BRENTON POINT
WEALTH ADVISORS

August 14, 2020

Investing Environment Review and Outlook – Volume 39

Although the tragic COVID-19 pandemic still dominates most of our lives, the bullish Goldilocks economic conditions we discussed in July have been corroborated by subsequent reports like the higher ISM manufacturing index and lower unemployment rate, which support our optimistic view. Although the one of a kind pandemic recession still adds uncertainty to any forecast, our positive economic outlook indicators, evidence of moderate growth, record high savings accounts, and a continued loose Federal Reserve give us conviction that the economic recovery and bull market will continue. Our equity, commodities and gold ratings remain bullish 5's while long-term bonds remain a cautious 1. This month we discuss the implications of the extreme gold rally, the dollar decline and presidential election years.

Extreme Gold Move: Positive for Stocks/Risk for Gold Volatility

Long-term indicators remain positive for gold, which rallied more than 32% in less than 5 months, to $2076, a new all-time high. Economic indicators for gold are positive with negative real interest rates, combined with an extremely loose Federal Reserve boosting the money supply by over 25%. Historically gold returns were positive in August and September, averaging 3.2% return since 2000 (19.3% annualized). However, the sharp run up is reason for caution in the short term. Gold is 26% above its 200-day average, the 98th percentile of readings since 1975. In the 11 prior cases since 1975, the next 10% move in gold was down in 9 of those. Two months out the average return was -5%, with 9 of the 11 cases lower. On average, prior cases consolidated for 1-2 months, which is a reasonable expectation even with all the positive factors. 1979 was a huge outlier when gold rallied to 2x the 200-day average. Today that would be another 60% rally to $3,300. Inflation then was 10% on the way to 14.7% by 1980, so conditions were different. Despite the higher odds for near term volatility, we are maintaining our bullish 5 rating on gold, since the gold bull market should continue until the Fed shifts policy and hikes rates as Volcker did in 1979.

BRENTON POINT
WEALTH ADVISORS

August 14, 2020

Chart 1: Gold Rallies: Consolidation Ahead: 1975 - 2020

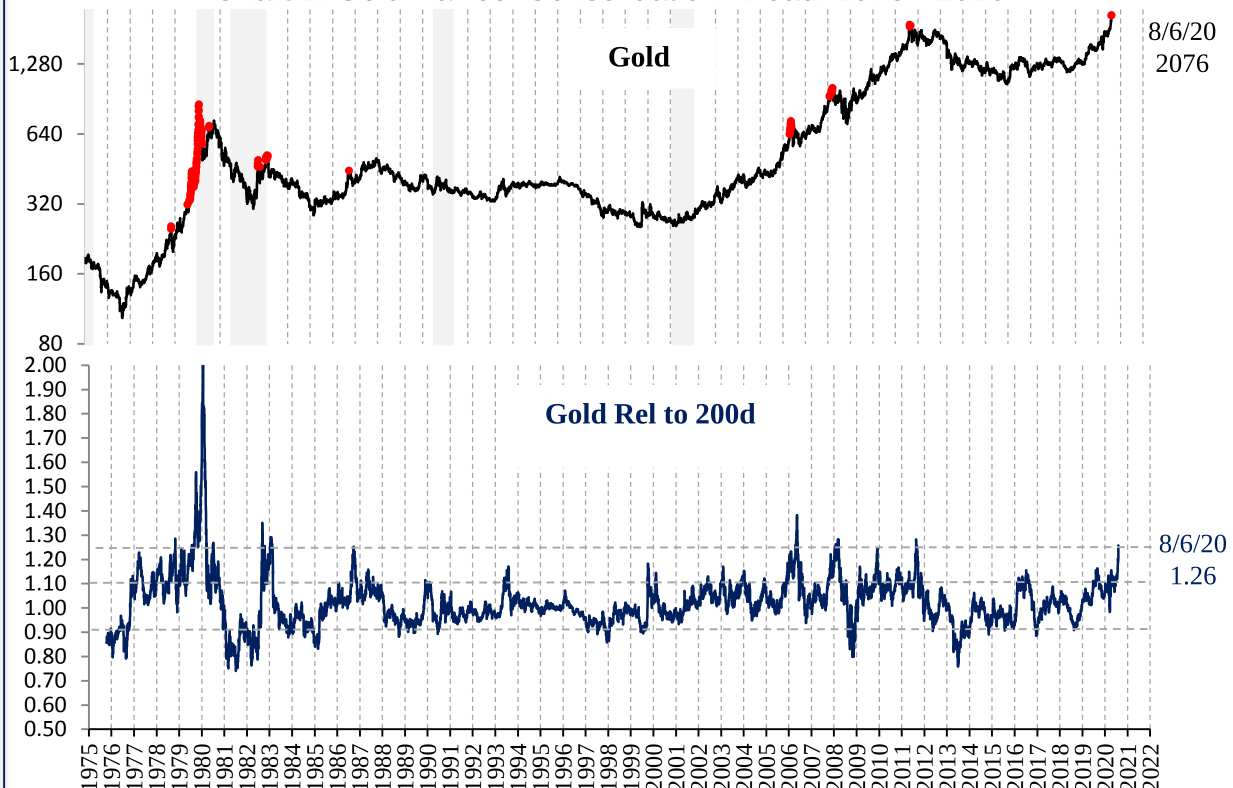
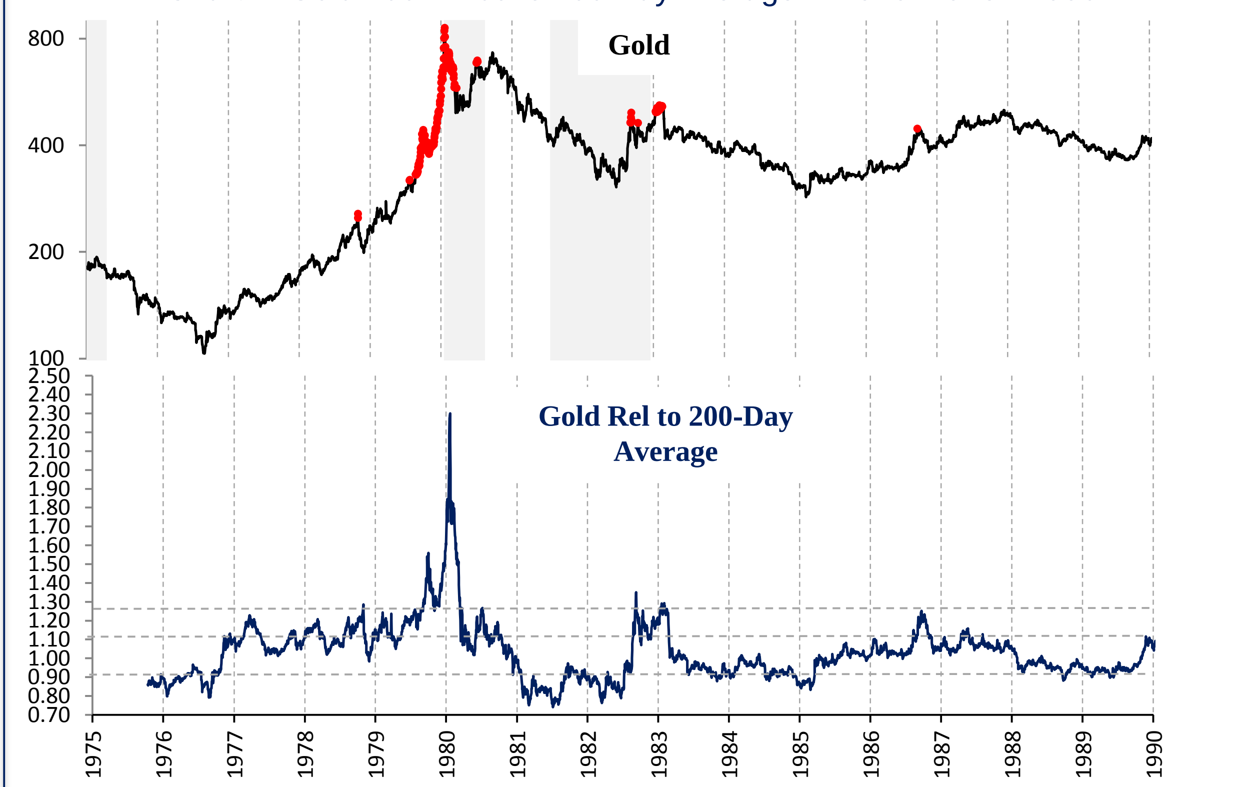


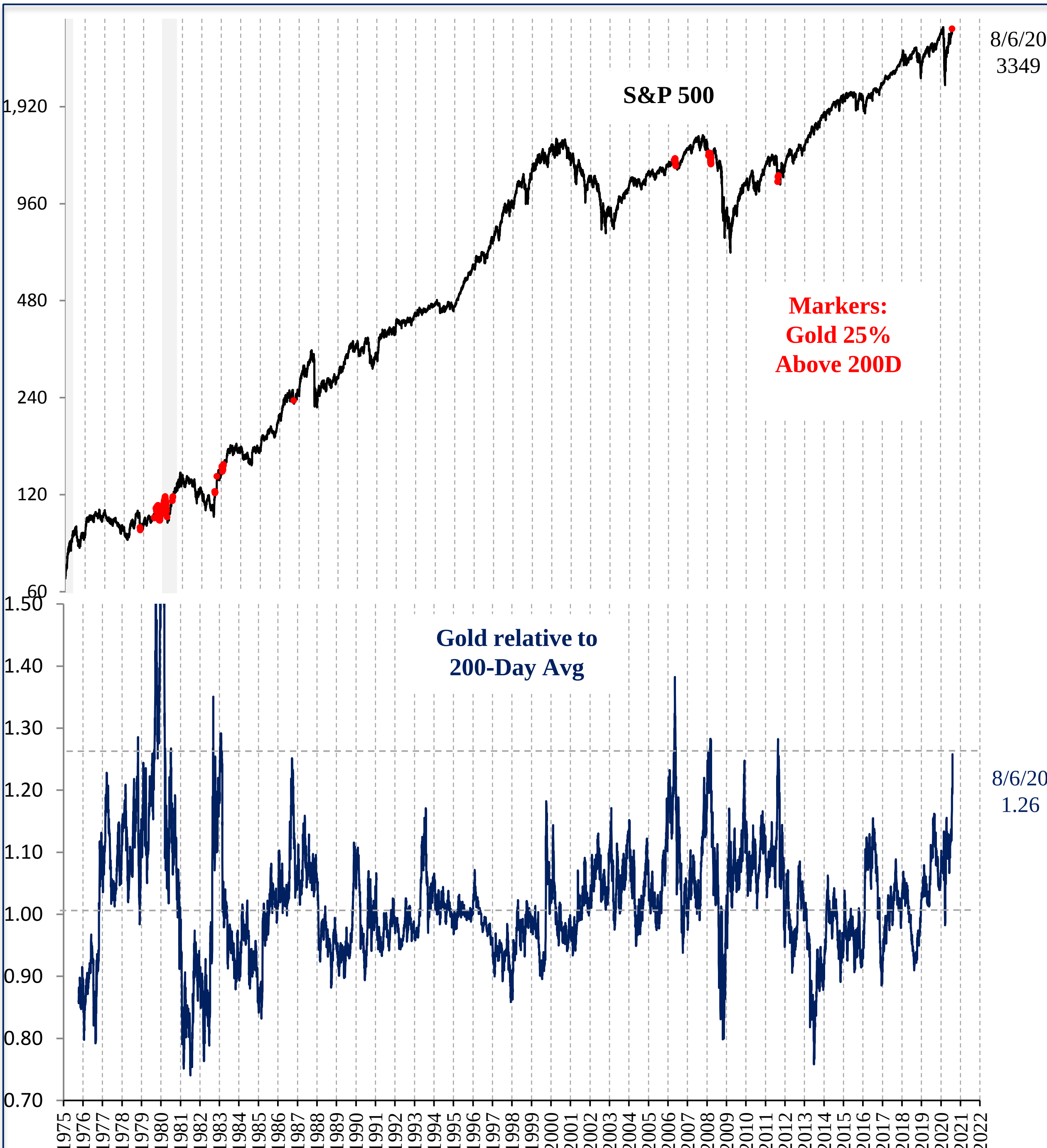
Chart 2: Gold 100% Above 200 Day Average in 1979: 1975 - 1990



August 14, 2020

Although the extreme gold move is cautionary for gold returns, these same signals were positive for equities. The next 10% move in the S&P 500 was higher in 10 of the 11 cases, and the average return 3 months out was 7.4%, 30% annualized, or 3x the norm. It likely signals that liquidity is strong and the Fed is loose, some of the best conditions for equities.

Chart 3: Gold Rallies: Positive for S&P 500 : 1975 - 2020

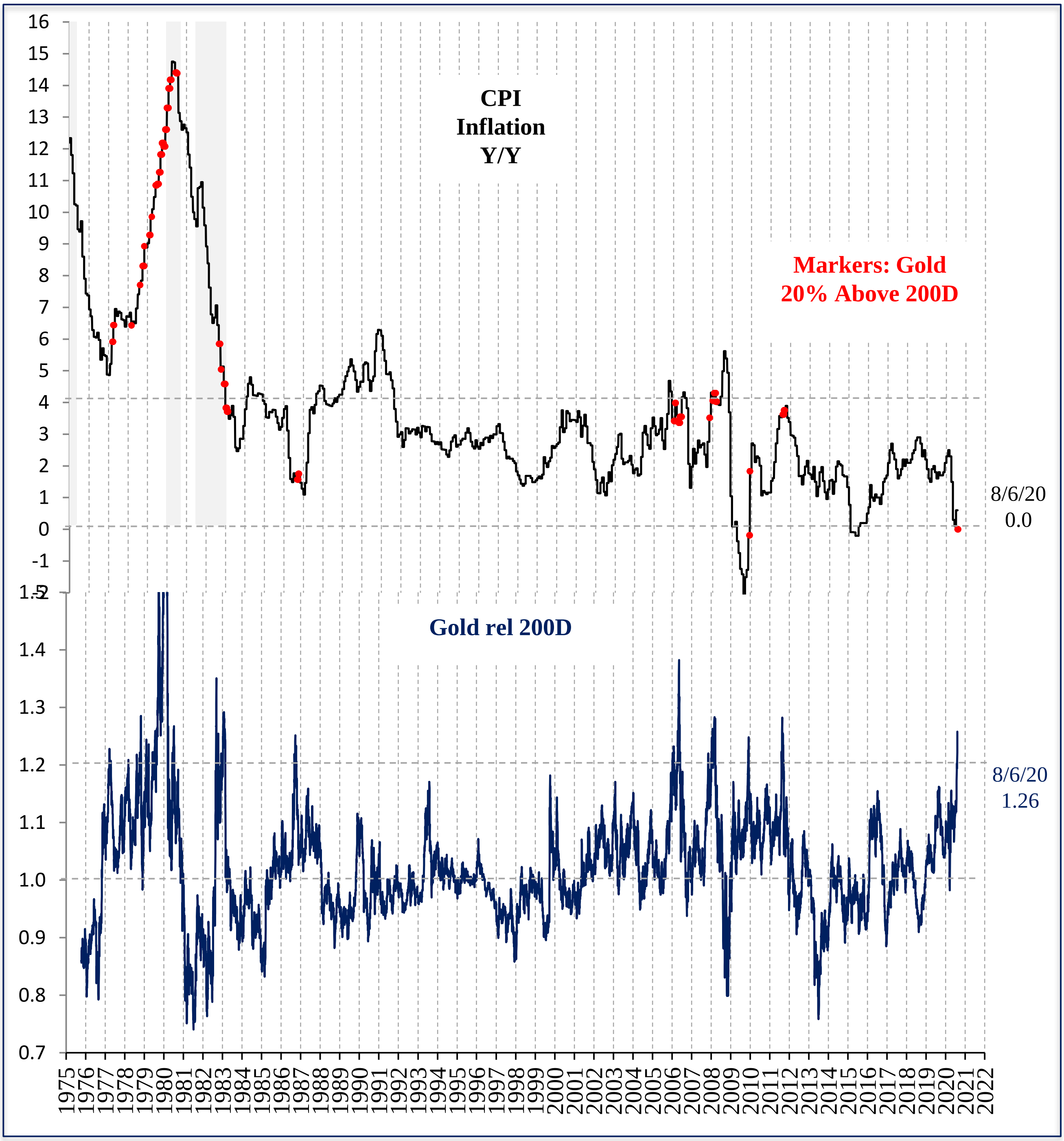


BRENTON POINT
WEALTH ADVISORS

August 14, 2020

Gold rallies like this were NOT predictive for inflation as many investors assume. Many remember the 1979-80 gold and inflation run-up, but since then there have been 6 gold rallies that were not followed by any sustained inflation. We are watching our inflation outlook model closely, but it remains neutral. Generally inflation is a lagging indicator following strong economic activity, so it is more likely to follow sustained economic strength and higher consumer confidence later in the cycle.

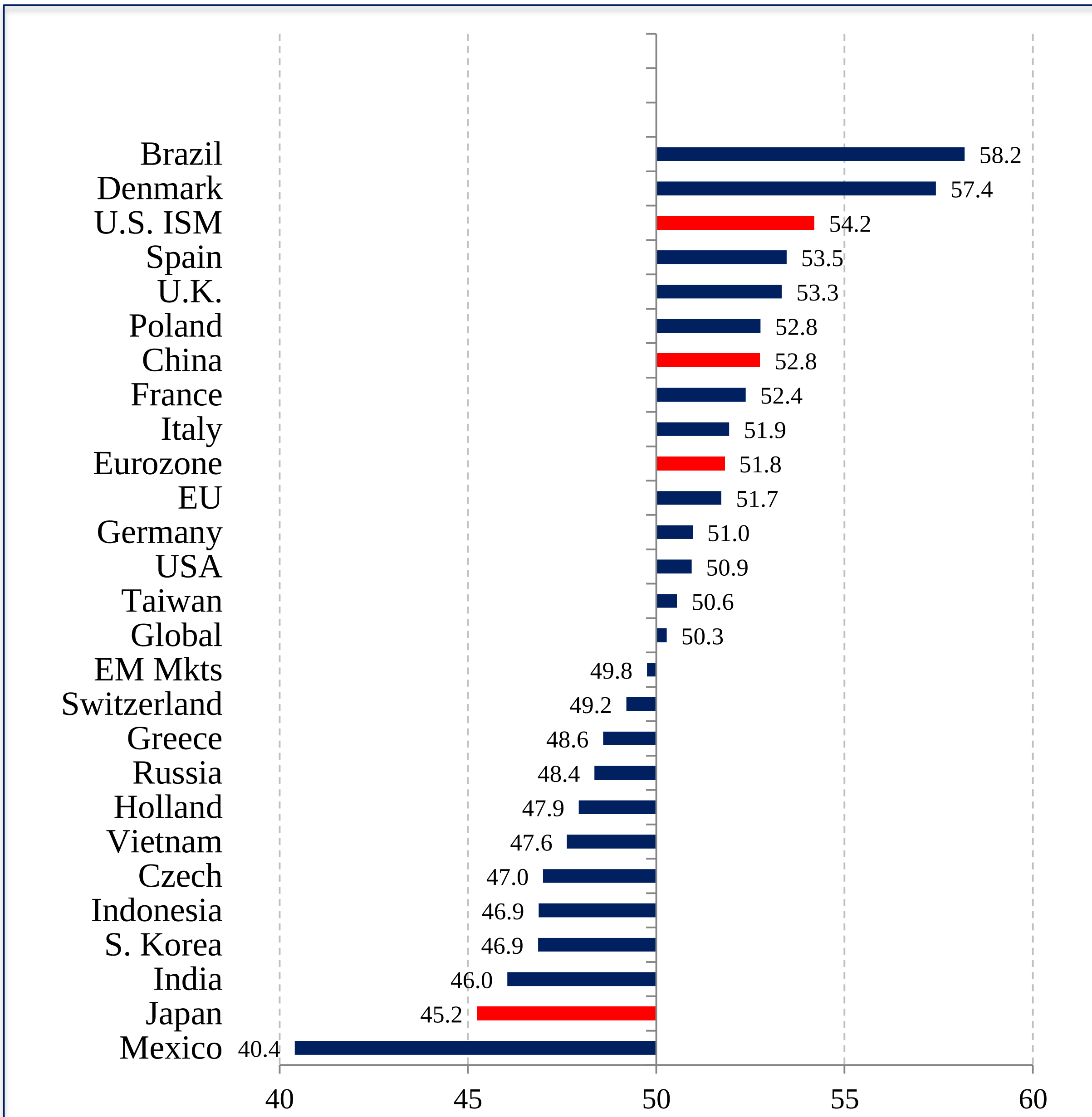
Chart 4: Gold Rallies: Mixed as Inflation Predictor : 1975 - 2020



Foreign Economies: Synchronized Global Rebound

In each of the last 3 months, 87%, 93% and 85% of foreign country Purchasing Managers Indices have been higher, the strongest synchronized move since 2009. These are the best coincident economic indicators for any country since they are released without a time lag and are not revised. It means this is not just a U.S. rebound, but the strongest world economic turn since 2009. Typically investors are too focused on domestic issues like politics that produce the most headlines, but the context of a much wider global economic rebound is critical in weighing the importance of other issues.

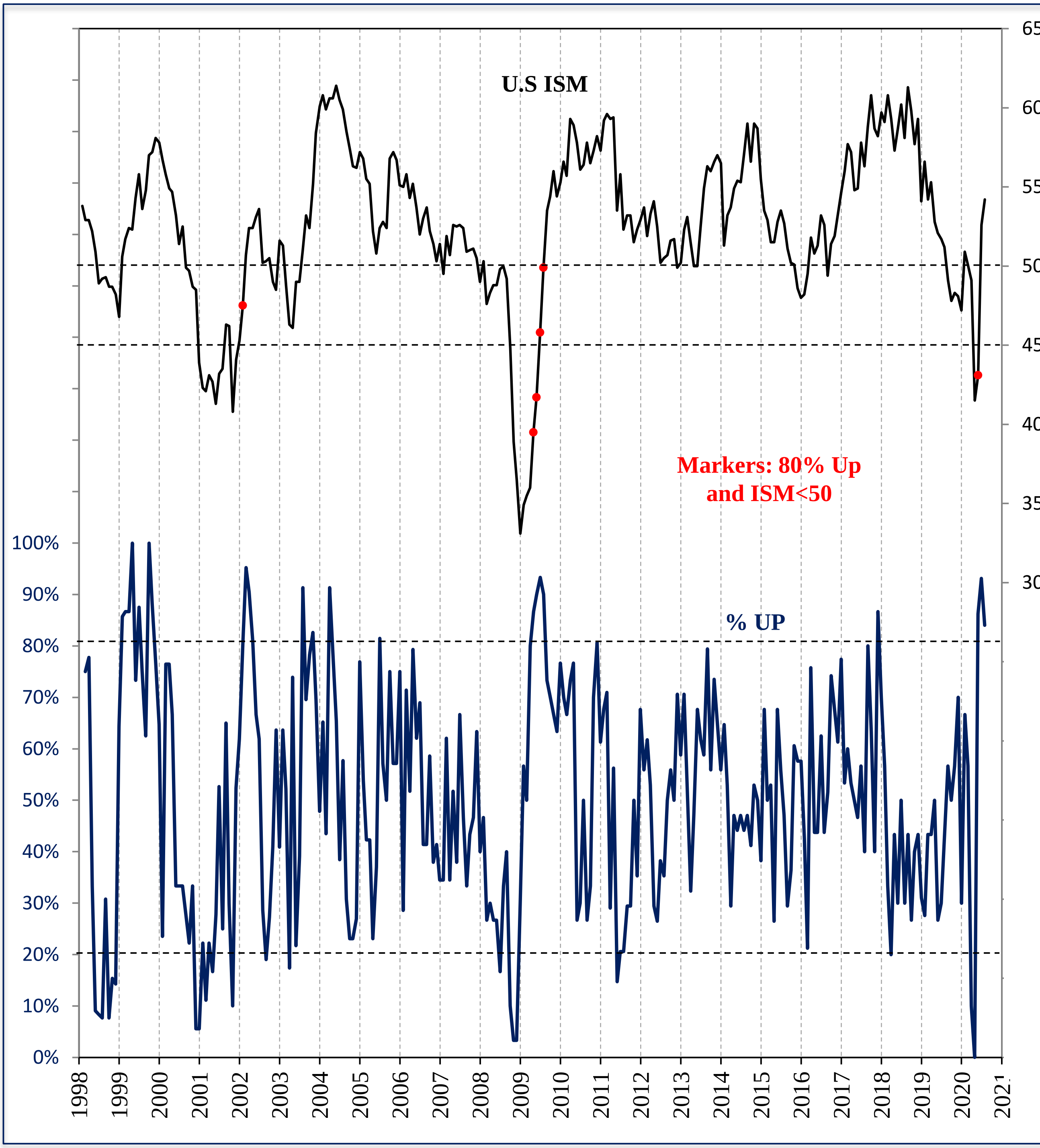
Chart 5: Foreign Market PMI's Level: July 2020



BRENTON POINT WEALTH ADVISORS

August 14, 2020

Chart 6: 85% of Country PMI M/M UP: Positive for U.S. Economy



BRENTON POINT
WEALTH ADVISORS

August 14, 2020

Presidential Election Years: Mixed Returns in September and October

According to an ISI survey, the election is the top concern for investors, moving ahead of the COVID-19 pandemic for the first time this week. In prior presidential election years since 1950, September and October returns combined averaged -0.3%, weaker than the 1.3% return in all other years. The weakness is possibly due to heightened rhetoric adding perceived investment uncertainty as the election draws closer. However, after the election, November and December returns were strong despite a wide combination of outcomes, showing that political risks are probably lower than investors anticipate. November and December returns combined averaged 3.2% which is 19.2% annualized. This is slightly weaker than all other years at 3.8% but in election years 88% were higher, better than the 79% for all other years. The only two down election years for November and December combined were 2000 and 2008, and politics was not the issue for either one.

S&P 500 Returns in YEAR 4 of Presidential Cycle
Mixed in Sep/Oct, Bullish in Nov/Dec

Ending	Current President	P	Winner	P	Pres. W/L	Party W/L	S&P 500 Perf *Before Election	S&P 500 Perf *After Election
1952	Truman	D	Eisenhower	R		L	-1.0%	9.4%
1956	Eisenhower	R	Eisenhower	R	W	W	-3.4%	3.1%
1960	Eisenhower	R	JFK	D		L	-5.7%	9.5%
1964	Johnson	D	Johnson	D	W	W	4.2%	0.4%
1968	Johnson	D	Nixon	R		L	5.1%	0.9%
1972	Nixon	R	Ford	R		W	0.9%	6.3%
1976	Ford	R	Carter	D		L	0.6%	5.2%
1980	Carter	D	Reagan	R	L	L	5.4%	7.0%
1984	Reagan	R	Reagan	R	W	W	0.4%	1.5%
1988	Reagan	R	Bush	R		W	7.2%	0.3%
1992	Bush	R	Clinton	D	L	L	1.5%	4.7%
1996	Clinton	D	Clinton	D	W	W	8.5%	5.4%
2000	Clinton	D	Bush	R		L	-5.7%	-7.4%
2004	Bush	R	Bush	R	W	W	2.6%	7.6%
2008	Bush	R	Obama	D		L	-24.2%	-6.2%
2012	Obama	D	Obama	D	W	W	0.7%	1.5%
2016	Obama	D	Trump	R		L	-1.8%	5.8%
2020	Trump	R						

		Before	After
1950 - 2020	Average	-0.3%	3.2%
	Median	0.7%	4.7%
	% Up	65%	88%
All Other Years	Average	1.3%	3.8%
	Median	1.8%	4.2%
	% Up	64%	79%

Incumbent wins

Incumbent loses

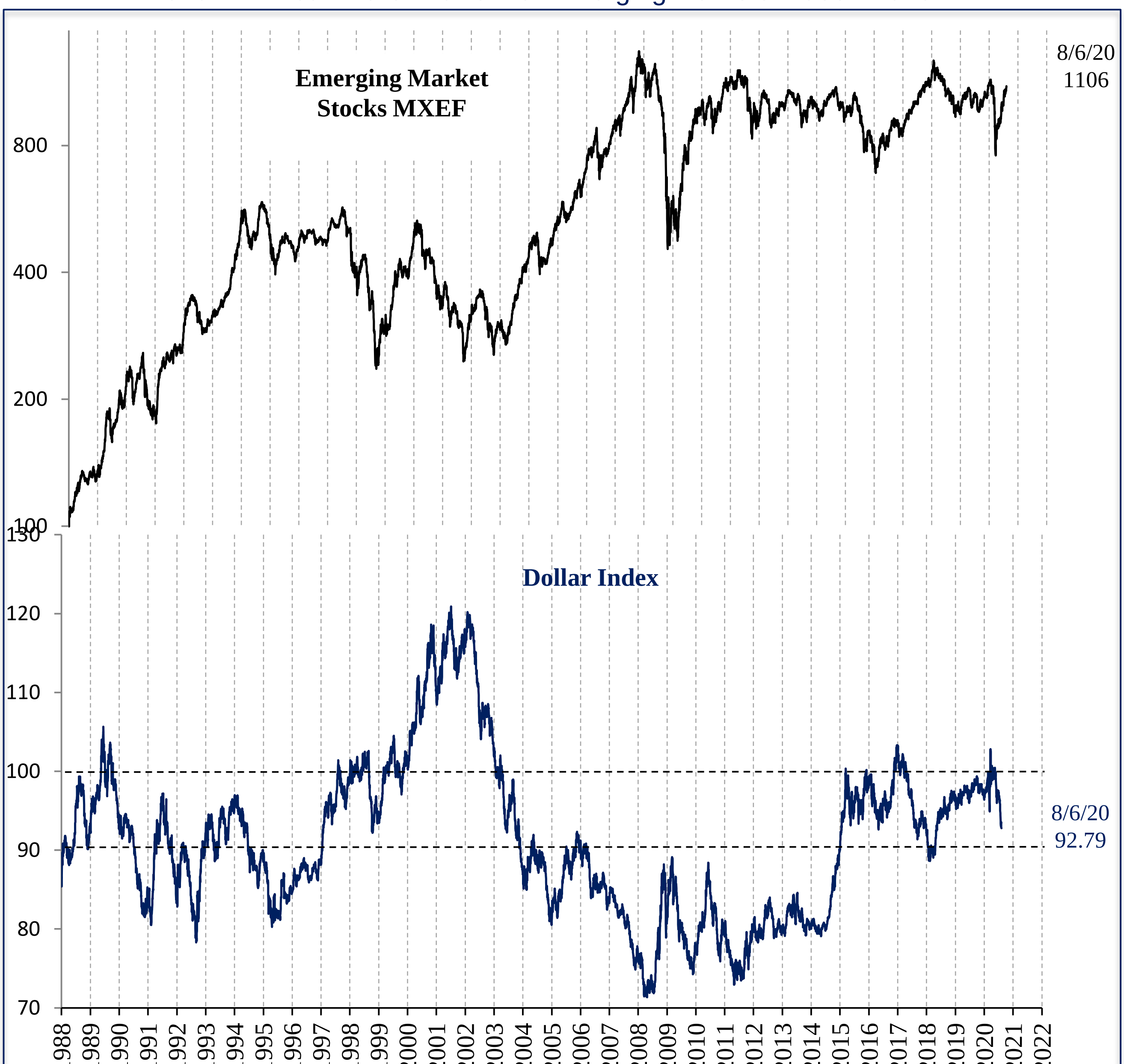
*Before/After Election = 2 months Before/2 months After

August 14, 2020

Weak Dollar: Bullish for S&P 500 and Emerging Markets

The Dollar Index is down 10% from the March peak. The falling dollar is a small net positive for the S&P 500 with 14.9% return when the dollar is falling vs. norm of 11.6%. The dollar trend is more significant for emerging markets equities which returned 18.0% when the dollar was trending down vs. -1.3% when the dollar was trending up. This dollar decline could be the catalyst for emerging markets to move out of their sideways range since 2007. Valuations remain at a discount to the U.S. and investors' positioning is low, providing more upside potential as allocations are increased.

Chart 7: Weak Dollar Bullish for Emerging Markets: 1988 - 2020

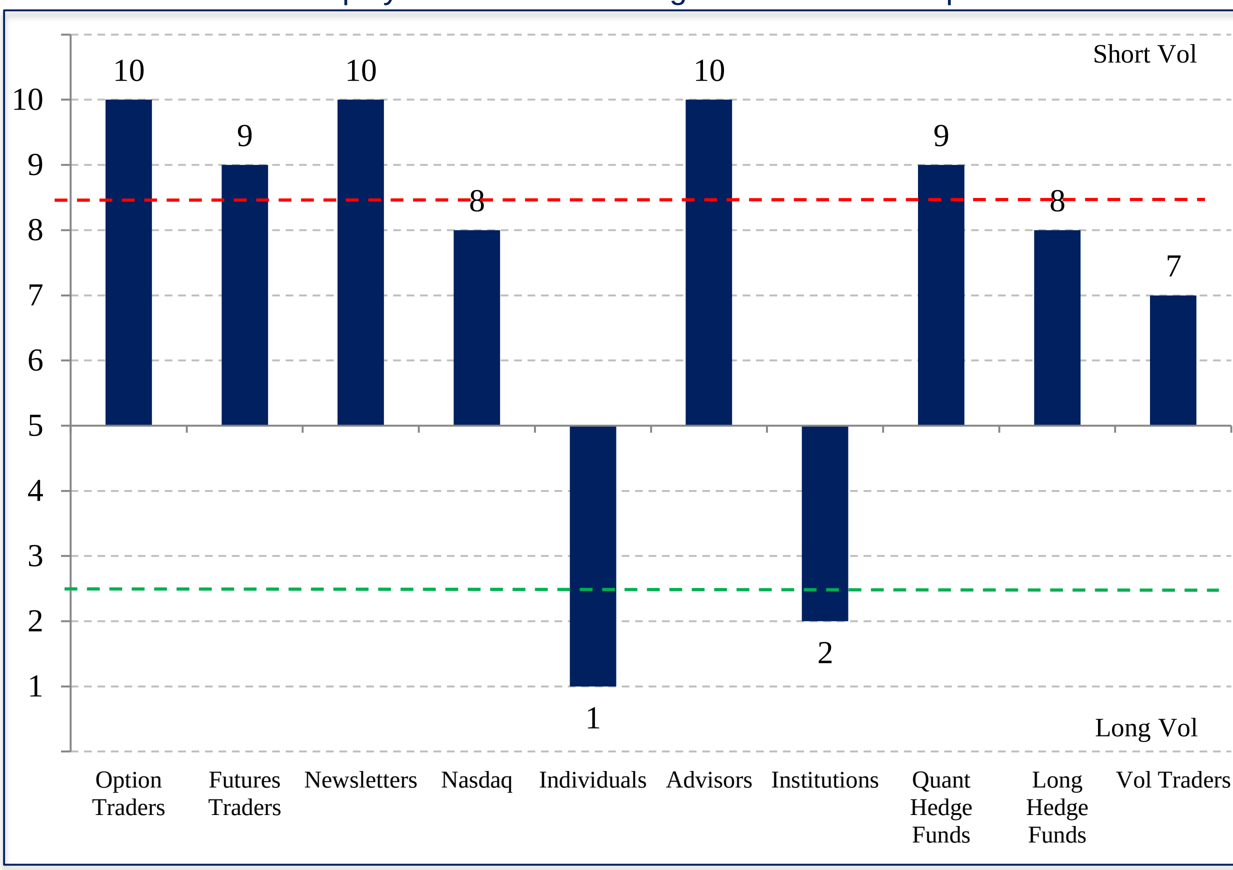


August 14, 2020

Investor Positioning: Long but not Extreme

U.S. equity investor positioning remains long but not yet extreme. Option traders, newsletters and advisors remain the most bullish while individuals and institutions are the most negative on the market, and likely have the lowest net exposure. For now, positioning is not a relevant factor in our positive equity outlook.

Chart 8: Equity Investor Positioning is Mixed: 10 Groups



Summary

Despite the COVID-19 pandemic, recent data points confirm the 2020 recovery continues, with bullish conditions for equities, commodities and gold. Although gold may see a period of consolidation after this extreme move to the upside, the next big move is likely higher, at least until the Federal Reserve tightens monetary policy. Similarly, for U.S. equities, presidential campaign rhetoric will likely dampen enthusiasm for equities in the coming months, but that process should set up the next leg higher. As always, we will continue testing assumptions and monitoring our indicators closely for changes. Thank you for your support and please contact your advisor with any questions.

Michael Schaus
Director of Market Research