KORNFIELD INVESTMENT MANAGEMENT

Registered Investment Adviser
Division of Kevin Hart Kornfield & Co. Inc.
Originally Established 1986

Monday, July 6, 2020

Dear Clients,

For the second quarter of 2020, we are happy to say that there has been an excellent recovery in the stock market. Why? Uncle Sam, and other nations, have injected fabulous amounts of money into the global economy. We have some happy stocks in most client accounts that gained during the period of 04/01/2020 – 06/30/2020: Hess +62%; AeroVironment +46%; Lincoln National +54%; and, iRobot +113%.

Just in case the markets need drugs (for COVID-19) in order to continue climbing, we recently purchased for clients shares of Gilead. This US based company makes Remdesivir which is one of the first antiviral pharmaceuticals approved for treating COVID-19. It was hoped that Remdesivir would be more effective in treating our current pandemic. Nevertheless, countries around the world, including the USA, are stocking up on this drug. Also, Gilead has a number of drugs in development to treat a variety of unpleasant contagions.

We realize that government largess cannot last forever to keep stocks soaring. So we continue selecting bonds whose financial structure we believe will remain strong, even as the pandemic effects erode the financial strength of many corporations. In a webinar hosted by Moody's Analytics Tuesday, June 30, 2020, credit analysts cautioned that ongoing stress on corporations could lead to rapid credit deterioration during the next six months, despite strong credit ratings now. The reason lies in the challenges of many companies to return to profitability after the drastic slowdown in recent months. Moody's notes that massive government assistance probably is masking longer term stresses on corporate balance sheets.

Interest rates are likely to see another long stretch of near-zero levels on federal funds and minimal corporate bond rates. Near-zero interest rates could lead to higher inflation. Moody's feels that inflation may stay low while the pandemic persists, due to lower overall spending and consumer demand. Post COVID-19, however, Moody's suspects inflation could speed considerably as spending and demand once again rise. Increased consumer spending coupled with several trillion dollars of new federal and corporate debt could quickly accelerate the fire of inflation, Moody's said.

With near zero percent returns: (1) Savers are facing the inequities of earning almost nothing, so they are unwilling to deplete savings for expenditures that are not absolutely critical – thus hurting the revenue prospects of many businesses; and, (2) With all of the extra money in the economy ($US Trillions) and zero rates engineered by the fed, we could see speculation using leverage on top of the above mentioned government infusions that could cause inflation. Historically, it is possible to see inflation when there is a lot more money in the system chasing the same amount of goods and services. With all of the new national debt, the government will pay whatever rate is needed to service that debt.

As of June 30, 2020, our assets under management were allocated in a balance of 60.45% equity and 39.55% fixed income investments. Even though the yields are low, we are holding fast to short term higher quality bond issues. Perhaps we will be seeing nice bond yields by this time next year.

We hope you had a relaxing July 4th. As always, thank you very much for your business, for your patience, and for your referrals.

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