# The Coming-Out Party

**May 11, 2020**

America is getting back on track as state governors began to roll back stay-at-home policies as the coronavirus became less of the threat that spooked both financial markets and the global economy. Twenty-two states now meet the reopening criterion of 14 days of declining new cases, and twenty-nine states meet the criterion of a 14-day downward trajectory of positive test result percentages. By giving states the authority to respond to specific threats related to the virus, the overall economy should begin to recover as people are getting back on the road, going to restaurants and the wheels of commerce are beginning to turn. As medical experts and politicians became familiar with the properties of the virus, responses to treatment varied. For example, Governor Cuomo of New York changed his tune about the lockdown when his research team reported that 66% of hospital admittances for the virus were people who stayed at home and obeyed the rules. As we learn more about the characteristics of the virus, there is a lessening of the pressure to keep people at home. When we look out of our office windows, we see that both locals and visitors are visibly increasing. Today, all South Carolina restaurants can open so we are having our own “Coming Out Party” this week—but with appropriate distancing and cleaning requirements!

Over the next several weeks, the “Coming-Out Party” will continue and economic activity will begin to recover from the sharp declines of recent weeks. The process will be slow but that is not a bad thing since the crisis is slowing and is not over. As the saying goes, we are not out of the woods yet! We are still concerned about the low price of oil even though we have seen a rally up to the mid-$20s per barrel. This price is not high enough to justify the use of fracking for domestic oil production so we expect that a strong recovery in demand will be needed to push prices to levels that restore profitability for the domestic oil producers.

Over the past month, small cap stocks have rallied by 12% while their large-cap brethren as measured by the S&P 500 have rallied by 6.5%. However, there is still quite a disparity in returns between the Russell 2000 index that is still down 20% so far this year and the S&P 500 that is still off by 9%. Conversely, the NASDAQ rose last week to post a gain of 1.7% year-to-date. How can the stock market be rallying by over 20% in the face of record-breaking levels of unemployment and weakening corporate profitability? One reason is the stock market reflects future expectations and not current conditions. The economic and financial market decline was reflected in the initial stock market plunge. Another factor might be the choice investors are making between stocks that have had a major decline and a subsequent recovery versus the continuing unattractiveness of low interest rate government bonds and money market funds. While safety appears paramount for many investors, the offset is the low interest rate on these investments. At some point, a shift into stocks appears reasonable on the back of an improving economic outlook. In today’s world, the winners are stocks falling under our Information Superhighway, Productivity Enhancers and Quality Healthcare themes while the losers are energy and basic industrial stocks that we have little or no exposure to.