CONWAY• JARVIS LLC
Investment Outlook

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Update

A Mostly Quiet Record-Setting Week

We were expecting a relatively quiet, holiday-shortened week. Monday started off as expected with mixed results as investors took profits in the mega-cap issues that led the market this year. The rotation from Growth to Value/Income stocks is now fully engaged as profits taken in the mega–caps are being redeployed into those Cyclical issues that should benefit from the more full recovery we anticipate in 2021.

We then saw this “quiet” week punctuated by Tuesday’s “melt-up” in the market. The major averages advanced sharply, leaving the DOW 30 with a new record high close above 30000 while the S&P 500 and NASDAQ hovered near their record highs of the Vaccine Rally of two weeks ago. While skeptical of the DOW’s relevance as a price-weighted index, it’s the one that CNBC and most media types talk about when describing the “market”. Tuesday’s close marked a gain of more than 60% for that average since the March 23 bear market low. Regardless of a favorite index, it appears investors are looking beyond the current virus surge to a better next year with the stock market currently awash in optimism.

No doubt, the outlook for a vaccine and widely available testing next year is bullish. The currently robust Q3 earnings season is almost complete with a record number of companies beating estimates, leaving the aggregate earnings number for the S&P 500 near its pre-COVID level. The presidential transition was confirmed on Tuesday and with the *probable* outcome of the Congressional election *almost* behind us, there’s reason to be bullish.

We’re optimistic about full recovery in 2021, but the timing of it gives us pause and explains our reluctance to chase this market and raise equity allocations. As good as things appear to be in the market, there’s a nagging concern that, absent continued and targeted stimulus, full recovery of the economy will take much longer than thought. That means the market may be running too far ahead of the underlying fundamentals. As investors in the *economy*, we’re having difficulty getting past the ongoing damage to employment and financial losses emanating from service sector businesses shut down due to COVID restrictions. We’ll be watching that closely.

Our update is being posted Wednesday as we’ll be closed Thanksgiving through the weekend. If Friday’s abbreviated market session holds true to form (uneventful) we’ll have had a *mostly* mundane week for the market. We believe Tuesday’s big rally offered a glimpse of what investors can expect from the *market* when “normalcy” returns to the broader *economy* and includes those sectors now most adversely affected by the policy response to the pandemic. We look forward to that day. Wishing you and yours a Happy and Healthy Thanksgiving!

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