Scotty C. George
Chief Investment Strategist

August 31, 2020

Market Outlook:

Fool me once....

To say that stock valuations are a little ahead of themselves would be an understatement. As the averages hover around and break into new high territory one would think that we've already time-travelled into 2021, solved the pandemic crisis, and fixed most of our climate and energy problems. But the truth is that we have evolved into a marketplace of *bottom lines* and *expectations* that are several standard deviations from the reality on the ground.

If you are a corporate CEO your obligations first and foremost are to produce profits for your stakeholders. Strange as it might seem in this age of global disease, unemployment, business closures, and consumer uncertainty, there are industries that are reporting record levels of profits, and with such speed that Wall Street investors are constantly playing catch-up with those share prices. However, there is also a massive disengagement between transactions in the market and the employees and citizens who populate our workplaces.....millions unemployed; millions more afflicted with a deadly virus; hundreds of thousands dead; thousands experiencing healthcare bankruptcies; multiple industries, including airlines, restaurants, transit, and the arts irrevocably financially disaffected. At 9:30 am each weekday morning, when the exchanges open, the perception and reality gaps widen more broadly than ever before.

So why is the disconnect so pervasive and distinct? Because the objectives of the players on each side of the game are so diametrically in opposition to each other that the tug of war is only won at the closing bell, and by which side nobody can straightforwardly decipher. As noted above, CEO's are mandated to generate capital gains for their shareholders. It is their mission and the reason for holding the job. However, in this world of technology, artificial intelligence, and rapid innovation those industries require fewer "real people" to get the job done. Fewer capital expenditures (such as salaries and benefits) inure to the bottom line, thus setting up a perverse game in which a bull market closing price is a far better indicator of success than calculating the number of children who go hungry each night. Capitalism is good. Egalitarian capitalism would be better.

It is so...or at least it seems...that things are not getting better for a large percentage of those not considered “affluent”. And yet, the affluent drive the same roads with potholes, cross the same crumbling bridges, take the same medicines, attend the same churches, eat the same foods, breathe the same (polluted) air, drink the same water. We had so many things in common *before the corona virus pandemic* that any excuses for not eradicating hunger, poverty, cruelty, and apathy just don't carry weight anymore. Curiously, the same kind of capital gains expectations that speculators and traders salivate over today would be available in industries and solutions to the human condition. Opportunities in the “next big thing” are right under our nose.

....fool me twice

Somewhere between rational egalitarian capitalism and irrational rolling of the dice gambling lies a happy medium in which the world's priorities wouldn't seem so out of whack, particularly during these trying times.

Hey, *a dollar earned is a dollar earned,* correct? So why not invest in putting people back to work by cleaning our air and water; feeding the hungry; paving the roads; curing disease; invigorating the social discourse; educating the rural and urban children; eradicating poverty and ghettos of the disenfranchised? Everyone has the potential to rise up and succeed, and we must acknowledge that their perceptions and feelings are as valuable as any currency.

The world is moving ever faster; too fast for some. The wealthy should be grateful for their largesse but cognizant of those less fortunate. That is why those CEO's entrusted with the welfare of their companies should also be stewards of their communities, creatively plowing profits back into their *first assets*.....the employees who take the elevators up and down each day.

Despite the psychological ebullience we feel watching today's S&P valuations reveal to us what a post-pandemic 2021 might look like, there is still reticence to declare the virus over and done with. Airlines are flying at 20 percent capacity; restaurants are below 25 percent full; office space is 30 percent unoccupied. No amount of cajoling or convincing can get a horse to drink at a trough if he isn't so inclined.