BRENTON POINT
WEALTH ADVISORS

September 11, 2020

Investing Environment Review and Outlook – Volume 40

Our equity ratings remain a bullish 5 this month despite the media headlines on political risk, the COVID pandemic, and technology stock volatility. Recent economic releases confirm our optimistic outlook. For instance, the ISM manufacturing index and the unemployment rate both improved in August, surprising economists to the upside. This signaled that the U.S. economy has seemingly moved out of the recession recovery stage to the middle, more stable stage of the economic cycle. The ISM manufacturing index is the best coincident economic indicator, and at 56.0, the Index reached the 76th percentile of readings since 1990--well past the initial stages of the recovery.

ISM Index over 55: Bullish for Equities

There were 13 prior cases since 1950 when the ISM manufacturing index crossed up over 55, and11 of those readings marked the end of their respective recessions. It is a further indication the recession ended during the 2nd quarter. More importantly for investors, the subsequent returns for the S&P 500 were strong. With all but one prior case, the S&P 500 was higher 3 months out, an average of 5.7% (2x the norm) and all cases were higher 6 months out, an average of 10.2% (also 2x the norm).

Chart 1: S&P 500 Returns after ISM Over 55

Cases	Date	Later 3M	Later 6M	Next 10%
1	01/31/50	9.33	9.28	UP
2	08/29/52	4.03	6.45	UP
3	10/29/54	15.47	22.39	UP
4	08/29/58	10.85	17.98	UP
5	04/28/61	2.89	6.17	UP
6	12/29/67	-5.73	4.89	UP
7	09/30/71	4.67	10.73	UP
8	10/31/75	14.43	16.40	UP
9	10/31/80	2.48	6.29	UP
10	05/31/83	2.34	4.71	UP
11	05/29/92	0.60	5.13	UP
12	10/31/03	8.12	6.27	UP
13	10/30/09	4.16	15.66	UP
14	08/31/20	?	?	
	Average	**5.67**	**10.18**	
	Median	**4.16**	**6.45**	
	Prob Up	**92.31**	**100.00**	**100.00**
	Norm	**2.82**	**5.63**	

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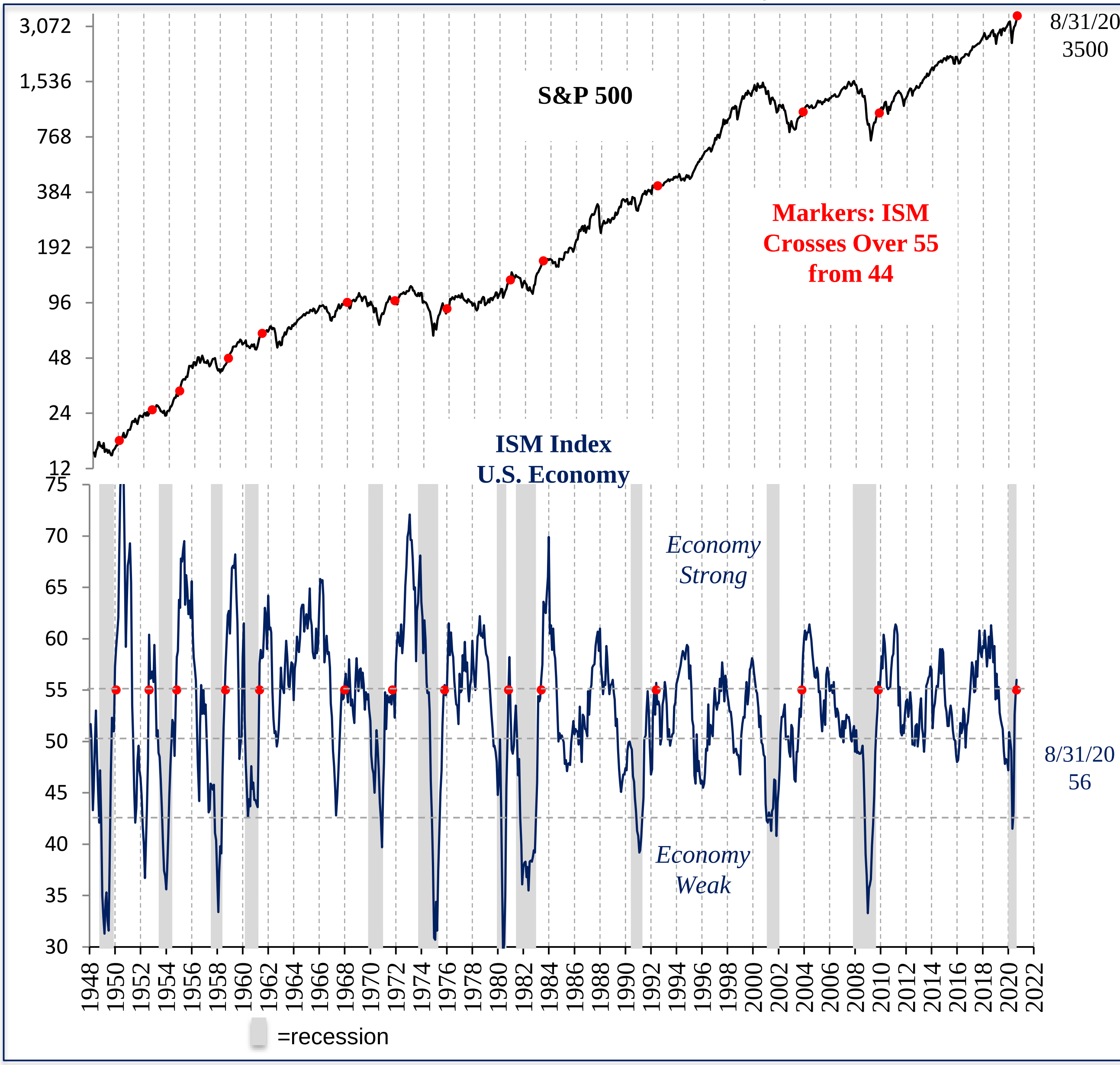
Chart 2: ISM Index at 56: Positive for Equities



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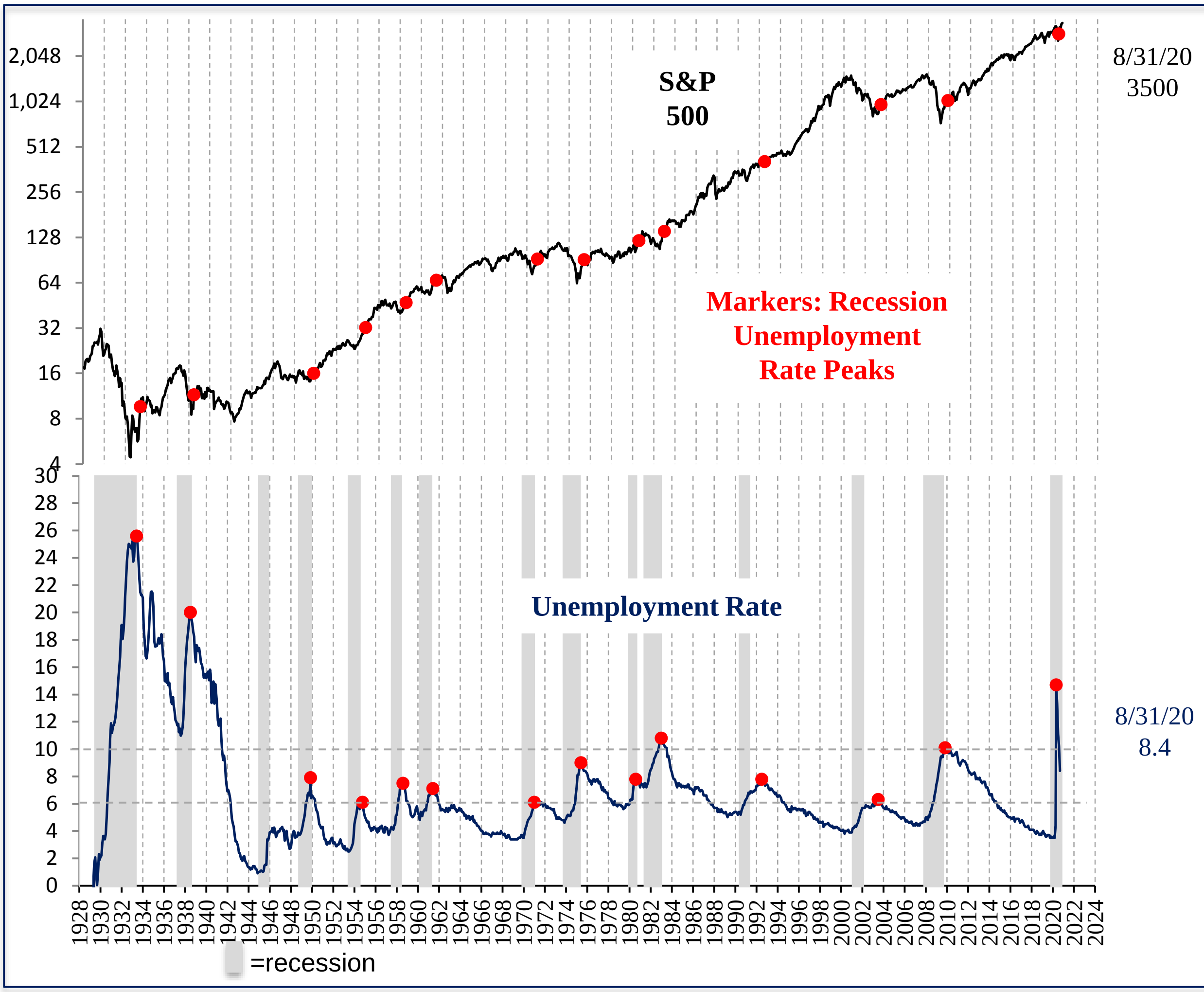
Unemployment Rate Peaked: Positive for Stocks

Similar to the ISM Index , the unemployment rate continues to improve. The most recent reading of 8.4% for August has now reversed over half the 11.2% rise into the April peak of 14.7%. Historically, this has been a positive indicator for stocks.

Chart 3: Recession Unemployment Rate Peaks: Bullish for Equities
8.4% in August vs. Peak of 14.7% in April



Typically, at this stage of the economic cycle, inflation would be reaching new highs and the Federal Reserve would be prepping markets for an initial interest rate hike. That is not the case this year, with CPI inflation at 1.0% (still 1/3 the 2018 peak), and the Federal Reserve holding interest rates at zero. Combined with $2.4 Trillion of asset purchases since March (12% of GDP) the Fed has created record liquidity. Fed Chair Powell's speech on inflation recently marked a policy shift, ending preemptive Fed tightening to stop inflation, in order to focus on growth instead. We don't use promises as indicators, but if true, it means a longer runway for the economic expansion and bull market.

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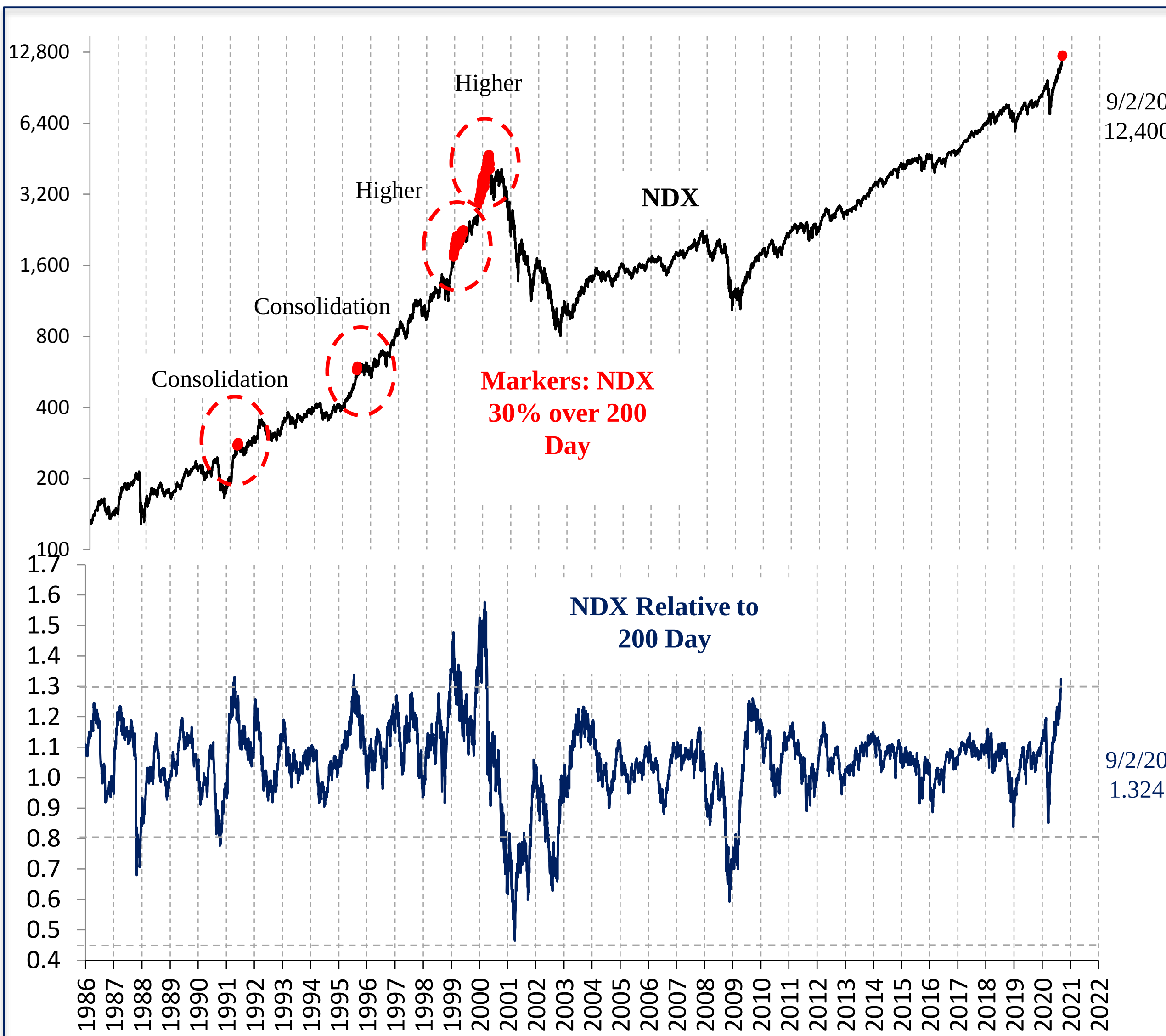
Nasdaq 100 Index: Trend Extreme

The Nasdaq 100 index (NDX) is a good proxy for technology stocks. The top 5 stocks (Apple, Amazon, Microsoft, Facebook, and Google) make up over 50% of the index. At the 9/2/20 peak, the index was up 42.2% YTD. It was also 32% above the 200-day average, a good way to compare this year's rally's size and acceleration compared to prior moves. For perspective, the 32% reading we saw at the 9/2 peak ranks in the 98th percentile of moves since the index started in 1985. It is certainly extreme, and to many it is a bearish sign. However, prior cases were mixed and typical of "overbought" markets. After 2 of the prior cases, in 1991 and 1995, the NDX entered a consolidation phase, similar to our gold research findings last month. However, after the two other cases, in 1999 and 2000, the NDX continued sharply higher, peaking over 50% above the 200-day average. A consolidation phase is probably most likely--a period which might frustrate both bulls and bears, but also set up for the next leg higher.

Chart 4: NDX 32% Over 200 Day: 98th Percentile: 1986 - 2020



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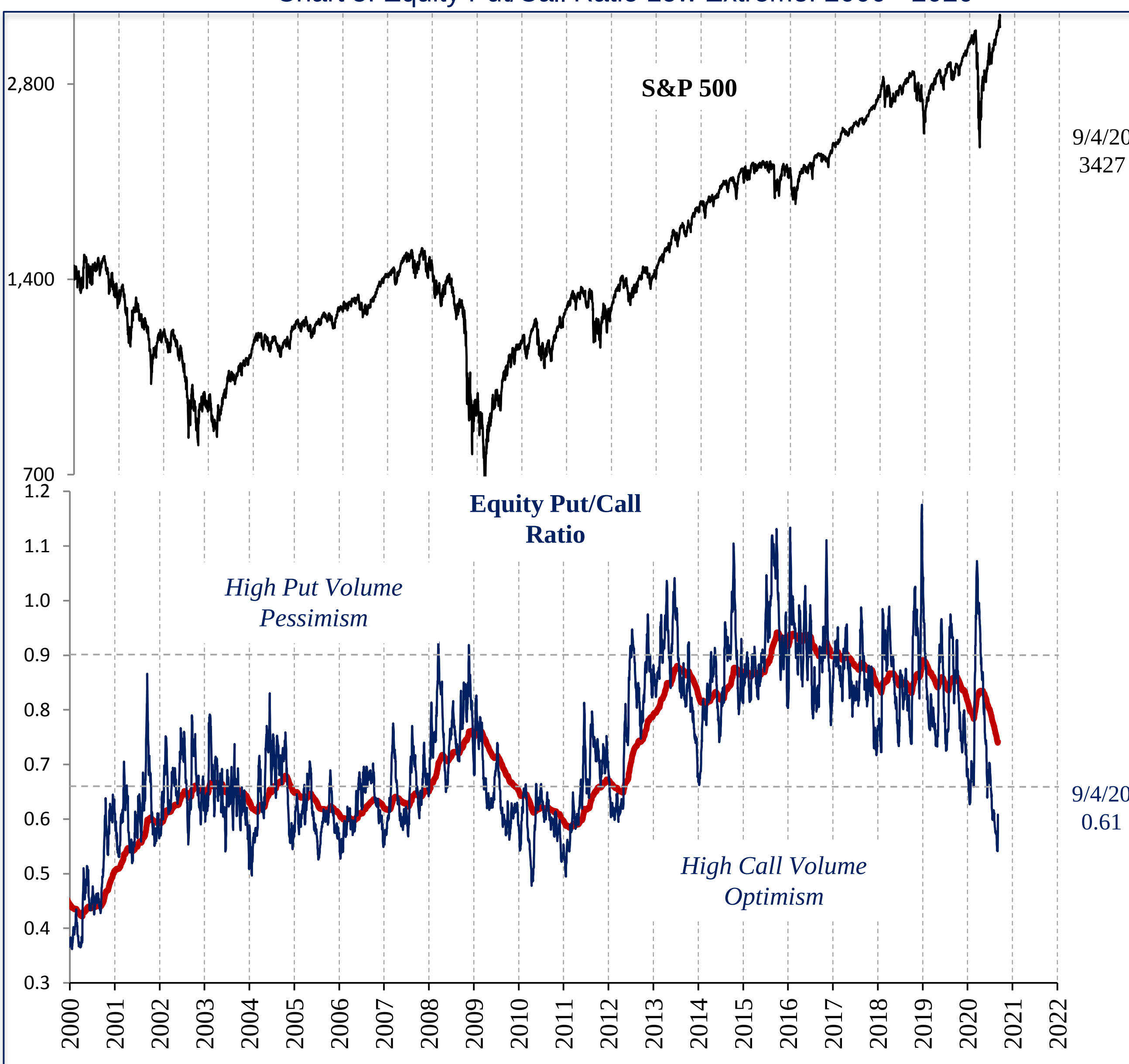
Investor Positioning Still Mixed; Options Extreme

There is a popular story about Softbank option buying contributing to the recent technology rally, and perhaps to the recent decline as well. The put/call ratio is the lowest in 8 years, showing that option traders as a group are certainly positioned long, since call volume is higher than put volume. Low readings in this ratio are negative for equities and are always reason for caution. However, "investor positioning as an indicator" is most meaningful when all investor groups are on one side of the market, long or short. For now, it is a mixed picture, since individuals and institutions have low equity exposure, which offsets others like options investors on the long side.

Chart 5: Equity Put/Call Ratio Low Extreme: 2000 - 2020



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Summary

The unexpectedly strong economy combined with a committed loose Federal Reserve is a potent combination, supporting our bullish 5 ranking for U.S. equities. Although investors are most concerned with economic weakness, the COVID-19 pandemic, and politics, further economic strength will be a bigger risk for equities at some point. That will bring higher confidence and eventually inflation, higher interest rates, and a reversal in Fed Policy. Until then, 6-10% declines should be expected, even in the best of conditions. Other asset rankings were unchanged this month, with bullish 5's for foreign developed and emerging market equites, commodities and gold. Long-term bonds are still a cautious 1 ranking due to the risk that longer-term rates will move higher. We will continue monitoring all our indicators as conditions change. Thank you for your support and please contact your advisor with any questions.

Michael Schaus
Director of Market Research