

INSIGHTS

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# ARRESTING ECONOMIC GRAVITY

## AND TRENDS AHEAD



THINK FORWARD.

*The market confirmed that the government fiscal and monetary intervention has been successful in arresting economic collapse. Following the March lows, both the S&P 500 and Dow posted their best one-month gains since 1987. Year-to-date losses were nearly erased by early June. Investors are looking past the immediate economic damage towards better prospects in 2021 and beyond. Low interest rates continue to encourage equity investing as borrowing becomes cheap and bonds offer unattractive yields. According to the Wall Street Journal, money market cash deposits sit at a record breaking \$4.6 trillion, surpassing the \$3.76 trillion level last seen in 2008. All this cash will eventually have to go somewhere.*

*Despite the market optimism, many risks still exist, many which predate the virus. Economic growth began slowing from its cyclical peak, corporate debt to GDP was at an all-time high, and an earnings recession was developing in the U.S. – all before the virus even hit. Since then, unemployment has rocketed from 3.6% in January to 13.3% in May before falling to 11.1% in June. Corporate earnings declined during the first quarter, and the second quarter (which includes more of the shutdown period) has yet to be reported. Concentration within market indices have also increased, as the largest 5 companies (Microsoft, Apple, Amazon, Facebook, and Alphabet) now comprise 46% of the Nasdaq Composite and 22% of the S&P 500, up from 17% at the end of 2019. This type of concentration allows a few companies to prop up the rest of the index. Market volatility reached near all-time highs in March, and while it has come down from the selling frenzy, it remains at a level not seen since 2011. These warnings signal that the market may be ahead of itself.*

*The uncertainty of Covid-19, the Presidential election, trade relations particularly with China, and social movements all contribute to an air of unease at these market levels. The timing of a full economic recovery remains very uncertain. China is three months ahead of the U.S. in terms of normalization and has returned to 90% of its previous economic capacity. Even if we can return to 95% capacity, a 5% hole still has immense consequences.*

Despite so much to worry about, we see several positive trends that have accelerated during the pandemic that we believe will gain permanent traction. The ubiquity of teleconferencing as a necessary communication tool has exploded over the last three months, triggering the need for faster transmission of data and voices that can be better served through the adoption of 5G and cloud computing. Social distancing has mandated broader adoption of telehealth services to transmit the diagnosis, treatment and monitoring of chronic medical conditions. The delivery of health care through nontraditional digital channels should also encourage transparency in pricing and a more consumer-friendly environment.

All businesses are being forced to adjust, some will survive, some will not. This collective experiment has forced us all to come to grips with what are real necessities. These new trends will most certainly have a direct impact on which companies are the winners and losers of tomorrow's economy.

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