Market Brief

August 7, 2020

Market Snapshot	
Closing Values as of 08/07/2020	
Dow	27,434
S&P 500	3,351
Nasdaq	11,011
Gold	$2,044

The global health crisis has created some of the most frightening and volatile social and economic conditions experienced in modern times. When the year began, few expected such a calamitous health event was possible let alone likely to occur in modern times. Yet, here we are just seven months later and the world has been turned upside down in almost every way possible. A once thriving economy with record low unemployment has been brought to its knees by a health crisis that changed nearly every aspect of our lives overnight. Normally social and productive people have been forced to curtail their spending as they isolate themselves and remain physically distanced from friends and family. One of the strongest healthcare systems in the world has experienced shortages of the most basic supplies and risked becoming overwhelmed as COVID-19 continues to spread and cases continue to surge in densely populated areas. The health crisis forced the U.S. into one of the sharpest and deepest economic recessions ever experienced, prompting the Federal Reserve to unleash the most aggressive and unique monetary policy responses imaginable and Washington to enact an unprecedented fiscal stimulus plan, both needed to provide American families and businesses critical support and ensure the stability of capital markets to prevent economic catastrophe and ensure a robust recovery is possible.

Investing in 2020 has been volatile, frightening and more than a little bit crazy, considering that stocks crashed by more than 30% in a matter of weeks, only to rally 50% or more from there. Despite the wild behavior in the stock markets and the pain currently being felt by American families and small business, the sweeping and sizable fiscal and monetary stimulus measures enacted by Washington, along with the promises to continue to “do whatever it takes” until the health crisis is resolved, have proven extremely effective in preventing economic catastrophe and will likely prove meaningful in speeding up our eventual recovery once the health crisis has been sufficiently resolved.

While I am optimistic about the robustness of our eventual economic recovery, I am cautious about the short term and find the increasingly optimistic and complacent attitude of the markets troubling. The S&P500 is now positive and closing in on a new high in a year that only narrowly averted economic catastrophe. The NASDAQ is flying higher than ever. And no one seems to think the markets can ever go down. Markets are seemingly detached from reality at the moment. It is as if people have forgotten that investing in stocks carries any risk…after all, we ARE in (or recovering from?) a recession caused by a COVID-19 induced self-imposed economic lock-down. The extraordinary fiscal and monetary stimulus measures have and almost certainly will continue to alter the shape and perception of risk in the markets, but nothing can (or will) eliminate investment risk all together. With the health crisis still evolving there are still too many variables and unknowns for the markets to be able to accurately anticipate when a lasting and meaningful economic recovery will occur.

Whether or not the nationwide shutdown delayed or reduced the spread of COVID-19, and whether another shutdown might be necessary is a matter of great debate. What we do know based on economic data reported in July is that the shutdown had a rapid and dramatic impact on the U.S. economy. The U.S. GDP shrank by a record 32.9% annual pace in the 2nd quarter, a decline that might have been much worse had Washington not intervened with Trillions of dollars in stimulus payments, enhanced unemployment benefits and grants to main street businesses. Further limiting the depth of the GDP decline may have been the earlier than expected re-opening in several states and the surprising (but highly anticipated) recovery in labor markets and personal consumption that followed. Momentum in the labor markets continued to build off the mid-May re-openings through most of June, until a resurgence in COVID-19 cases forced new shutdowns, significantly slowing the momentum that had been building and reminding us the health crisis still has tremendous power over the pace and shape of our eventual economic recovery.

Outlook & Recommendations:

We may have successfully averted the catastrophic economic collapse we feared but that does not mean we did not experience one of the most severe (global) economic declines in history, or that there won’t be additional economic shocks on the horizon. The health crisis is still the main concern and our ability to mitigate its impact through vaccines or therapeutics will be key in establishing a sustainable economic recovery. The shutdowns have resulted in a record number of unemployed however, 60% of the unemployed are currently considered “temporarily unemployed”, suggesting that their jobs might still exist if not for the shutdown(s) and workforce reductions in place as a result of COVID-19 concerns. The current thinking is that there is enough pent-up demand to support a more robust labor market recovery and a combination of vaccines, therapeutic treatments and liability protections would allow employers to feel confident enough to re-hire a majority of those “temporarily unemployed”.

The road to economic recovery is expected to be long, even once the health crisis has been brought under control. So far, the focus of fiscal and monetary stimulus has been to allow the economy (and consumers) to survive the initial impacts of the health crisis. As the crisis is more contained the focus will shift to actually stimulating growth in the economy, which will then be followed by an attempt to stabilize growth, interest rates and inflation. We are clearly still in the first phase, with a lot still vey dependent on what the next stimulus package contains.

Although the markets are likely to remain quite volatile until there is a clear solution to the health crisis, the potential for a significant market correction seems less likely now, given the level of support being provided by the Fed. The markets however, appear priced for perfection at a time when any number of threats (political & social unrest, COVID-19, shutdown, etc) making one or more near term pull-backs of some significance something investors should be prepared for. With the markets flirting with new highs, it may be appropriate to take profits and rebalance to ensure your portfolio’s allocation reflects your risk tolerance and longer term goals. If you know you will have a need for cash within the next 3-6 months or are inclined to hold more cash to be redeployed if/when there is another pull-back in the market, now may be the appropriate time to begin making cash available.

If you are currently underexposed to stocks, use pull-backs to add to your exposure as needed. Focus on owning a diversified portfolio of higher quality companies with strong balance sheets and defensive management styles, rather than attempting to acquire weaker companies at extreme discounts.