June 10, 2020

# Is this a Crazy Market?

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Many of our conversations with clients and investment professionals alike are a variation on a theme: "In light of the circumstances, I can't believe how much the market is up!" This is an understandable sentiment, and our own strategy team has become less positive on equities as a result of the recently blistering market rally. However, we think it's a mistake to see the market as fake, unsustainably pumped up, or the product of allegedly dumb money trading from home buying stocks. This thinking can lead to making "the big call" to make significant changes to your asset allocation based on your view on the current market rather than focusing on the long term.

**Sudden Crash, Sudden Rally**

Obviously, there has been a significant shift in the investment narrative. Previously, investors focused on the idea that strict lockdowns could go on for a long time or that future Coronavirus waves would necessitate re-lockdowns. It became clear quickly that the current economic damage from the shutdowns would be epic in scope. The government's initially bungled response to the virus certainly increased pessimism. Businesspeople feared shell-shocked and unemployed consumers would not be coming back very quickly.

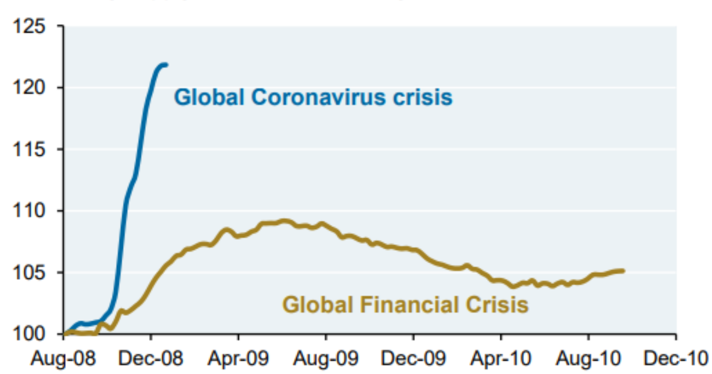
What is different now? While possibly overdone, the waves of optimism washing over the stock market have an underappreciated basis in reality. The market has received generally good news on three fronts: a flattening infection growth rate, a strong fiscal and monetary policy response and building evidence that U.S. consumers are more willing to resume old habits than feared.

We are not medical experts, but the virus news trend is generally much improved. Americans generally observed social distancing fairly strictly, washed hands and wore masks. Outside of New York City, hospitals were not overwhelmed. Arguably, the shutdown succeeded in flattening the curve. Even in a second wave, there is less fear the medical system will be swamped and that huge numbers of Americans will die. Doctors and scientists are learning rapidly about the virus and treatment innovations, even with existing medicines, seem to be improving mortality rates.

We have previously detailed the fiscal and monetary response from the government, so we won't reiterate the details here. We note the policy response was much larger and faster than during the Great Financial Crisis of 2008-2009. We think any future shutdowns will be localized and much looser than the initial response. There is a strong probability the stimulus measures will outlast the peak of the virus' economic impact, especially in an election year.

**Faster growth in the money supply this time around**

M2 money supply + institutional money market fund balances, index

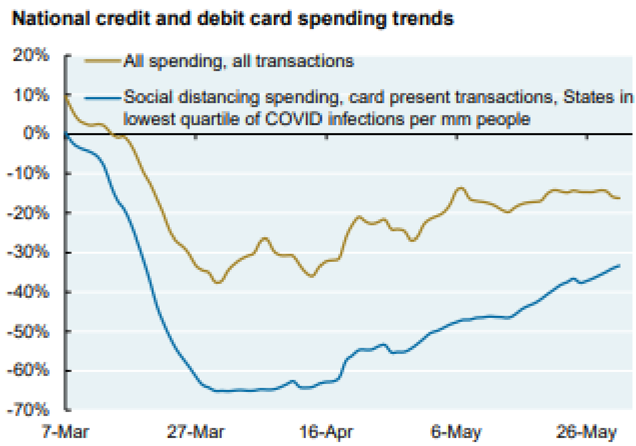



Source: St Louis Fed, J.P. Morgan Asset Management. May 25, 2020.

Rather than decrying government intervention in the market, it is more productive to ask what the catalyst is for that intervention to stop – and we do not see that as likely for some time. We believe Fed and Treasury policies do influence fundamentals. While some feel the government's quick response reinforces a bad trend of excessive government intervention, the reality is massive support to bond markets and a clear commitment to keep yields low means investors' calculus will change. As calm returns, low interest rates in the treasury market translate into increased risk taking across the board.

**Consumers Going to Consume?**

We are not minimizing the job losses, business damage and economic pain of the pandemic. But, unlike a fundamentally failing business, a government required shutdown means losses are real but temporary and reversible. Most workers will be able to return to their old jobs. Additional unemployment benefits have been a critical support to vulnerable consumers. If you lost your job but have much of the income replaced, and you think you can go back to work, you may still be willing to spend. As the chart at right shows, hotel occupancy, miles-driven and other real time data are depressed but rebounding more quickly than most expected.



Source: Internal Chase data, JPMAM. Social distancing: retail, lodging, restaurants, amusement parks, theaters and other recreational services. May 31, 2020.

Investors expect that 2020 profit impacts will be most severe during the second quarter. But while earnings will worsen in the coming quarter, markets are inherently forward looking. The value of an ongoing business is not mainly in the next year, but in the discounted cash flows it can generate for years.

**What to Make of the May Jobs Report**

Following weeks of horrific job loss numbers, last Friday the May jobs report shocked observers. Instead of further heavy job losses and a rising unemployment rate, the report showed the economy adding 2.5 million payroll jobs, with the unemployment rate falling to 13.3% from 14.7% in April. A grain of salt is warranted because there could be significant measurement problems due to the rapidity and scale of unemployment from the crisis. Nonetheless, the report is good news with positive implications for the pace of the recovery. But investors need to remember the context: 2.5 million more jobs are great, but this news follows a job loss of 22 million during the prior two months.

**Conclusions**

Looking ahead, there are many unanswered questions, both medical and economic, yet investors should be encouraged that the direst outcomes appear to have been averted. One of the important questions for the future will be the impact of the debt incurred to push $3 Trillion plus into the economy. Massive fiscal and monetary stimulus could mean higher inflation, higher interest rates and higher taxes down the road. It's possible that the more aggressive US response relative to other countries could weaken the dollar, which would help the relative performance of international markets. As always, we are considering potential impacts to investment portfolios given a wide a range of potential outcomes.

Thank you for your support and trust in Berman Capital Advisors. Please reach out to your Wealth Advisor with any questions or comments. We wish you and your families a safe and pleasant summer.

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