October, 2020

Q3 2020 Commentary: Vaccine watch…

Let the good times roll? The incongruence of the march higher in the stock market versus an economy that is still rocked by the covid-19 pandemic is striking. Certainly, the sheer magnitude of the CARES Act funding has helped sustain the economy. When much of the stimulus funds came to an end in August, enough cash had already been pumped into the system that its effect continues to be felt. Furthermore, the gradual re-opening measures have also contributed to the partial recovery from the initial economic shock. So, despite the shutdown and limited re-opening, the economy has bounced back better than was generally expected. Current conditions give investors hope we will survive 2020 and turns the focus toward 2021 and beyond. In that regard, optimism persists.

Enough positive news in the 3rd quarter drove the continuation of the stock market rally off the March 23rd low. The S&P 500 advanced 8.5%. In the bond market, the Federal Reserve continued to reiterate it is not even thinking about thinking about raising interest rates. With rates stable and at pegged at very low levels, the bond market returned 0.6% in the quarter.

Surprisingly, strong economic numbers in the summer propelled stocks higher. Stimulus continued to ricochet through the system. The news has sustained investor belief that the economic environment can survive until the pandemic can be controlled. However, when the augmented unemployment benefits ended in August and prospects for another round of stimulus bogged down in Congress, stocks struggled highlighting the importance of further stimulus to the stock market. At this moment, further stimulus appears to be caught up in election politics, but another package, in some form, will ultimately be passed providing further support for the economy and the stock market. Federal Reserve Chairman Jerome Powell, in speeches and congressional testimony, has repeatedly reiterated the need for further aid to keep the consumer charged up buoy the economy. From here, the overwhelming factor supporting stocks is the stimulus package. Well, the stimulus package…and a vaccine.

Progress on a Covid-19 treatment and a vaccine continues. Head of the National Institute of Health, Dr. Anthony Fauci recently reiterated a vaccine is likely to be approved sometime just before, or early in the new year. Widespread availability and a return to normalcy will come sometime thereafter. All signs point toward this eventuality, in the Spring at the earliest. The stock market has incorporated this relatively positive scenario into its expectations.

While stimulus continues and vaccine prospects meet targets, the market will be fine. We also need to remember that the economy is not the stock market. There is no doubt there has been vast damage to small business which makes up a large percentage of US employment. We see businesses close permanently all around us. However, the stock market, and the S&P 500 in particular, is made up of the largest corporations in the country that have many resources to manage through these times. We should expect the S&P 500 to outperform the economy. For many, buying the best of the best is a safe trade. Owning the Amazons, Googles and Microsofts of the market is expected to ultimately pay off even if one overpays today. However, real opportunity exists among the smaller companies and it is among these where patience and price sensitivity will be amply rewarded.