CONWAY• JARVIS LLC
Investment Outlook

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Update

Welcome to the New “Careful” Economy

The stock market oozed more optimism this week as it shrugged off gloomy economic data while the major indexes advanced through important technical levels. This served to green-light traders and broaden the relief rally to even the most down-trodden of sectors. The catalyst was anticipation of a smooth reopening of the economy as many states eased restrictions on businesses and gatherings. We also saw evidence that many Americans are disregarding restrictions regardless of where they live. Both developments point to a resurgence of consumption necessary for any recovery that lies ahead.

We’re in uncharted territory as we watch the economy sink into what could be a lengthy recession while the stock market lingers a mere 6% off its record high of February 19th. In recent weeks it’s become apparent that traders welcome any positive news, however speculative, with a commitment of new capital. While we’re the beneficiaries of such largesse, we’re skeptical that there will be enough chairs available for them when the “music” stops. And by music, we mean the headlines speculating about the imminent development of a vaccine, an increased capacity for testing, or any other positive surprise that points to a return to normalcy. At present, those headlines have displaced real news of the economy in the eyes of many investors.

We have our doubts that expectations for economic recovery that have driven stocks higher will match the reality of what’s to follow the reopening. The current bifurcation of reopening policies among states, and even counties, makes it unlikely we’ll see a massive behavioral shift by the populace toward risk-taking. As an economy driven by consumer behavior, we need to experience that shift. It will take time. What’s likely to emerge is a “careful” economy, one of reduced capacity that is less efficient and generating lower margins. The result? Fewer winners and more losers in the early stages of recovery. Lurking too in the background will be the eroding trade relationship with China and the possibility of a second act for the virus in 2021.

It appears the market has been advancing on any positive noise regarding the virus and a successful reopening in 2020 and, for now, glossing over the prospect of the less-than-robust recovery we’ve just described. As investors, we’re looking to position portfolios for next year and beyond. As the market briefly retreated a few weeks ago we began to nibble at a few new name opportunities. We believe we’ll see more opportunities as market expectations give way to the reality of what will be a “smaller and slower” economy as we make a return to positive GDP growth in 2021.

Please contact us with any questions or needs. We will continue to update you weekly until we feel there is some return to normalcy.

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