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Market Outlook:

Words matter

As the third quarter unfolds, we are gaining more clarity about what lies ahead for the financial/investment markets. Without question, there will continue to be an abundance of *"headline news"* that shapes the landscape versus a kind of "big picture" scenario. We are six months into a global economic crisis that has sown discord and disruption. Despite that uncertainty, we feel comfortable with our macro, top-down identifications, beginning with extremely accommodative monetary policy and a belief that underlying fundamentals…although a bit muddied at present…can rebuild. Spending and demand will remain muted, but we see no indication of throwing in the towel just yet.

We know which sectors will thrive (pharmaceuticals, technology) and which will fight hard for survival (cyclicals, industrials). The market is endeavoring to push through its volatility and generate profits for investors. We caution, however, that indiscriminately chasing after expanding P/E ratios and oversized relative strength integers could lead to trouble. Remember, all things are cyclical. Thus, price peaks are likely to pull back at some point, particularly if earnings fall short of expectations. Being macro-oriented might also help to eliminate some costly mistakes. While the economy and the financial markets sometimes emulate each other, this is one instance in which the dichotomy must be understood. The economic recovery dating back to the 2008 recession, for example, is still trying to gain traction globally but, obviously, current events surrounding the pandemic might hold greater influence in the short-term.

From a strictly empirical point of view, we have no problem acknowledging that the averages stand today about where they did at the beginning of the year, and have recovered extraordinarily well from their lows in February/ March. Lows so low and the recovery so good, in fact, that history records the last three months as the *"best"* quarter in decades.

It might be time to refine the language we use when referring to current events……

Indeed, the markets soared over 20% last quarter owing in part to federal stimulus, low interest rates, viral controls, hopes for the future, and an indomitable spirit of "value speculation". (It is easy to multiply gains when bouncing from the basement of valuations.) But is the word "best" an effective way to describe where we are now and from where we came? Without parsing definitions, words, and perceptions, matter.

Ask any family touched by the death of a loved one, with depleted savings, inconvenienced by stay-at-home quarantine, or unemployed/laid off/furloughed if the last three months were *their* "best". While the world was being threatened by a deadly pandemic, inexorable changes were occurring in attitudes, spending, lifestyles, and behavior. We find ourselves today at the intersection of politics, money, and morality.

Similarly, we hear people asking to *"go back"* to normalcy, send our children *back* to school, bring the economy *back*. Perhaps going backwards is not possible anymore. A new normal is necessary and we need to get used to that. Once again, ask anyone who is not an equity shareholder….and there are many….if the last three months were their best and you would probably get a different answer than the one Wall Street analysts are using.

It is time to find a fresh balance…..in investing and elsewhere….that creates an equilibrium in healthcare, social rights, politics, education, etc. so that everyone can benefit from their initiative and inspiration. Wall Street and Main Street are just not that dissimilar, one hopes.

I think that when we call last quarter's market performance the "best", and limit the scope of our language and evaluation solely to the percentage return on the Dow Jones, that we need to step back and re-think how capitalism and vernacular all play a part in limiting or advancing the opportunity for the population as a whole. In my mind Wall Street is not about a *moment in time*….the closing price on the S&P or a quarterly earnings report, for example. Rather, it represents a marketplace in which capital is unleashed for the long term to identify problems and provide solutions for the betterment of society.

Consider a basket of needs today: poverty, hunger, pollution, water shortage, energy, transportation, infrastructure, education, healthcare.

The third quarter, alone, provides a panoply of buying opportunities for those so inclined.