Looking Around the Corner

May 18, 2020

We have been deluged with requests to attend seminars on the impact of the coronavirus on the economy and financial markets. With so much attention being given to this once-in-a-lifetime event, we do not believe interpretive analysis from us would provide you with additional value. The importance for us is not acting as a Monday morning quarterback but providing our longer-term insights as to where we go from here in terms of financial markets.

The stock market rally today was credited to progress on the coronavirus vaccine. While that interpretation might be accurate, there are other potential reasons for the rally. First, Chairman Powell of the Federal Reserve stated the following on 60 Minutes: "There is really no limit as to what we can do with these lending programs." In other words, he confirmed that the Fed has an unlimited checkbook to backstop the financial side of the economy should additional safety net operations be necessary. Since there is no limit to the creation of money in countries like ours that control their own currency, the Fed can "write the check" whenever necessary. Bottom line: do not bet against the Fed.

Second, today marks another Monday when various states are gradually relaxing the stringent lockdown regulations that sent the economy into a tailspin of historic proportions. Once the magnitude of the crisis was known, there was a backlash to this broad shutdown of the economy. As a result, these gradual openings are giving the economy the green shoots necessary to begin recovering even though the virus is still rearing its ugly head. The important aspect of this change in strategy is consistent with the recognition that the lockdown was a knee-jerk reaction to fears created by the virus and now some common sense is being used to balance the risks of reopening with the potential further spread. Over the next few months there may be an ongoing battle between those states that open early versus those that decide to postpone opening. Progress on containing the virus will likely favor the states that open early as has been seen in other countries.

Be prepared for continued stock market volatility in response to near-term news. However, the worst has likely passed, and stock market volatility should be to the upside. On the other hand, success against the virus may undermine many of the stocks that have benefitted from the short-term impact of the response to the virus. The post-coronavirus environment will find the distinction between winners and losers and stock selection will continue to outperform general market indices. Expect interest rates to remain low creating next-to-zero returns for bond investors and continue to avoid foreign markets where free market economics is not the backbone for attacking the virus.