired return goals.

Therefore, investors should consider how much money they need to meet short- and intermediate-term goals; any remaining money is generally suitable for investing in stocks. If an investor can view stocks as long-term assets, reserved for money that isn't needed for at least 10 years, the investment case for stocks becomes clearer. This is because valuations, which can fluctuate wildly in the short-term, have less influence on stock returns over longer periods; and growth, which is more dependable, has greater influence, enabling investors to look past short-term uncertainty. Instead of solely focusing on valuations or short-term uncertainties, like how quickly the economy will reopen or whether there will be a second wave of coronavirus cases, we consider current valuations against likely long-term growth and inflation scenarios.

As it relates to our portfolios, currently, stock valuations (even with the sharp market rally) suggest that global stocks can be expected to have higher returns across most long-term scenarios than less volatile investments like U.S. government or investment-grade corporate bonds. Of course, as new information affects growth and inflation expectations and as valuations change, we'll

continually look at ways to reallocate to what we believe to be the optimal asset allocation to increase the probability of meeting portfolio return goals.

---

**Trust and investment management accounts and services offered by Ronald Blue Trust, a division of Thrivent Trust Company, are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, nor guaranteed by Thrivent Trust Company or its affiliates, and are subject to investment risk, including possible loss of the principal amount invested.**

This commentary is provided for informational purposes only and should not be considered individual investment advice. Certain sections of this commentary may contain forward-looking statements that are based on our reasonable expectations, estimates, projections and assumptions. Ronald Blue Trust does not guarantee any minimum level of investment performance or the success of any portfolio or investment strategy. All investment involves risk. Past performance does not guarantee future results. Diversification does not guarantee investment returns and does not eliminate loss.

10451971-06-20