Portfolio Performance & Outlook 07/16/2020

The good economic outlook as well as actions by governments and central banks around the world help propel the stock markets in the 2nd quarter. The tech heavy NASDAQ led the way with returns over 30% and hitting all time new highs. The NAMCOA Monthly Needs™ Portfolio ended the 2nd Quarter, up 4.01%, 1653 basis points behind the S&P 500 which was up 20.54%. Year to date the portfolio is down –8.39%, 531 points behind the S&P 500 which is down –3.08%. The Russell 1000 Value ended the quarter up 14.3%, but still down -16.3% year to date. The Russell 2000 Small Cap index ended the quarter up 25.4%, but still down -13.0% year to date. This was despite all the news and anxiety in the second quarter as well. All on a total return basis.

The Economy

During the second quarter states started to open up. This gave a boost to the U.S. economy.
After dropping 20.5 million jobs at the end of April employment skyrocketed in May up 2.7 million and in June another 4.8 million. The JOLTS report a measure of job openings increased from 5.046 million in April to 5.397 million in May.

U.S. manufacturing measured by the ISM Manufacturing Index rebounded from 41.5 in April to 52.6 percent at the end of June. Above 50 means manufacturing is expanding. New orders jumped 24.6 in May from 31.8 to 56.4.

The ISM Non-Manufacturing Index, a gauge of the service industry, rebounded as well from 41.8 in April to 57.1 in June.
Again above 50 means an expansion.

Consumers are starting to feel more confident. Reflected in their spending as well. The Commerce Department reported retail sales excluding auto sales in April plummeted 15.2% but rebounded in May with sales up 12.4% followed up by an increase in June of 7.3%. These increases are from states opening up.

Consumers also have been paying down their revolving debt (credit cards) from 1078.1 trillion in March to 995.6 billion at the end of May.

The NAMCOA Monthly Needs™ Portfolio

Even though the portfolio underperformed its benchmark (the S&P 500). I remain bullish on the portfolio going forward. I base this on several current factors. Some I mentioned above, as well as the current financial strength of the consumer prior and during the coronavirus.
As I mentioned above during the months of March, April and May consumers have been paying down their revolving debt. As reported by the Federal Reserve.
Prior to the coronavirus, the personal savings in December was $1.28 trillion or 7.6% of disposable income. At the end of May, the personal savings was $4.2 trillion or 23.2% of disposable income. Both reported by the Bureau of Economic Analysis.
Financial institutions are also working with consumers who need to defer their mortgage and auto loans to help them through these times. This has kept 90-day non-accruals on credit cards, mortgages, and auto loans currently low compared to past economic times of turmoil. But financial institutions have been increasing their loan loss reserves as well for possible future loan defaults.

Transactions

During the quarter, the portfolio had multiple changes in the portfolio. In the Financial sector sector, we sold Visa and purchased American Express. The portfolio ended the quarter with 24 positions, one shy of our target of 25.

In June, we also rebalanced the portfolio which increased the total average shares by 34.67%. This reduced the money market fund from 42.69% at the end of the 1st quarter to 18.14%. These transactions helped increase the forward dividend yield to 2.64%. This is including Royal Dutch Shell cut its dividend by 65.96% from $3.76 to $1.28 during the quarter, as well as Wells Fargo on July 15th, 2020 cutting its dividend 80.39% from $2.04 to $0.41. The annual turnover ratio ended the quarter at 50.46%.

Going Forward

I continue to expect the portfolio to remain volatile from news reports on the coronavirus cases increasing, the slowing down or undoing of the re-opens in several of the largest populated states, the 2020 election, and the tension between the U.S. and China as well as tensions between China and India.