CONWAY• JARVIS LLC
Investment Outlook

Volume 30 Issue 4.6 February 25, 2021

# Update

**Investors Rebalance While Washington Dithers**

It's been a noise-worthy (not newsworthy) couple of weeks since our last update. In the aftermath of the much-publicized "Trading Frenzy", it was determined that a number of gullible and impulsive traders lost money speculating on stocks. Losers in the stock market? Shocking. Definitely not a first, but apparently news to some in Congress who feel compelled to save people from their own worst instincts. The House Financial Services Committee launched a televised hearing last week where members played "Gotcha", posing paragraphs-long questions to witnesses and then demanding a yes or no answer. Brilliant stuff. Nothing Accomplished. We've previously bemoaned a glaring *deficit of historical* and *economic literacy* by some in government. After viewing that hearing, we'll now add *financial market literacy* to that list.

We assumed Congress would press ahead with ratifying the proposed $1.9 trillion stimulus package. Sadly, the posturing over less urgent matters continues while Main Street awaits. Meanwhile, the market has paused near record highs as investors have accelerated their reallocation of capital from the stay-at-home Tech sector to more attractively priced cyclicals and some of last year's big losers, Energy, Travel, and Hospitality. We attribute this to increasing optimism regarding an improving vaccination rate and a recent decline in new COVID cases. Airlines, hotels, and cruise operator issues have lured capital away from the high-priced mega-cap stocks that led the market last year. The result has the NASDAQ *trailing* the S&P 500 and DOW averages in the past week as many envision a COVID-benign economy ahead. There's no assurance of that but the valuation disparity between Value/Income and Growth stocks is far too attractive for professional investors seeking diversification to ignore.

While we're seeing a few "bubbles" in several individual stocks, commodities, and crypto-currencies, we view this week's pause in the market as an indication of rational analysis by investors. We believe that the movement of capital to value *within* the market is a good sign and lessens the possibility of a bear market this year. For that reason, we're expecting only a moderate consolidation in the averages or a brief correction at worst. If the retreat of the virus continues and a modicum of herd immunity is attained, pent-up consumer demand, fueled by the Fed and new stimulus, could supercharge the economy and its markets for a time. We're currently not in the camp predicting a spike in sustained inflation that would prompt the Fed to respond with higher key interest rates. However, we'll continue to monitor conditions as that could change.

A fresh fiscal stew of tax and spending measures is about to be served up by the new administration. Some of the loudest voices in Washington are clamoring for their wish lists to be paid for by a narrowly populated tax base of corporations and billionaires. That approach might appeal to the many taxpayers that believe they're not affected. However, those that are footing the bill will adapt and adjust as they always do, possibly triggering some unforeseen consequences for the broader economy in terms of employment and CAPEX. There will come a day when significant fiscal policy change is required to pay the check due for full economic recovery. This is not the time. Investors are unlikely to welcome a return to the days of policy - constrained GDP growth that we experienced prior to 2018. Stay tuned.

**Conway ● Jarvis LLC**