

## When Will the Bull Market Resume?

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Recent market prognosticators are saying that the stock market is overpriced and is due for a correction. The implication of the “market” in this context neglects to address the great dichotomy of the current environment. According to research by MFS, 35% of the stocks in the S&P 500 are down at least 20% year-to-date through July. Most of the favorable performance is attributable to what is known as the “FANG” stocks: Facebook, Amazon, Netflix, and Alphabet (G is for Google, the previous name of Alphabet). The pain is being shared by the rest of the market especially those companies in the leisure and recreation industries. The “FANG” companies have benefited from the pandemic as the government shutdown forced all of us to resort to the computer to satisfy many of our basic needs. When the pandemic ends through the discovery or invention of a vaccine coupled with a viable therapeutic for those infected, the tables are likely to turn. Remember Y2K and the growth stock mania of the late 1990s that did a 180 degree turn once the problem with computers never materialized? This situation is similar, and the vaccine discovery could create a different outlook for many stocks that have lagged the big growth winners.

Recent economic data give us insights to the direction of the broad market, not just the “pandemic” stocks. Larry Kudlow, the president’s chief economic consultant, has focused on the shortfall in inventories at a time when personal savings has been soaring and corporate cash is at record levels. These funds will get spent and production will have to ramp up to meet those growing demands. One good example is Toyota that forecast \$7 billion in profits this year. Also, wood prices are soaring in the face of increased housing demand as individuals are realizing that a 2.5% 15-year mortgage is a historic and may not last long. One problem that we see in this otherwise favorable outlook is that we may experience a brief bout of inflation as the forces of increased demand overwhelm productive capacity and an increase in prices is the direct result. As long as the Federal Reserve recognizes that such a surge is a one-time event, we will be okay. But, keep your eye on Fed policy and interest rates, they could be a leading indicator of the next stock market weakness.

Another speed bump in the near-term outlook is the election. No matter what the outcome, economic policy will remain expansionary so investors should not worry about a “market crash” if one or the other candidate is elected. There have been great presidents in our lifetime who were both Democrat and Republican. Since the people select a president then they will get what they deserve because they made the choice. Our investment outlook may be affected by the outcome of the election but for now we remain optimistic that the first quarter stock market decline was a temporary interruption in a long-term secular bull market with plenty of room to run.