CONWAY• JARVIS LLC
Investment Outlook

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Update

Competing Narratives Drive the Market

Let's sum up the trimester that's drawing to a close. The S&P 500 peaked at a record high on Feb 19th. Courtesy of the COVID-19 event, we found ourselves almost 34% off that high on March 23, ending the record-long recovery bull market and officially logging the first bear market since the Great Recession of '08-'09. Since that day, we've witnessed an unprecedented fiscal and monetary policy response to the crisis. There was little choice but to act quickly. The Fed opened the floodgates and employed all its tools to stimulate the economy while the Treasury embarked on a check-writing binge, deficit be damned.

The stock market responded by launching a rally that would see investors enjoy the best performance in 33 years for the month of April. Led by the large-cap Reliables, Materials, Services, Info-Tech, and Healthcare, the S&P 500 logged a nearly 50% retracement of March's bear market decline. We have no illusions about this being a rally fueled by fundamentals. Economic data for March points to our descent into recession with more bad news ahead. Connecting the dots, we see broad erosion of earnings and dividends being suspended across a number of sectors, such as Industrials/Manufacturing, Energy, and Travel/Leisure.

Seeing Q1 GDP contract at 4.8% and Consumer Spending decline 7.5% this week marks the beginning of "our" recession. It's likely the data will get worse before it improves from here and the stock market will sniff that out. Currently, the market seems focused on competing narratives: An improving scenario for the virus in the short run and an estimate of the damage to fundamentals in the longer-term. Investors clearly focused on the former this past month.

Each week that passes in this grand experiment, a forced reset of our economy, will have an exponential effect on whatever recovery that follows. Needless to say, sooner rather than later is the preferred option for hitting the Restart button. That not being assured, we're likely to see this Relief Rally lose momentum and the market settle into a trading range driven by the competing narratives. That would be a precursor to the market reconnecting to the economy in terms of assessing the damage suffered and the outlook for the expansion that will follow.

We were fortunate to enter this downturn with record levels of cash on hand, allowing clients to meet their liquidity needs as well as providing capital, for those so disposed, to take advantage of opportunities in the market on the back side of this crisis. We suspect the road to recovery might be substantially longer than the stock market's currently indicating. We can't make an educated guess as to how the economy will look on the backside of this event, but have to assume "smaller and slower" with regard to the rate of whatever expansion that follows. At this juncture, we advise clients to be patient and resist FOMO (Fear of Missing Out).

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