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Market Outlook:

Just as expected

Market volatility carried on last week just as expected, given that 2020 has already been a highly charged year. Investors have had to navigate a health pandemic, economic disruptions, an inversion of social norms, and an unusual intractability in political discourse. How else would you expect markets to react considering the uncertainty of business profitability?

It becomes increasingly more important for portfolios accurately to reflect the “real” risk tolerances, not just the bravado one feels when things are going their way.

I infer that more of the same unpredictability lies ahead, but with a resolution looming on the horizon. How this phase ends, of course, is entirely unknown, but the preponderance of evidence suggests that the situation is not as rosy under the surface as that which shines brightly in the news spotlights. Unemployment remains a thorny issue as the undeniable wealth gap continues to widen. A crossroads lies ahead for politicians and households. Profit taking in the markets two weeks ago nearly brought a halt to the bull recovery bubble. Like all exuberances, they must come to an end at some point. The seduction of stocks since the April lows is undeniable, but not a sufficient strategy to build long term sustainability. Practically speaking, prudent wealth management focuses as much upon mitigating downside risk as it does striving to generate valuation upside and capital gains.

Dissonant events are sometimes conflated into meaningless correlations. The expansion and exaggerations of relative strength integers in the market inflates both valuations and expectations unreasonably. There is a larger percentage of stocks and financial assets trading at bloated multiples today such that evaluations and predictions are harder to make based upon historical precedent.

Becoming addicted to stock rallies and hyperbole is dangerous. The Federal Reserve is stoking the fire with its “low and slow” proclamations last week, continuing a dose of low interest rates over a protracted period of time. The “feel good” effect of low interest rates is a quick elixir for systemic economic disequilibrium that needs to be addressed in the long run. Unless the global economy can sustain growth while also allowing rates and inflation to budge upwards there will always be an artificiality to the numbers. Only Repunzel could spin gold out of straw.

Certainly no one wants to relive the bubbles of 1999 or 2008 over again. Once is enough, thank you. Therefore, it would be nice to see politicians gain some empathy towards their less fortunate constituents by quickly addressing the hunger crisis, the environmental crisis, the social unrest, and the leadership void they (the politicians) are intentionally creating. None of this is the job of central banks or financial interventionists. It requires political courage and fiscal measures.

Profound lessons

With the challenges we all face from the pandemic, social injustice, and economic dislocation it is no wonder that there is insecurity. At the intersection of fear and stress lies a landscape with which many of us are unfamiliar and uncomfortable. Indeed, even the use of "scientific method" pales in comparison to common sense about what we instinctively “know” and what we “believe”.

Because there are no “correct” answers to the dilemma of what lies ahead the best we can do is to map out our long term goals, stop listening to outside noise and 24 hour media toxicity, and do what each of us feels is right for our own situation. After all, synthesizing those elements is what constitutes financial markets....and life itself. Battling the exigencies and uncertainty of what comes next is the essence of creating opportunity in the future.

(our next correspondence will be the Quarterly Commentary, October 1, 2020)