

TRANSITIONS

A TALE OF TWO OUTCOMES

For the last few weeks, the markets are trading as if the COVID-19 is no longer a threat to the world economy. Traders have placed this virus in the rear-view mirror, seeing an economy rapidly returning to normal. The markets are always forward looking, but there are more hopes than facts to support a euphoria.

With a “V” shaped recovery in stock prices, are these investors delusional? Most stocks seem fully valued, with price earnings ratios nearly twice what they were in the 2009 recession. Many stock prices have moved back to near the February highs of the market. What supports this upward move is that the Federal Reserve is providing monetary stimulus of unlimited liquidity. Also, fiscal stimulus is flowing through programs like grants, loan forgiveness, and stimulus checks.

Here’s the reality check. The markets never had to factor in a global health pandemic that forced a government shutdown of a robust economy. Every expert I have listened to stresses the need to have medical solutions of widespread testing, a therapeutic drug to cure patients, and a proven vaccine administered universally. Even at breakneck speeds, this still takes many months. Research scientists are always passionate about their newest drug, but this does not mean their experimental drug will work on a broad population. To be candid, at this point we do not have the medical tools to combat this Pandemic.

In the new economy, I envision workers being tested daily before entering their workplace. Those who are sick will be cured by their doctor. And the public will be protected with vaccines. Yet today, we seem a long way away from this robust scenario. Without the first step of a robust testing process, it is difficult to see workers entering buildings together, or taking crowded elevators to their workplaces, or



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using mass transportation like subways, trains, or planes. A former Governor of the Federal Reserve mentioned it will take at least two years to get back to normal.

Another problem is consumer behavior has changed. Part of their lower spending behavior comes from spending their days working at home. Yet another big factor is the numbers of Americans who are now unemployed due to the Pandemic. In February, the U-6 unemployment rate was 7.0%. Just two months later, 22.8% of Americans are now unemployed. Given the growth in our economy is consumer driven, it is essential that consumers feel optimistic enough to change their behavior back to spending on items beyond just essentials.

There is no question our nation will collectively find a way to enter this new economy. The issue is all about the timing. While we wait, our conservative approach is not to act delusional. With so many unknowns, it is rather comforting to have higher than normal cash positions, all while holding high quality securities while we wait for the medical breakthroughs to occur.



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