Our Mid-Year Outlook

June 29, 2020

Now that we are halfway through 2020, let's recap…So far, we have seen Australian wildfires, the impeachment fiasco, Brexit, Kobe Bryant's helicopter crash, the global coronavirus pandemic, and another incident of police brutality igniting racially charged riots and protests. Also murder hornets, locust and cicada plagues. So, who is ready for hurricane season?

Economic numbers being reported over the past few weeks and upcoming weeks are almost meaningless if used in context as the government's forced national shutdown disturbed historical trends that will take time to repair. Before the latest surge in coronavirus cases, there was expectations that a "V" shaped recovery would characterize the second half of 2020. The latest relapse due to resistance to take preventive measures voluntarily is adding to the concerns that the "V" would become a "U." As progress continues, on both a vaccine and therapeutic treatments, the outlook could turn on a dime if there are viable discoveries. We are encouraged by the reality that the global crisis is attracting a global collaborative response as many countries continue to search for solutions. On a positive note, many of the protective policies that were enacted to minimize the coronavirus have also had an impact on other diseases that are transmitted among the public. For instance, better mortality statistics on traditional influenza is a likely outcome. For the economy, the expectations for a quick bounce are fading and we will be in a slow recovery; subject to successfully reopening businesses on a state-by-state basis. A return to a normal functioning economy may take at least a year before the numbers appear reasonable.

The bond market and interest rates continue to reflect the Federal Reserve's commitment to maintaining near-record low interest rates for the next two years. As we have said before, low interest rates are great for borrowers but a catastrophe for savers. Many investors who are saving for retirement must rejigger their investment selections to reach retirement goals. According to Investor's Business Daily: "half of all American retirees have to make big spending cuts within five years of retiring, according to new research. In total, only 51% of those who left work between 1992 and 2014 had enough income to maintain spending levels for five years in succession…On average they had to trim expenses by 28% in their sixth year of retirement." To the extent that many of these retirees had a large portion of their savings in bonds that had higher yields than current bond issues, the outlook is even more grim. We do not expect to see any changes in interest rates for the balance of the year and next year. For young couples seeking a mortgage for the first time, this is an unusual opportunity to tie down a 30-year fixed rate mortgage in the 3% range.

The coronavirus is also redefining how we live. The divergence in stock prices is telling the story. Companies that suffer from the shutdown such as airlines, cruise lines and other group leisure activities are likely to display the greatest volatility. The beneficiaries of the shutdown will continue to prosper. Pharmaceutical companies working on a vaccine, home delivery businesses and educational opportunities via the internet are direct beneficiaries. New market leadership will prevail once such changes remain after the virus impact is over.