

Market Commentary

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With So Much Uncertainty, Why Are Markets Positive?

The COVID-19 pandemic has dominated the headlines for quite some time; however, recent tensions have begun to capture their share of the news cycle. First, China took another step toward exercising sovereignty over Hong Kong by approving a resolution that would allow mainland security forces to freely operate within the region. This action was viewed largely as a tactic to quell the anti-Beijing protests that have been going on for more than a year now. Unsurprisingly, this move further outraged protestors who once again took to the streets in droves. It also caught the attention of the U.S. State Department, who responded by declaring that it no longer considers Hong Kong to be significantly autonomous from China. This development could impact Hong Kong's special trading status with the U.S. as well as overall trade discussions with China.

In the U.S., unrest began to grow over the last weekend of May as thousands across the country came out to protest the death of George Floyd. These demonstrations have caught the attention of the globe and even led to demonstrations overseas.

With so much distress piled on top of an already difficult pandemic, it may be surprising to some that markets have continued their positive trajectory, with stocks up strongly both last week and this week, so far.

Historically, unrest and geopolitical tensions are a recipe for short-term volatility; why hasn't this been the case now? While it's difficult to say for sure, we would speculate that the markets continue to focus primarily on developments related to COVID-19 and the related economic shutdown. The latest news on that front seems to be mostly positive, with the virus growth rate appearing to slow and more of the U.S. economy

beginning to reopen. While we have a long way to go before the virus and economic pain are behind us, the market seems to be looking forward to greener pastures.

One caveat: While U.S. equities are positive so far this week, the rest of the world is up even more. This could be an indicator that these non-COVID-related events are having some impact on U.S. markets, just not enough to overwhelm them. Even if the market is discounting these events in the short run, we still believe they are important developments with long-term implications. Our Principle of Human Productivity places a high intrinsic value on all human life. While no country is perfect, we believe that countries and leaders who prioritize respecting and protecting their citizens will have an economic advantage over time.

These recent issues, and many like them, are complex and will not be resolved overnight. We live in a fallen world and must expect uncertainty, instability, and difficult environments to impact our portfolio and our everyday lives. It is important not to view these challenges as a reason to be fearful or not to invest. Instead, we should recognize that while the future is uncertain, both markets and people have historically shown a great deal of resilience.

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