CONWAY • JARVIS LLC
Investment Outlook

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Update

The Fed Delivers a Sobering Assessment

This week the stock market took a step in a direction toward reconnecting with the longer term outlook for the economy. On Wednesday, Fed Chairman Powell offered that "the outlook *for the recovery is* highly uncertain and subject to significant downside risks." He made that comment while addressing questions about how much more the Fed may have to do in deploying its resources if the recovery doesn't appear as quickly as the market and some in the Administration anticipate. His main worry? That a liquidity problem for businesses in the near term could become a solvency problem if the reopening of the economy doesn't produce the desired result on schedule.

We've been expecting the market to settle into a trading range as we await results of the reopening and Wednesday's selloff could mark the beginning of that. Investors will be asked to engage in a continuing cost benefit analysis of policies balancing the economy versus the virus. There are those who advocate taking any and all measures to eradicate the virus regardless of the cost to the economy. They're pitted against those who seek a resolution that leaves us with a functioning economy and are willing to accept the risk of reopening sooner (with commensurate safety measures) rather than later. That's no more apparent than among the individual states as they craft those reopening strategies.

The headlines surrounding the reopening are likely to keep the market range-bound in the weeks ahead. Longer-term, the economic data and the Fed's response to it will give us an indication as to whether the March 23rd lows will ultimately be tested. At this point, we think not. There's a current bifurcation within the stock market between companies somewhat insulated and more adaptive to the crisis and those that face an existential threat. The performance of large-cap issues in favored sectors such as Tech, Healthcare, and Staples has masked the dismal results from those in Retail, Industrials, and Travel/Leisure. We expect that to continue through the crisis.

The week came to a close with Germany backing into recession while Industrial Production and Retail Sales in the US posted declines not seen for decades. The data, negative as it is, should no longer come as a surprise to investors. In the next several weeks, we believe the market will focus on the mixed results arising from the reopening and any policy response that follows. Until we see positive developments regarding testing capacity and news of a vaccine, we see stocks churning through a consolidation of last month's Relief Rally.

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