



CONWAY • JARVIS LLC

Investment Outlook

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Update

“Talking” the Market Higher Seems to Be Working

In a holiday-shortened week we've seen the stock market close out Q2 on a high note, leaving all the major averages with double-digit gains for the quarter. That momentum carried into Q3 with three consecutive advances for both the NASDAQ and S&P 500. Better than expected economic data and speculation regarding vaccine development fueled the advance despite news of the virus transmission spiking in a number of states.

Today's employment report indicates that 7.5 million workers have returned to their jobs this quarter. Overlooked by the market are the 15 million that remain unemployed. That's an unemployment rate of 11.1%. We're not excited by that number or the 17.7% increase in retail sales from the prior week. Why? This is the law of small numbers at work where nominal gains over low numbers appear impressive when expressed as a percentage. That allows any monthly increase to be spun as a “good” number even though that number remains drastically lower than it was in the pre-pandemic period. We saw that being done at this morning's WH press conference where one of our favorites, Larry Kudlow, predicted a return to peak numbers for the economy in 2021. We hope he's right but.....

The economy fell into a black hole following the onset of recession in February. In March/April, employment, consumption, and manufacturing cratered, for lack of a better term. May brought data that showed the economy contracting at a lesser rate than before so there is light at the end of the tunnel. *How long a tunnel we don't know because of the virus.* So far, groupthink among traders has triggered a buying response to economic data while investors sit and ponder the tangible disconnect between the market and a contracting economy.

The current weakness in the economy will undermine the fundamentals of a significant number of companies. The question for us is whether earnings will even matter as market experts and the administration attempt to “talk” the market higher from the current trading range. It's possible, given how we've seen stocks trade this past month. Eventually, fundamentals will matter more than talk and speculation. We'll continue to bide our time while on the lookout for any opportunity that presents itself.

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