

KCM CLIENT NEWSLETTER

JULY 2020



The Return to a “New Normal”

These are certainly challenging times in which we live. Over the many decades we have been serving clients, it feels like we have seen everything. There have been wars, oil price spikes and crashes, mild recessions, deep recessions, computer-driven bear markets, and tech and real estate bubbles, but we have survived all these events, coming out better than the decline.

Given the significant amount of uncertainty that has kept the market pundits worried over the course of the past decade, such as Brexit, the Trump Presidency, healthcare reform, North Korea, Russia-gate, and trade wars, it took a virus to bring the global economy to its knees and end the historic bull market. Such is the case with a “black swan” event, where an unpredicted crisis comes out of nowhere. The swiftness of economic devastation, not to minimize lives lost to COVID-19, has been extensive. In the U.S. over 38 million workers lost their jobs because of the forced lockdown of businesses and stay at home edicts implemented by cities and states. The unemployment rate spiked from under 4% to near 15% in a matter of months, but has recently fallen to 11% as businesses reopen.

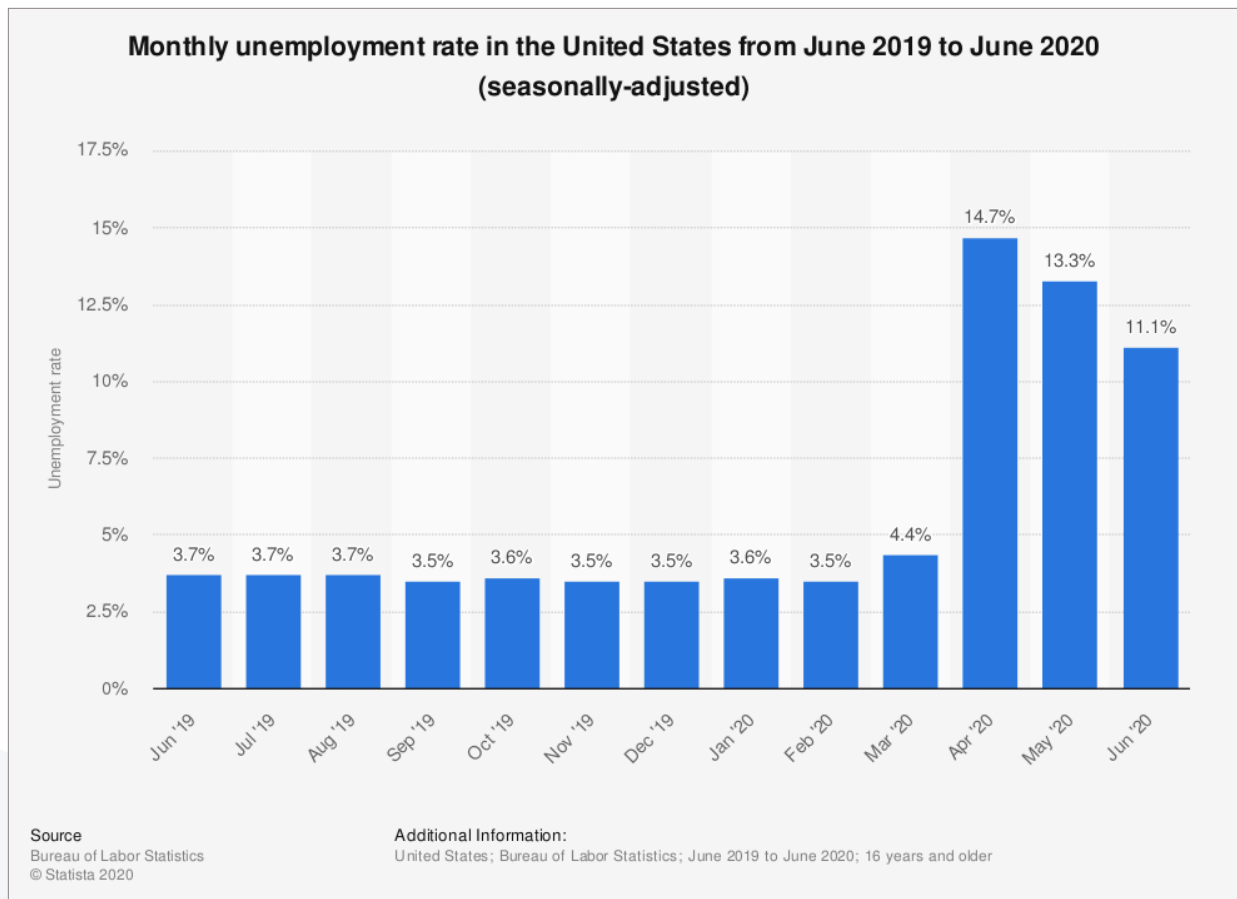
In response, the avalanche of grants, loans, and government stimulus provided to businesses and individuals, as well as massive bond purchases by the Federal Reserve, has been unprecedented. The world’s central banks are committing stimulus funds that far exceeds, by multiple times, what was done during the financial crisis of 2008/2009.



RMD RULES UPDATED ONCE AGAIN BY THE IRS

New rules were released by the IRS on June 23, including the waiver of all 2020 Required Minimum Distributions, for all account types.

Please see the back page of this newsletter for more details.



The tug of war between investors that foresee a v-shaped recovery and those that expect a slow and drawn out recession, produces the extreme volatility exhibited in the stock market. As cities and states began reopening, the market rallied.

However, a myriad of potential negatives exist including a sustained spike in coronavirus cases and hospitalizations, higher federal and state taxes needed to pay for debt accumulation, a fading of optimism for a coronavirus vaccine, uncertainty surrounding the Presidential election, and a potential “new normal” of lackluster spending by consumers. While the healthcare system is important to society, consumer spending is a critical engine of the global economy, providing more than two-thirds of U.S. Gross Domestic Product (GDP). Small businesses account for approximately half of U.S. employment, and it will take time to fully recover.

Significant industry changes are occurring and some businesses might be permanently displaced. Even with massive help from the government, it is uncertain if many small businesses will survive. However, this will cause many new entrepreneurs to start businesses, thinking this crisis is an opportunity.

While ecommerce has been taking market share from brick-and-mortar retail for years, the closing of “nonessential” businesses, which are primarily consumer discretionary retail stores, solidifies the major online retailers as the go-to source for shoppers. Video calls have become the new normal, and bandwidth demand will continue to increase, as a growing acceptance of remote working may become a reality. More regulations to keep employees safe in the workplace will be enacted at a time when companies seek to lower infrastructure costs.

The list of changes goes on. We are also anticipating that sporting events will come back soon, as most sports junkies, desperate for fresh content, like seeing history being made rather than reliving it in reruns.

Though there are so many uncertainties flowing through the market, these are truly exciting times to be an investor. At Kornitzer Capital Management (KCM), our core strategies are based upon identifying long-term trends that provide the “hunting areas” for companies that are the beneficiaries of those trends. We do this so our investments have a potential long-term tailwind pushing their business strategy regardless of the current economic conditions. For us, long-term trends are decades or more.

The changes adopted over the past several months, since “social distancing” has become the norm throughout the world, are hopefully a once-in-a-lifetime event. New “normal” social behaviors, that otherwise would have taken a generation to adopt are being widely accepted overnight. It will take more time to determine if this is indeed the “new normal” or not, but regardless, when one’s life or loved one’s life is in peril, inconveniences are more readily adopted.

As we learn more about the COVID-19 virus and how to treat, prevent, and attack it, society will return to normal. Black swan events come and go, but human ingenuity prevails long-term.

MARKET OUTLOOK

As the daily case count of the COVID-19 virus in the U.S. has shifted back into its growth phase, following the reopening of the economy, many regions are re-instituting lockdown measures in response. This could disrupt what has been an improving outlook for consumer sentiment, consumer spending, and unemployment.

However, weighing these outstanding risks, with valuation trading near all-time highs,

leads us to be cautious with our near term outlook. The broader risk / reward setup seems challenged without more clarity on the trajectory of the virus or a medical breakthrough on the vaccine or treatment front.

At KCM we will continue to be selective in our portfolio holdings and own stocks with great long-term outlooks that can manage through this current environment.

We, like everyone else, CANNOT predict what is going to happen. The only thing we can do is do our best at research and execution to achieve the best results long-term. We encourage all our clients to look at their budgets, to come up with a realistic spending pattern going into the tough times ahead. It is certain that without a vaccine, or a drug that will prevent death, life and spending are going to change until this happens. God bless you all and stay safe. ■



2020 RMD GUIDANCE – NEW IRS RULES AS OF 6/23/20

1. 2020 Required Minimum Distributions, for all account types, have been waived for 2020.
2. IRA owners who have taken any portion of their RMD so far in 2020, can roll the distribution back into the IRA by August 31, 2020. Prior to the new guidance, only distributions taken after February 1st could be rolled over, by a deadline of July 15th.
3. Total of all monthly distributions taken can be repaid by August 31, 2020. The IRS has waived the one rollover per 12 month period for this situation. Prior to the new guidance, only one distribution was allowed to be rolled over.
4. Beneficiary IRA distributions can be repaid by August 31, 2020. Prior to the new guidance, beneficiary IRA distributions could not be repaid.

If you have any questions, please reach out to your KCM relationship manager.

Experience Our Service for Yourself

Contact one of our Relationship Managers and learn how KCM can help you achieve your financial objectives.

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