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Market Outlook:

Paying a premium

The markets retreated somewhat last week from the internet mob-induced volatility of the week prior, although it bears noting that the specter of it having been done once now festers in the background. The volatility continues, but hopefully a keener vision prevails. Our inclination is to play rallies, not dips. The sheer volume of speculation driven by internet chatter must be looked at as an aberration, not as a validation of some underlying fundamentals. In fact, fundamentals are infrequently driving valuation, for all intents and purposes.

Although our discipline, quantitative analysis, is mostly regarded as a "reactive" science, one in which statistics are evaluated from past trajectories, these data can also identify price and time progressions which are expressed numerically as future probabilities. Prudent use of these stochastic integers helps us to look forward, for example as they relate to economic/political trends in infrastructure, energy, manufacturing and technology.

There is strong profit potential in each of these sectors, across a wide spectrum of geographies, in the next 12 months.

The offshoot of the maddening chat room speculation is that the markets lose sight of the forest for the trees, creating price bubbles that erupt, and disrupt, the orderly flow of trend cycles. It is fair to say that when these roadmaps disappear, the chaos left behind is shattering norms.

Headlines and hyperbole are not strategies, they are non-scientific emotional crutches. Most of the rallies borne of speculation are really fears of *being left behind*, not a conviction about *what lies ahead*.

Search, don't surrender

Last week we wrote about how a lack of alternatives in fixed income is fueling stock speculation. While this might be problematic it is not a death knell for investors. At worst, it is an inconvenience for not having another "parking place" for your money. Low interest rates are elongating the cycles in stocks while dramatically skewing the denominator in our calculations. As a result, the numbers sometimes provide a false hope about the continuation of up cycles. **To conclude, we see the perpetuation of daily new highs in stocks as an unfortunate consequence of low bond yields.**

If, however, the global economy does rebound this year in a post-pandemic world, there is a likelihood that interest rates will tiptoe slightly higher. What impact might that have upon the already bloated stock markets? There are innumerable issues with which to deal, including the dreadful unemployment numbers that came out last week…and the several months prior…healthcare delivery inefficiencies; social justice and criminal reform; hunger; poverty; and homelessness. Despite all measures taken *monetary*, the real solutions are *fiscal, political*, and *moral* in nature. Our biggest concern going forward is how and where earnings acceleration locates and how to take advantage of these shifting secular patterns in our client portfolio allocations.

It looks as if the market will be punctuated by one-off earnings successes and targeted sector rotation rather than an across-the-board acceleration in all categories for the next few months. Avoiding any exogenous and unexpected risks should be our primary focus.

Crises and recovery have always been a foundation of investing. For nearly four decades we have navigated these traumas by creating silo-specific portfolios including ***Health and Life Sciences, Alternative Energy, High Yield, Socially Responsible***, and our two most recent offerings in ***Global Water*** and ***Global Food and Agriculture***. By focusing upon specific needs, these portfolios also complement our endeavors in wealth building for institutions and the ultra-wealthy. New initiatives are forthcoming in areas of social and secular change such as ***Technology*** and ***Infrastructure*** utilizing our proprietary (**ArlingtonEconometrics**) database, always preserving our focus upon the possibilities and the future.