

Show Us Your Cards

This week we will start to see the companies reporting second quarter earnings show us their cards. Due to uncertain outlooks at the height of the COVID back in April, more than 180 companies in the S&P 500 Index declined to provide earnings guidance, so we may have a wider range of outcomes than are normally seen. The thirty-two companies reporting earnings this week may likely set the stage for the market over the next few weeks. Overall, S&P 500 earnings for the second quarter are forecast to decline 44.0% on a 11.5% revenue decline. This is coincident with U.S. second quarter GDP currently forecast to be down 34.8%.

Monitoring weekly and monthly economic data, there are multiple data points indicating that economic conditions have improved over the past few months. We will be looking for corroborating evidence in the earnings reports that the second quarter is the trough in the economy and that companies have adapted to business moving forward. Barring another COVID-like event, we should see incremental growth in the second half of 2020 and above-average growth in 2021.

One of the weekly economic data points we have been reporting on is the change in employment as measured by initial unemployment claims. For the week of July 4th, initial claims decreased to 1.314 million versus 1.413 million the week prior. The four-week moving average decreased to 1.437 million. Continuing claims for June 27th were 18.062 versus 18.760 the week prior. The peak in weekly initial claims was 6.867 million for the week of March 28th and the peak in continuing claims was 22.790 million the week of May 9th. Several more months of sequential improvement in employment are necessary to return the U.S. economy to pre-COVID levels.

In our *Dissecting Headlines* section, we explain what consensus earnings estimates are and how they are used as a benchmark for quarterly earnings reports.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	1.8%	-1.4%	Aggregate Bond Index	0.4%	5.4%
Dow Jones Industrial Average	1.0%	-8.6%	U.S. Dollar Index	-0.7%	0.3%
NASDAQ 100	4.8%	24.1%	WTI Crude Oil	0.6%	-33.6%
Russell 2000 (Small Cap Index)	-0.6%	-14.7%	Gold	1.3%	18.5%
International Stocks (MSCI ex-US)	1.9%	-8.5%	Real Estate (US REIT Index)	-3.3%	-21.1%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Consensus Earnings Estimates

Part of investors' view if a company has had a good or bad quarterly earnings report is how the earnings compare to consensus estimates. Most major banks and brokerage firms have research analysts that publish their estimates for companies in different industries. These estimates are collected by market data providers and consensus estimates are published. These are the benchmarks that news services use in their headlines to compare a company's reported earnings to what was expected.

For large companies there are 25 or more analysts contributing to the consensus estimate, so the consensus number is a reasonable view of what a large group of analysts think. For smaller companies, there may be only one or two analysts, so the consensus may be an average of two disparate views.

The consensus estimates for all the stocks in the S&P 500 Index are rolled up into expectations for the Index that we mentioned at the top of this report with second quarter S&P 500 earnings forecast to decline 44.0% on an 11.5% revenue decline.

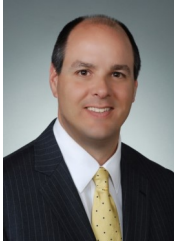
As you watch companies report their earnings over the coming weeks, the stock price reaction is likely going to be based on current quarter performance versus consensus expectations and the company's forward outlook against the consensus.

The NovaPoint Capital Team



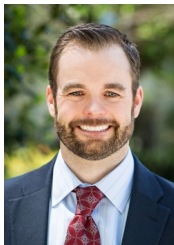
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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Jeff has 10 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Christina has 25 year of accounting experience. She earned her CPA license in 1998 while working as a Senior Accountant for Bennett Thrasher PC. She has also worked in accounting roles in the financial services, public relations, and manufacturing industries. She earned her BS in Accounting at Miami University in Oxford, Ohio magna cum laude. She is a member of the American Institute of Certified Public Accountants (AICPA) and a member of the Georgia Society of CPAs.

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