

Heavy Lifting

Positive economic data continues to provide an optimistic catalyst to the stock market. The June ISM Manufacturing Index moved back up to 52.6 indicating economic expansion. The June employment report showed nonfarm payrolls of 4.8 million which were well ahead of expectations and built on the 2.7 million jobs created in May. The unemployment rate dropped to 11.1% from 13.3% the month prior and April’s peak of 14.7%. Despite these tangible advances in economic activity, we remain well below the levels the economy was operating at pre-COVID.

This is our last quiet week before the second quarter earnings reporting season kicks off next week. S&P 500 earnings for the second quarter are forecasted to decline 43.1% on a 11.7% revenue decline. This is coincident with U.S. second quarter GDP currently forecast to be down 34.8%. 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.

The news on the June employment report pushed the weekly unemployment claims data into the background last week as they were both reported Thursday. Initial unemployment claims for the week of June 27th decreased to 1.427 million versus 1.482 million the week prior. The four-week moving average decreased to 1.504 million. Continuing Claims for June 20th were 19.290 versus 19.231 the week prior. Several more months of sequential improvement in employment are necessary to return the U.S. economy to pre-COVID levels.

Financial Market Update

	Weekly Return	YTD Return		Weekly Return	YTD Return
S&P 500 Index	2.7%	-3.1%	Aggregate Bond Index	0.1%	5.2%
Dow Jones Industrial Average	3.3%	-9.5%	U.S. Dollar Index	-0.1%	0.5%
NASDAQ 100	5.0%	18.4%	WTI Crude Oil	4.8%	-34.0%
Russell 2000 (Small Cap Index)	3.9%	-14.2%	Gold	0.2%	17.0%
International Stocks (MSCI ex-US)	2.7%	-10.2%	Real Estate (US REIT Index)	4.7%	-18.4%

Source: S&P Global, Thomson Reuters

Dissecting Headlines: Manufacturing versus Services

Last week we highlighted the reports from The Institute for Supply Management (ISM) that measure activity in the manufacturing and service sectors of the economy. While both are important elements of the economy, manufacturing (including exports) is approximately one-third of the economy, while services (“non-manufacturing” in the ISM Report) is approximately two-thirds.

The offshoring of manufacturing over the past few decades, growth in financial and healthcare services, and an overall shift to an intellectual capital economy has made services an increasing part of the economy. A modest contraction in manufacturing can be compensated by an expansion in services.

The overall size of the economic is measured by GDP (“Gross Domestic Product”) which, based on 2019 GDP, is 68% personal consumption, 18% government spending, 17% business investment, and negative 3% net exports. Within personal consumption, about two-thirds is services and one-third is products.

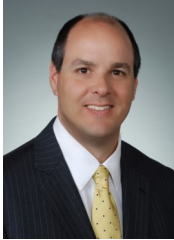
The June ISM Manufacturing Report improved to 52.6 from 43.1, indicating expansion. The Non-manufacturing Report is scheduled for release later this morning. Like the Manufacturing Index, it had been in decline (reading below 50.0) in April and May as the COVID-19 forced closure of much of the economy. Sustainable improvement in both key parts of the economy will be necessary to return to pre-COVID levels.

The NovaPoint Capital Team



Joseph Sroka, CFA, CMT / Chief Investment Officer / jsroka@novapointcapital.com

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.



Jeffery Wright, CFA / Managing Director & Portfolio Manager / jwright@novapointcapital.com

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).



Frederick Wright, CFA / Managing Director & Portfolio Manager / fwright@novapointcapital.com

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).



Christina McGeehen, CPA / Managing Director – Accounting & Tax Strategies / cmcgeehen@novapointcapital.com

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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