

# TRANSITIONS

## CROSS CURRENTS

A friend eloquently described what we are facing. “We are in a difficult storm, but each of us is riding it out in different boats.” Americans face many cross currents. Some boats are full of small children, while others have family members with health issues. Some boats face financial hardships, while others appear problem free. In this journey, every boat is navigating a different path as they deal with their own set of issues. What is clear is every American is facing elevated levels of stress as they ride out this storm.

This storm is impacting the economy and the markets. Some examples of cross currents that I am observing include:

*Politicians versus the medical experts:* Politicians have the difficult task of leading us out of a government shutdown. With no experience handling a changing pandemic, some diverge from the advice of the medical community. Years ago, I spent some time with Dr. Fauci in his office at the National Institute of Health. He is the real deal. What struck me was his rare combination of medical knowledge and a deep understanding of how politics work. He is the one person we should carefully listen to as events unfold.

*Markets are moving higher with higher infections:* The stock market continues to move higher despite nationwide increases in COVID-19 infections and deaths. The markets are acting as if the virus is now in the rear-view mirror with everyone successfully vaccinated in just a few months. The markets simply ignore bad news. What if this health pandemic worsens, or we discover that fiscal and monetary policy cannot contain the virus?

*Bond market rally among downside risks:* Bond markets continue to rally driving yields down to historic lows. Yet Federal Reserve Governor Brainard recently stated the difficulty suppressing the coronavirus will pose substantial risks for the U.S. economy, including a double dip in economic activity. The nation faces a long, slow recovery. “A thick fog of uncertainty still surrounds us, and downside risks predominate”.



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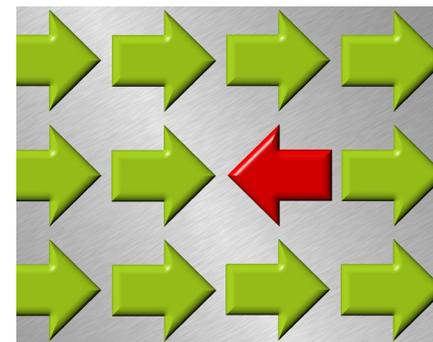
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**Implications of loan losses:** Three of the top U.S. banks just set aside \$83 billion for credit losses in both commercial and consumer loans. They expect higher losses in consumer mortgages when payment deferrals end, and higher credit losses due to elevated unemployment. This occurs more often in a recession than a booming economy.

**Elections:** In November, we face a presidential election which on one level has choices of character and competency. Another level is the impact on the markets in terms of the costs of implementing policies. The election will trigger different levels of taxes on individuals and businesses, which may harm economic activity and thus impact the markets. As the election outcome is uncertain, the impact is not factored in the markets.

**Investing strategy:** We have experienced the benefit of running a conservative investment strategy through many recessions. This is the wrong time to discard caution and invest in wistful stories and ideas that lack underlying fundamentals. Preservation of capital is paramount in this storm. Wisdom and patience are two important components of investing that will get us through these unique times.



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