JOHNSON
INVESTMENT COUNSEL

QUARTERLY INSIGHT

MARKET UPDATE

2020: SECOND QUARTER

AFTER RECORD Q1 SELLOFF, STOCKS REBOUND IN HISTORIC FASHION

The shocking, rapid outbreak of COVID-19 sent stocks plummeting in February and March, until they bottomed on March 23rd, down 35% from the peak. It was one of the fastest selloffs on record. But then one of the fastest rallies in history began. The S&P 500 Index gained nearly 21% in the second quarter, its best quarter in more than 20 years. The NASDAQ did even better, gaining 31%. The S&P 500 has bounced more than 39% off the bottom and is now down just 3% for the year. The index gained more than 7% over the past 12 months, a good number considering all that has taken place during that time. A combination of attractive prices (in late March and April), massive government support, and signs of gradual reopening of the economy fueled the market's run in April and May. As stocks returned to record-high territory, the rally cooled off in June, especially when coronavirus infection numbers began picking up in some places.

Tech, consumer, and energy stocks were the main winners, and large cap U.S. stocks continued to outperform international stocks and smaller cap stocks. Growth stocks have continued to outperform value stocks by a wide margin, led by the largest tech companies. Their strength has overshadowed the rest of the stocks in the index, which haven't recovered as much. It also helps explain why U.S. large cap stocks have outperformed other benchmarks of smaller stocks and international stocks. Still, those markets rallied after severe selloffs earlier in the year.

RECOVERY COMMENCES AMID PARTIAL REOPENING

The strength of the rally was surprising as it came despite some of the worst economic data in the last century. In a matter of weeks, more than 30 million Americans lost their job as the economy entered recession. Consumer spending plummeted. Retailers and restaurants that were already struggling filed for bankruptcy. The travel industry was decimated and will be impacted for years to come. Consumer struggles also put pressure on banks. Thankfully banks are much better positioned for this recession than they were in the financial crisis. Still, roughly one-third of U.S. corporate debt is considered in distress, primarily in the energy sector, retail, and restaurant industries. All told, it is estimated GDP dropped 35% in the second quarter compared to the first. As bad as it was, some of the data was still "not as bad as expected," which often leads to positive sentiment and gains in stocks. It also demonstrates the resiliency of some areas of the economy.

The reopening of the economy generated buying momentum in the market. State by state, the U.S. has begun the process to varying degrees. Cases have picked up in some areas, which was not unexpected, causing some states to push pause on the reopening process. Meanwhile, health-care companies are scrambling to bring treatments and a vaccine to the marketplace. Governments are relaxing the normal timelines in an effort to speed up the process for drug approval. It's uncharted territory, and the reopening process is likely to be one of fits and starts. Economic forecasting in such an environment is even more speculative than usual. These

FEATURING

TOTAL RETURNS

	2Q 2020	2020
S&P 500	20.5%	-3.1%
Dow Jones Industrial Average	18.5%	-8.4%
NASDAQ	31.0%	12.7%
Russell 2000	25.4%	-13.0%
MSCI EAFE (International)	15.1%	-11.1%
Barclays Aggregate Bond Index	2.9%	6.1%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

economic challenges will continue to pressure companies, potentially leading to a more volatile summer than usual for the stock market.

GOVERNMENTS AND CENTRAL BANKS REMAIN ACTIVE

Governments around the world have poured trillions of dollars into relief efforts. Congress, the White House, and the Federal Reserve have provided enormous amounts of money to businesses and individuals to try to stop the bleeding. Total U.S. government spending so far stands around $3 trillion, most of which is included in the $2.2 trillion CARES Act. Congress continues to debate other potential support measures. A majority of the money is being directed to individuals in the form of direct payments and small businesses in the form of loans. In a matter of weeks Washington has injected more money by far than it did in the entirety of the Great Financial Crisis a little over a decade ago.

The Fed was also quick to promise it would do whatever necessary to prop up the economy. It committed to purchasing unlimited amounts of U.S. treasuries, as well as billions of dollars of other assets to ensure liquidity and market health. It also quickly dropped the benchmark Fed Funds rate to zero. However, some of the Fed's support programs saw much lower uptake than initially projected. While it's clear the Fed has enormous power to bolster confidence in the markets with its support, it's less clear it can quickly and directly impact small and medium-sized businesses, state and local governments, and individual consumers.

SECOND HALF OF 2020 PROMISES TO BE EVENTFUL

The pandemic remains the key driver of the markets entering the second half of the year. Daily infection, hospitalization, and death data are likely to exacerbate volatility in the coming months. It's seemingly impossible to predict the impact of the virus, as new medical information comes to light on a daily basis.

Meanwhile, millions are looking for work and wondering if their old jobs will ever return given the economic upheaval and "new normal" environment. Those who haven't lost a job are still adjusting to their new home office or workplace realities. Civic unrest across the country continues as demonstrators call for social justice. On top of everything, a contentious presidential election in the U.S. is just four months away.

Taken together, the second half of 2020 could be another volatile one for stocks. The strength of the second-quarter rally leaves stock indexes near or above (in the case of the NASDAQ) previous record highs. This means the stock market is priced for good news. It's never surprising to see market corrections, and this is especially true if virus and/or economic news is disappointing. Still, uncertainty is nothing new, and there are plenty of instances of the economy and markets climbing a "wall of worry" in years past.

STAYING FOCUSED AMID UNCERTAINTY

Even and especially when the world around us feels out of control, it is wise for all of us to focus on what we know and what we can control. This is certainly the case when it comes to investing. In times of crisis, adherence to time-tested principles is more important than ever. Long-term success depends on the ability to stay disciplined by maintaining proper asset allocation, rebalancing when appropriate, and investing with an emphasis on quality.

WHEN TO CLAIM SOCIAL SECURITY

CHALLENGING ASSUMPTIONS ABOUT WHEN TO CLAIM SOCIAL SECURITY

2020 has been full of surprises and challenges for all of us, and those who recently retired and those planning to retire soon are no exception. Career instability, volatile markets, and the uncertain futures of so many business owners have shaken the foundations of their retirement plans. Some are doubting the reliability of what had been safe assumptions as recently as January. For all of us there are any number of variables in a retirement plan. Social Security benefits factor in for almost everyone, with varying degrees of impact. Regardless of one's wealth, it's important to integrate Social Security benefits with asset allocation and portfolio withdrawal strategies to efficiently finance living expenses in retirement.

Deciding exactly **when** to claim the Social Security benefit isn't always obvious. Too many don't even know their options, not to mention the pros and cons of various strategies. There are myriad rules governing claiming strategies which we are not attempting to detail or diagnose here. But generally speaking, Social Security can be claimed as early as age 62 (for those that qualify). However, this locks in a lower monthly benefit than the benefit received if claimed at Full Retirement Age (somewhere between 66 and 67 depending on year of birth). On the other side of Full Retirement Age, the benefit can be delayed as far out as the 70th birthday. The benefit grows about 8% for **each year** the claimant delays the benefit beyond Full Retirement Age.

According to the Social Security website this means a retiree would see their benefit increase to 132% of their full retirement benefit if they hold out to age 70. For those with sufficient retirement assets, this sounds like a no-brainer. But there are several issues to consider before making this decision. Most have to do with families' specific goals, assumptions, and what brings peace of mind, not just math. Like most wealth-planning issues, the numbers can't be analyzed in a vacuum, and the solution doesn't always neatly fit into a spreadsheet.

LIFE EXPECTANCY

If we could know our lifespan the answer could be found with a simple calculation. Claiming earlier makes sense with shorter life expectancies, and waiting until age 70 can possibly make sense if one lives into their late-seventies or early-eighties (depending on their benefit amount). It really comes down to a break-even analysis, but the most impactful variable (life expectancy) is unknowable! Still, we can make some reasonable assumptions based on current health, family history, and lifestyle choices. Unless one is very confident they will live beyond age 80, delaying until 70 to claim is not clear cut. Social Security benefits are use-it-or-lose-it and can only be passed to a surviving spouse. For couples the health of both spouses must be considered.

THE BENEFIT/GROWTH COMPARISON

The question is commonly framed as an arbitrage question with respect to the growth of the benefit (8% per year, not compounded) compared to the growth of the assets in the portfolio. On the surface, it appears that a "guaranteed" (by the federal government) 8% growth rate compares favorably to the potential return on the assets that would need to be taken from investment accounts. But there are two factors that reduce this return advantage:

a) The 8% growth rate of the benefit is not compounded, but the investment return in a portfolio is compounded. The portfolio could go down but the four-year effect of compounding does reduce the advantage on average. Factoring compounding, the portfolio would need to return 7.2% per year for four years (not 8%) to match the 32% benefit increase.

b) Taxation also needs to be considered. If a retiree is taking money exclusively from tax-deferred assets to replace what they would have received in Social Security benefits, those distributions are fully taxed as ordinary income. However, only a maximum of 85% of Social Security benefits are taxable as ordinary income, creating a tax advantage for Social Security benefits over tax-deferred withdrawals.

Taken together, this means the "hurdle rate" for the portfolio when comparing the growth of the Social Security benefit is lower than what was typically considered to be the "rule-of-thumb" 8% annual benefit increase by waiting to claim.

YOUR HEIRS

The claiming decision is also driven by a family's goals for passing wealth to the next generation. Children and grandchildren can't inherit future Social Security benefits from their parents, but they can inherit investment accounts in full. If Mom and Dad's investment accounts were drawn down for living expenses as a result of delaying Social Security until 70, the inherited account balances would likely be lower.

DO THE MATH TO ASSESS RETURN ON SLEEP

It can be helpful to actually do the math on the differential of claiming strategies. There are many software tools that can accurately accomplish this task using the full earnings record (from the Social Security statements). The results can then be put in context. For example, if the total life-time advantage of one strategy or another is insignificant, it may be worth choosing the one that provides the most peace of mind. Factoring return on sleep (ROS) can be more valuable than the purely number-driven return on investment (ROI).

BOTTOM LINE

Social Security analysis is complex, and even sophisticated software struggles to capture all the variables, especially return on sleep. Making a decision based on a Google search and rules of thumb is usually a recipe for regret. Doing the math helps but it's just one factor in the context of a personalized wealth plan. We will only know after the fact which option is best. After evaluating the variables and making reasonable assumptions, we can at least make an informed decision and move forward with a sense of confidence.

MICHAEL G. STANIS, CFA, CFP®
Senior Portfolio Manager, Principal, Johnson Investment Counsel
Treasurer, Cincinnati P&G Alumni Network

LEARN ABOUT YOUR P&G PROFIT SHARING TRUST OPTIONS

THREE SESSIONS AVAILABLE:

AUGUST 13TH | SEPTEMBER 22ND | OCTOBER 21ST

Are you, a family member, friend, or neighbor a current or former Procter & Gamble employee? This workshop is designed to help simplify the process of decision-making for owners of the P&G Profit Sharing Trust (PST). There are several options for how the proceeds may be distributed, invested, and how taxes are impacted.

JIC Senior Portfolio Manager Michael G. Stanis, CFA, CFP®, is uniquely qualified to guide families through this process. Mike spent over 17 years with P&G and held ten different assignments in Finance and Brand Management. He wants to share what he has learned about transitioning from P&G so that you can make the best decisions for your family.

This workshop will:
> Explore the PST distribution options
> Walk through examples including the special lump sum tax treatment
> Provide insight about potential obstacles and help your family see around corners

Join us for a Virtual Workshop "P&G Profit Sharing Trust Options"

Three session times are available to suit your schedule:

» **August 13th, 4-5pm OR**
» **September 22nd, 12-1pm OR**
» **October 21st, 4-5pm**

All Workshops Via Zoom

RSVP TO RECEIVE THE MEETING LINK
Email: mstanis@johnsoninv.com
Direct: (513) 389-2759

There is no cost to attend. Feel free to invite guests. Please ask all guests to RSVP so that the meeting link can be sent to them.

CLASS OF 2020 - CONGRATULATIONS GRADUATES!

HIGH SCHOOL GRADUATES

We are honored to recognize the following 2020 high school and college graduates. We know that the current COVID-19 crisis has taken experiences away from them, but it cannot take away the joy that loved ones feel about their accomplishments.

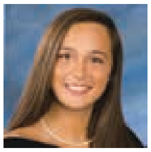
- **Eric Jackman (Jason Jackman)**
  Beechwood High School
- **Amir Johnson (Dalena Johnson)**
  Summit Country Day School
- **Madison Kral (Michele Kaye)**
  Brecksville High School
- **Andrew Moulas (Dean Moulas)**
  Anderson High School
- **Olivia Oliverio (Lisa Oliverio)**
  Saint Ursula Academy
- **Tori Panzeca (Tina Panzeca)**
  Boone County Virtual Program
- **Paige Parrish (Bret Parrish)**
  Stephen T. Badin High School
- **Emma Sedlack (Scott Bischoff)**
  Oak Hills High School
- **Michael Stanis (Mike Stanis)**
  Summit Country Day School
- **Olivia Taylor (Aaron Taylor)**
  Felicity-Franklin High School


Jackman


Johnson


Kral


Moulas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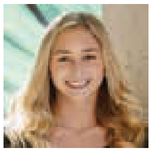

Panzeca


Parrish


Sedlack

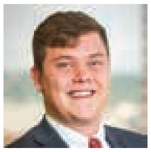

Stanis


Taylor

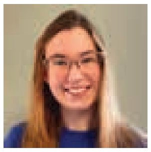
COLLEGE GRADUATES

- **Jessica Appel (Sandy Himmelsbach)**
  University of Kentucky, B.S. Mathematics
- **Mason Bischoff (Scott Bischoff)**
  University of Cincinnati, B.B.A. Marketing & International Business
- **Rachel Leonhardt (Maria Leonhardt)**
  University of Cincinnati, B.S. Biomedical Engineering
- **Abigale Marshall (Lori Marshall)**
  Mount St. Joseph University, B.S. Biology
- **Kayla Panzeca (Tina Panzeca)**
  Northern Kentucky University, B.S. Business Administration
- **Anna Sheanshang (Marketing Department Co-Op)**
  University of Cincinnati, B.B.A. Marketing
- **Elisa Stanis (Mike Stanis)**
  DePaul University, B.F.A. Animation
- **Alex Wertz (Jay Wertz)**
  Indiana University, B.S.B. Finance
- **Jacqui Wright (Corporate Accountant)**
  Wilmington Collge, B.A. Accounting & Finance


Appel

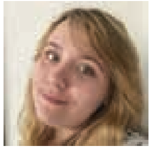

Bischoff

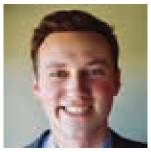

Leonhardt


Marshall


Panzeca


Sheanshang

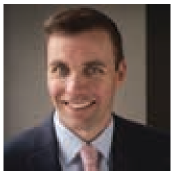

Stanis


Wertz


Wright

NEW SHAREHOLDERS

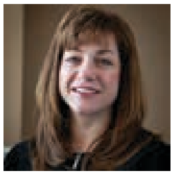
We are pleased to announce and congratulate nine new shareholders of the firm. Since 2001 JIC has been an independent, employee-owned firm, which alllows us to truly focus on the long-term needs of our clients. “These new shareholders embody our firm’s core values,” said President Jason Jackman. “They have demonstrated a commitment to Johnson Investment Counsel and its mission to provide peace of mind to our clients through trusted counsel and a genuine desire to help people.”



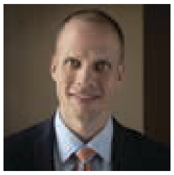
Simon T. Buchman, CFP®
Johnson Investment Counsel
Senior Portfolio Manager,
Principal

Mary P. Burns, Esq.
Johnson Trust Company
Vice President of Estate Planning,
Trust Counsel, Principal

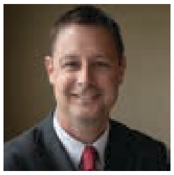
Anthony C. Kure, CFP®
Johnson Investment Counsel
Director of Northeastern Ohio
Market, Senior Portfolio
Manager, Principal



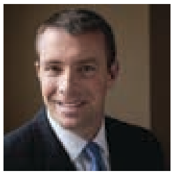
Lisa R. Oliverio, CPA
Johnson Investment Counsel
Controller, Principal



Zachary J. Pierson, CFP®
Johnson Investment Counsel
Senior Portfolio Manager,
Principal



Joseph K. Radigan, CFP®
Johnson Investment Counsel
Director of Northeastern Ohio
Market, Senior Portfolio Manager,
Principal



David Q. Theobald, CFA
Johnson Asset Management
Portfolio Manager,
Principal

J. Christine Warren, Esq.
Johnson Trust Company
Vice President of Estate Planning,
Trust Counsel, Principal

Christopher A. Tschieder, CFP®
Johnson Investment Counsel
Senior Portfolio Manager,
Principal

2020 TOP WORKPLACE

7 CONSECUTIVE YEARS

Johnson Investment Counsel has been awarded a Top Workplaces 2020 honor by the Cincinnati Enquirer for the seventh year in a row. Based solely upon employee feedback gathered through a third-party survey, companies were evaluated on criteria such as opportunities for career development, workplace culture, compensation, and overall job satisfaction.

We are honored to receive such an award and proud of our Johnson employees and their commitment to provide exemplary service to our clients at all times, and even moreso during the unprecendented challenges of 2020.

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

JOHNSON
INVESTMENT COUNSEL

ABOUT US

Johnson Investment Counsel, Inc. is one of Ohio’s largest independent wealth management firms, managing over $12.9 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

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CINCINNATI-KENWOOD
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