Scotty C. George
Chief Investment Strategist

November 16, 2020

Market Outlook:

Impact

Extraordinary surges in equity prices following the mid-March swoon in the markets have now created uncertainty about how P/E levels and future profitability can effectively synchronize. This has resulted in an understandable dialogue about *value versus growth* equities, and whether the pandemic has forever and immeasurably influenced the direction of stocks in the short and long term. Jobs data released last Thursday was quite poor, with many millions of persons still displaced, furloughed, or laid off altogether. Imagine, too, the disappointment and exasperation of investors who, because interest rate levels are so low, are forced into buying stocks with good dividends as their surrogate for fixed income products. But who is to say that that kind of "default" investing will persist, given the high levels of anxiety which infuse the situation? All this only makes the job of portfolio management that much more complex and compelling.

There is little doubt that the viral eruption has become the single most determinative factor upon our decision making. The disease carries on with no abrupt end in sight. Certainly, with second and third waves spreading around the globe, it has become the vector of record upon the financial markets, institutions, families across all/any borders and political spectrums.

As a result, consumer and corporate spending and costs have become disrupted. Earnings patterns are more disjointed, while the volume of laggard stocks continues to outpace winners. With the exception of core industries (healthcare, technology, consumer staples) declining demand for goods is eroding profits, revenues, and hope. Markets, needless to say, are unsure about which way to proceed.

The problem is trying to use *science* as a means of quantifying levels of *emotion*, such as panic and fear, that exists...a difficult thing to attempt to do. The virus is no one's fault; it is not a measurable variable that we have seen occurring with regularity in this century. There is not now, nor will there be soon, a silver bullet panacea for the pandemic or for the market's unique world-weariness. We must re-think our reactions to, behavior about, and norms concerning our way of life. At the risk of exposing the underbelly of our vulnerabilities and weaknesses, we must avoid falling victim to myths, untruths, and hysteria.

Our sciences exist not to placate fear but help define it......knowledge is tested in the crucible of crisis. We should not be beholden to tips or hyperbole from our neighbors, our relatives, or friends. Rather, we must rely upon scientific methodology and discipline to engrave our patterns of decision-making in order to create the optimal outcome for our portfolios and our lives.

Empowerment

Given all that, we remain optimistic about the tactical investment opportunities that exist...*in healthcare, infrastructure, agriculture, technology, ecology, and renewable energy*.....for the immediate phase as well as decades ahead. The viral outbreak, if nothing else, allows us to reset relative strength measurements closer to their mean averages, and to reevaluate structural asset allocations that had become bloated, defective, or antiquated during the prior year.

As I noted earlier, the swift "linear contraction" in stock prices during the Spring removed a lot of investors from the competition, but also rewarded those who stayed, or those whose indecision caused them not to act, recognizing the reality that *nothing changed fundamentally about the economy* except for the ambush of a pandemic. What happens going forward will be a peculiar blending of emotion, technical dynamics, and fundamental economic analysis. As in any cycle, our key metrics will focus upon companies that have **accelerating earnings, superior price performance, and strong relative strength integers**. From amongst that grouping will emerge sector rotation, promising trends, and a better understanding of what the landscape will look like when the Covid is fully contained.

Using this backdrop, it is appropriate to re-enter the "game", slowly at first and mindful of any setback risks, to reposition for a broadening of opportunity and a return to normalcy in economic activity in the months ahead.