LIBERTY CAPITAL MANAGEMENT

QUARTERLY OUTLOOK

Vol. XXVIII- Number 3 Third Quarter 2020

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The Economy

10 for 10

As we said last quarter, writing an economic outlook is challenging when there is so much uncertainty due to the COVID-19 pandemic. For many economists who use a traditional GDP model, the assumptions are as much of a guess–educated though it may be–as the forecast's final numbers. We also shared last quarter about being in a recession and what recovery may look like.

As a refresher, our bottom-line last quarter was: While the debate over the shape of the economy and recovery will certainly be lively, in reality all of us are merely just guessing and predicting. There is no certainty. Will it be one of the LUV recovery outcomes? No one knows for sure what's going to happen when the light switch turns back on.

This quarter, instead of focusing on the future, we want to discuss the yield curve inversion from August 2019.

Since 1950, an inversion of a key segment of the yield curve has preceded all nine major US recessions. Now, we're 10 for 10.

Defined as the spread between long- and short-dated Treasury bonds, the yield curve turns negative when near-term Treasury yields more than their long-term counterparts. The most closely watched section of the curve is the difference between the 2 and 10-year yield. Called a "2-10" inversion.

Investors turn to bonds when stocks experience increased volatility. However, if too many investors move into long-term bonds, a yield-curve inversion measures the collective sentiment and serves as a threshold for how Wall Street thinks the economy will perform.

Inverted yield curves arrive when short-term debt is deemed riskier than long-term debt. Though many investors try (and often fail) to time the exact moment to buy or sell assets to maximize their returns, the consensus represented by an inversion has historically been correct, foreshadowing economic woes.

When the curve inverted in 2019, no one predicted a pandemic would hit seven months later. Still, we are almost certain economic history books will indicate the yield inversion "predicted" the recession albeit with a huge asterisk.

Bottom Line
Given the gradual opening of the economy, we should expect a gradual recovery. As more things open, growth should improve in sequence. After all, once you've hit rock bottom, there's not much lower you can go.

Fixed Income

Don't Fight the FED

Have you heard the old investment phrase, "Don't fight the Fed"? What does it mean? How does it affect investors' portfolios of fixed income and equities securities?

"Don't fight the Fed" means, based on historical averages, investors do well when investing in a way that aligns with the Federal Reserve Board's current monetary policies rather than against them. The saying

> ***"Don't fight the Fed" has turned into a sentiment about the Federal Reserve as a competitor for investors "***

suggests, for example, that an investor should stay fully invested (within normal risk tolerances) when the Fed is actively lowering interest rates or keeping them low. This is exactly the environment in which we are currently and will likely be for the foreseeable future.

The reasoning, in part, is in a low-rate environment corporations borrow money more cheaply, investing the borrowed funds into their businesses. This increases productivity through technology and other efficiencies or refinances debt to lower interest rates. Corporations tend to perform better when the Fed increases their balance sheet.

As of the end of June this year, the Federal Reserve's balance sheet has ballooned to over $7 Trillion dollars. That is almost double the amount from the end of September 2019. Between 2009 and 2014 the Fed increased their balance sheet to the unprecedented amount of $3.7 Trillion to combat the effects of the great recession. During 2018 and 2019 the Fed removed some of that liquidity as the economy was on much stronger footings. In early 2020 the Fed added liquidity via short-term repurchase agreements. By March 2020, the Fed needed to quickly cut interest rates, which they did all the way back down to 0-.25%. At this time, the Fed has resisted lowering rates below zero, unlike central banks in Europe.

Next, a policy of new quantitative easing was implemented that the market had never seen. Rapidly, the Fed assured the financial markets it would provide whatever support was necessary to fight the negative financial effects of the virus. They were buying securities to keep rates down and provide an abundance of liquidity. They were buying not just the Treasuries and mortgage-backed bonds they purchased in 2009, but also corporate bonds (investment grade and not), ETF's, and municipal bonds.

What does this mean for fixed income investors? "Don't fight the Fed" has turned into a sentiment about the Federal Reserve as a competitor for investors buying bonds since the Fed has an unlimited amount of cash to buy bonds (therefore pushing interest rates down). Fixed income investors have no choice but to fight the Fed for securities.

Investors should be more fully invested when the Fed lowers or keeps interest rates low while be more conservative when they raise rates. For now, there is little concern of rising interest rates. Until the Fed puts away the checkbook and we see glimpses of stable, upward economic activity, rates will remain historically low.

Equity Markets

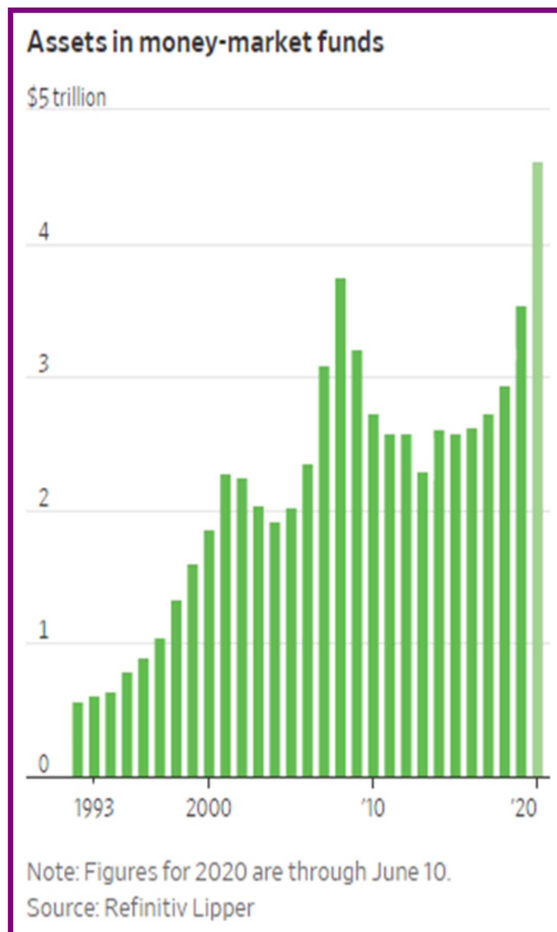
Cash, Cash, and More Cash

The stock market's rapid rally from its March lows has brought the Nasdaq Composite back to record highs and the S&P 500 nearly positive for the year. Still, trillions in cash remain parked on the sidelines.

For the record, the DJIA, S&P 500, and NASDAQ indices were up for the third quarter 18.51%, 20.54%, and 30.63%, respectively, and for the year are down & up –8.43%, -3.08%, and 12.11%.

Investors have rarely been this flush with cash. Grappling with the most economic uncertainty in decades and a head-spinning stretch of volatility in the U.S. stock market, many investors have rushed into money-market funds. Assets in the funds recently swelled to about $4.6 trillion, the highest level on record, according to data from Refinitiv Lipper going back to 1992. See chart.

“Many investors who are sitting on a mountain of cash may feel they missed the chance to buy stocks at their bottom. ”



A mad dash for safety in March amid Coronavirus fears had investors rushing to sell assets and reduce risk in their portfolios. Simultaneously, American households have cut back spending relative to their income–either due to worries of a looming recession or the shutdown of most non-essential stores, according to Yardeni research.

This has resulted in a boosted amount of cash at Americans’ hands, evident in the soaring personal savings–the difference between disposable personal income and personal consumption expenditures–from a seasonally adjusted annual rate of $1.3 trillion in February to $2.2 trillion in March.

Even after the 45% bounce, give or take, in the S&P, we have not really seen the big part of the retail crowd come back in, hinting that many people are still on the sidelines.

What does this mean for stocks going forward?

Many investors who are sitting on a mountain of cash may feel they missed the chance to buy stocks at their bottom. While the economy’s uncertain outlook and stocks’ expensive valuations may keep them on the sidelines for now, the usual conundrum following cash-outs is when to return. Any drop in the market may quickly attract cashed-out investors, who are waiting for opportunities to get back into risky assets. This should limit how far stocks can go down in the upcoming quarter. With real returns on fixed income at practically zero and because the Federal Reserve says they expect to keep the federal funds rate near zero through 2022, that only amplifies the incentive to rotate back into equities.

Bottom Line

Three reasons support the price of stocks and the stock market:

1) As noted above, there is so much cash on the sidelines that any sort of sell off in equities should be supported by that cash coming back into the market, the so-called dry powder.

2) Real returns on bonds are zero or even negative, which means investors may look to stocks for any sort of positive real return (please call for further discussion).

3) Jay Powell (Federal Reserve Chairman) still has $1.7 trillion at his disposal to support the market. Our standing joke in the office is when the stock market goes down, Jay Powell is running down the hall with his checkbook and pen to prop the market back up (please call for further discussion).

FINANCIAL PLANNING

IRS Extends RMD Rollover Relief Under CARES Act

"the IRS states that the 60-day rollover period for any RMDs already taken this year has been extended to Aug. 31"

The IRS recently announced that anyone who already took a required minimum distribution (RMD) in 2020 from certain retirement accounts now has the opportunity to roll those funds back into a retirement account following the CARES Act RMD waiver for 2020.

In Notice 2020-51, the IRS states that the 60-day rollover period for any RMDs already taken this year has been extended to Aug. 31, "to give taxpayers time to take advantage of this opportunity."

The Notice also answers questions regarding the waiver of RMDs for 2020 under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The CARES Act enabled any taxpayer with an RMD due in 2020 from a defined-contribution retirement plan, including a 401(k) or 403(b) plan, or an IRA, to skip those RMDs this year, the IRS states.

In the coming days we will be reaching out to our RMD clients asking if they would like to forgo their RMD for this year. If this is something that you are interested in, please feel free to call us.

BY THE WAY…COMPLIANCE ISSUES

ADV Brochure Offering

As a registered investment adviser, we are required by securities laws to annually furnish you with updated information about our firm, which we detail in our firm's Form ADV Part 2 Brochure disclosure document.

Since the firm's 2019 annual update Brochure, we have made minor updates, but no material changes were made.

If you would like a complete copy of our current 2020 Brochure, you may contact me by email or phone and I will be happy to send you a complete copy free of charge. You may also obtain a copy of the form and other information about our firm from the SEC's Investment Adviser Public Disclosure (IAPD) system at www.adviserinfo.sec.gov.

Focus On . . .

CLOROX CO (CLX)

The Clorox Company is a manufacturer and marketer of consumer and professional products. The Company sells its products primarily through mass retail outlets, e-commerce channels, wholesale distributors and medical supply distributors. The Company operates through four segments: Cleaning, Household, Lifestyle and International. Its Cleaning segment consists of laundry, home care and professional products marketed and sold in the United States. Its Household segment consists of charcoal, cat litter and plastic bags, wraps and container products marketed and sold in the United States. Its Lifestyle segment consists of food products, water-filtration systems and filters, and natural personal care products marketed and sold in the United States. Its International segment consists of products sold outside the United States. It markets some of the consumer brand names, such as namesake bleach and cleaning products, Pine-Sol cleaners, Liquid-Plumr clog removers and Kingsford charcoal.

The Company (CLX) has attained a growth rate of 7% over the past 5 years and is expected to continue to grow by 31% over the next year and 7.85% over 3-5 years. It boasts a solid ROE of 130 despite a modest debt to capital ratio. This stock provides long-term stability and quality that Liberty Capital Management looks for.

Clorox Company (CLX) NYSE — Last **228.18**

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Price Change - YTD	48.61%
Dividend Yld	1.95%
P/E	33.46

Capitalization

% LT Debt to Total Cap	76.70 %
Owned by Institutions	79.56 %
Market Capitalization	28,734.94
Avg Daily Vol (Last 30 Days)	1,449,913

Business Overview

The Clorox Company is a leading manufacturer and marketer of consumer products. The Company markets some of consumers' most trusted and recognized brand names, including its namesake bleach and cleaning products, Armor All® and STP® auto care products, Fresh Step® and Scoop Away® cat litters, Kingsford® charcoal briquets, Hidden Valley® and KC Masterpiece® dressings and sauces, Brita® water-filtration systems, and Glad® bags, wraps and containers. In addition the Company has a number of leading brands in international markets, including those sold under the Poett®, Mistolin®, and Ayudin® brand names. The Company manufactures products in more than 20 countries and markets them in more than 100 countries. The Company's products are sold primarily through mass merchandisers and grocery, warehouse club, dollar, military and other types of retail stores.

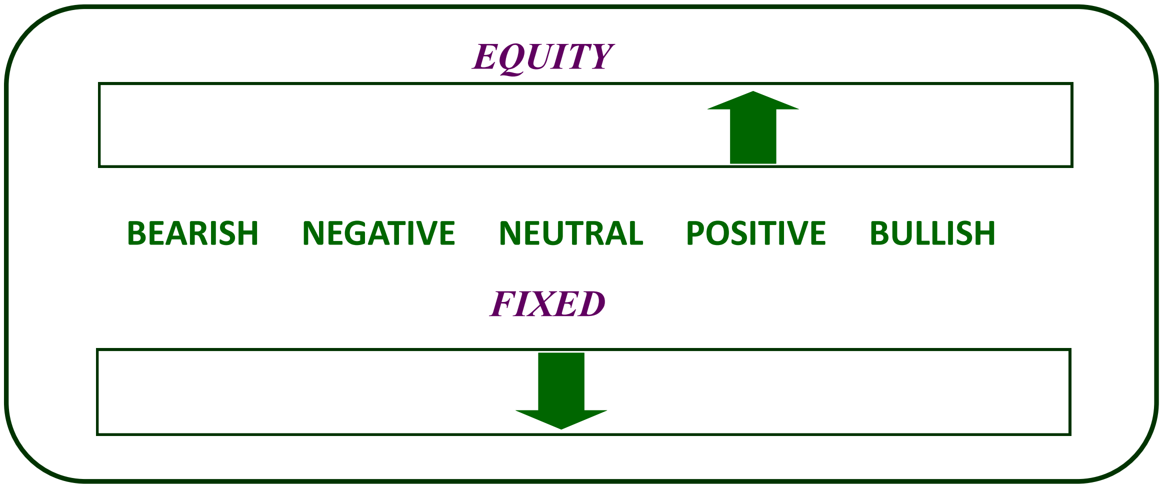
Earnings	$	%	Growth Rates
Latest Quarter	1.89 up	31.25%	5 Yr Historical
Latest 12 Months	6.82 up	7.06%	7.04%
Zacks Consensus			LT Future
Current Quarter	1.99 up	5.85%	
Current Fiscal Year	6.91 up	9.34%	
Next Fiscal Year	7.25		5.77%
Revenues			5 Yr Historical
Latest Quarter	1,783 Mil up	14.96%	
Latest 12 Months	6,365 Mil up	3.78%	2.72%
Dividends			5 Yr Historical
Indicated Rate & Yield	4.44	1.95%	
Increases Last 5 Years	5.00		8.33%

Key Ratios & Measures	Current	High	5 Year Low	Avg
P/E	ADJ 33.46	ADJ 29.02	ADJ 16.06	ADJ 21.29
Price to Book	41.80	127.4	21.0	51.9
Price to Cashflow	24.31	23.4	15.2	19.3
Price to Sales	4.58	3.3	2.3	2.9
Return on Equity	147.52	388.5	106.0	222.7

BETA S&P 500 0.33

LIBERTY CAPITAL MANAGEMENT

MARKET BAROMETER



- Given the gradual opening of the economy, we should expect a gradual recovery. As more things open, growth should improve in sequence.
- Until the Fed puts away the checkbook and we see glimpses of stable, upward economic activity, rates will remain historically low.
- At Liberty Capital Management, we believe there are 3 big reasons that will help support the price of stocks and the stock market
- The IRS states that the 60-day rollover period for any RMDs already taken this year has been extended to Aug. 31

~ Closing Figures as of March 31, 2020 ~

DJIA	**25812.88**	**10 yr. Treas.**	**0.66%**	**Funds Target**	**0.00% - 0.25%**
S&P 500	**3100.29**	**3 mo. T-Bill**	**0.142%**	**Prime Rate**	**3.25%**

The information and data in this report were obtained from sources considered reliable. Their accuracy or completeness is not guaranteed, and the giving of the same is not to be deemed an offer on our part with respect to the purchase or sale of any securities. Our ADV-Part II Brochure is available upon request or on our website: **www.lcmgt.com**.

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