

Market Outlook:

Reset

The past few weeks have seen a dramatic shift in the relationship between the financial markets and the economy at large. One has been surging stronger (markets) while the other has objectively been getting much weaker. The incredible synergy and confluence of the two that had developed over the last decade has steadily eroded to a dissonance that appears to have no parallel connection whatsoever. It is unlikely, however, that the markets will sustain any enduring uptrend in the face of such overwhelmingly bad news.

Since the onset of the virus the markets dropped by nearly 30 percent from their highs in late February, followed by massive speculation and volatility which recovered, in near linear fashion, almost all of the losses, back towards those previous levels. The whiplash, like the virus itself, is unprecedented and unnerving. The fundamentals that underpinned the decade-long recovery are nowhere to be found.

Indeed, traders and value investors determined that "the cheaper the better", and why not get in while the getting is good? I happen to be more of a growth/earnings driven investor who prefers the prospects for determining investment success and capital gains be better laid out.

My wait might be interminable!!

The pattern of earnings derivation is likely to be changed forever by events on the ground. Analysis is predicting a different kind of normal. The negative impact of the virus is forcing businesses to employ new standards of governance and operation. The key to surviving in the post-pandemic economy is to cater to whatever the consumer believes is safe, reliable, and necessary.

Right-sizing

Obviously, deep recessions can leave lasting unemployment damage in their wake. Previously profitable companies will be threatened with bankruptcies, restructuring, or closings. To endure, they are now looking to adjust the number of employees they have on hand, as well as adopting compensation modification and flexible hours. Idle manufacturing space costs money without producing any profit. Shutting down physical space is now a matter of survival. Decisions transcend specific sectors or geographic borders. What once was "*anecdotal experience*" now becomes a larger pool of "*statistical evidence*" which, in turn, then become the trends of our time.

The analysis of those new trends leaves a fresh rational order from which we draw tomorrow's standards and probabilities. The flow of information defines the science of analytics, constantly changing shape and definition. Those who dismiss innovative data are relegated to unsatisfactory portfolio outcomes.

Thus, that which is complex at first morphs into an orderly quantitative study that becomes quite logical, reliable, and predictable. General observations become the foundation for reengineered sector weightings for the foreseeable future.

Those sectors which are destined for leadership are coming into focus today: ***internet technology, healthcare, biotech, pharmaceutical research, agriculture, ecology, transportation, and alternative energy.*** We are seeing a new generation of conversation, imperatives, and leadership which reset the landscape dramatically. Market confusion and turmoil will be good for entrepreneurship. It is more possible than ever to challenge existing "models" of how to do business, compete, and win.

The science of economics itself is being redefined by the gears of commerce shifting into neutral as a result of the pandemic. No longer dominated by discretionary cash and consumer demand, the rationale behind advertising and production quotas takes on new purpose.

There are so many variables and much uncertainty that a return to a "simpler time" is just not possible. A more viable aspiration is to learn to give credit to all levels of the employment spectrum, no matter how "trivial". We cannot predict the "other side" of the health and economic crisis. My role as a portfolio manager, however, is to apply scientific metrics to arrive at an accurate depiction of that which aligns with my clients' subjective representations of their timeline, tolerances, and expectations for the future.

For the remainder of the year at a minimum, the financial environment is likely to be volatile and unrecognizable. The best we can do at this juncture is to examine our own experience, and reflect upon all that is fortunate about our lives...and to keep uppermost in our mind the misfortune of others, which is a far sadder subplot to the story.

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