

## Market Watch with RMH

Each year I mention to clients, and it appears this year is no different, the last two weeks of August before Labor day, the markets get quiet. Why is that? In my opinion, senior management in the Northeast takes time off before Labor Day, and tells all of the junior employees to not make any mistakes. This leads to quiet times, as a serious mistake at this time poses “career” risk, after all who wants to call a boss on vacation?

The last two weeks we have had both political parties conventions, and the news each day was the coverage of what they said the night before, what they might say going forward, while totally outshining the corresponding business news. Now we have a week or so before Labor Day, what could go right/wrong?

The stock market has been on a tear as of late, and I have been looking through the news to find out why.

The following thoughts come from Andrew Ross Sorkin of the NY Times (black and italicized), and I add my comments as well:

- 1) ***The stock market is forward-looking:*** Investors are betting on what the world and the economy look like in 12 to 18 months from now, not what they look like today, tomorrow or this fall.

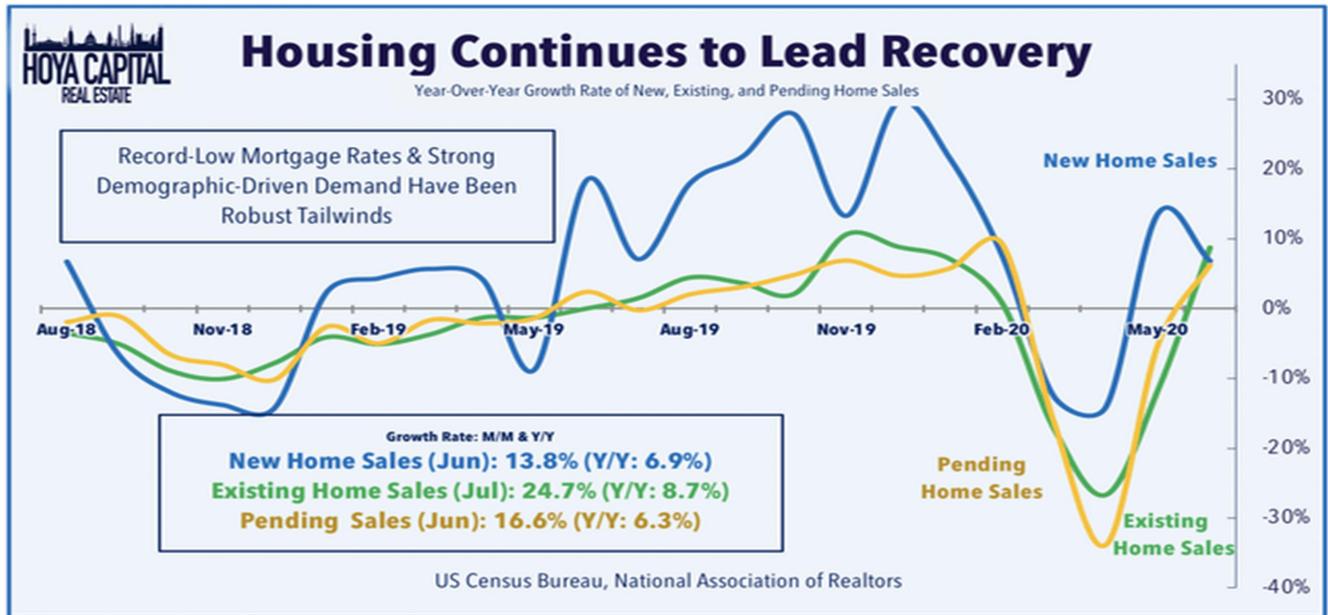
### S&P 500: Stocks Breakout For 2020

Click to enlarge



Source: Gerring Capital Partners, StockCharts.com

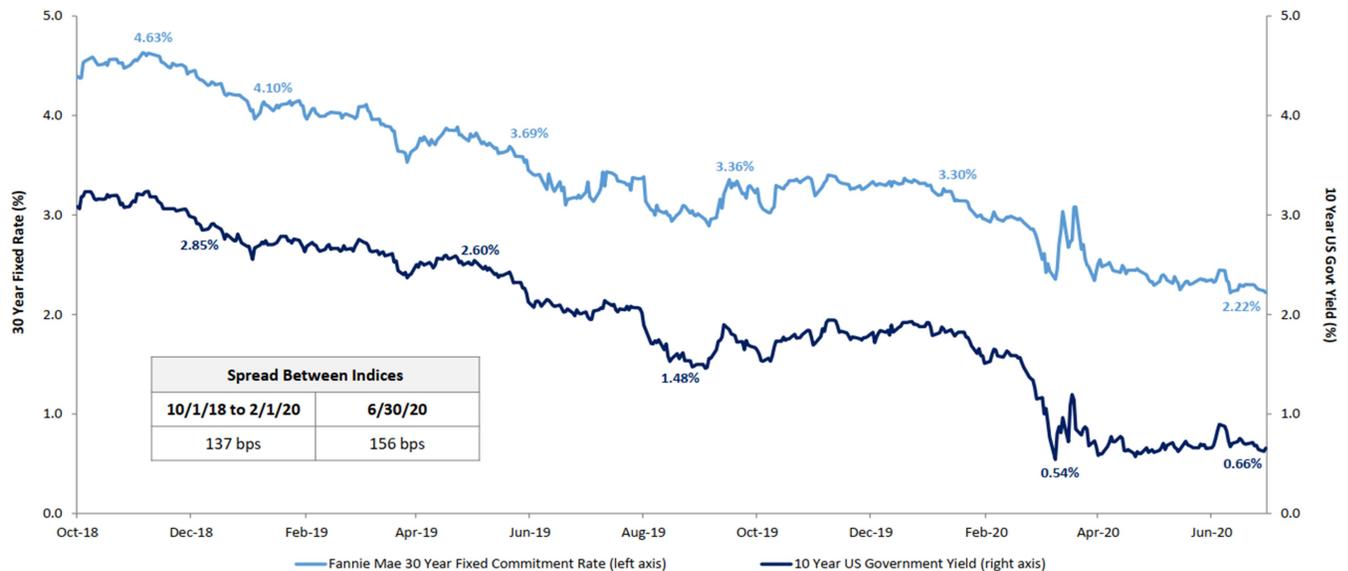
The chart above confirms to me investors are looking past covid, and that the economy will be recovering nicely in the next 12 – 18 months, almost as if covid did not happen. The following charts show the confidence homeowners have as they are taking advantage of the historic low rates to refinance and purchase new homes!



### 30 Year Fixed Rate Has Dropped 241 Bps Since November 2018



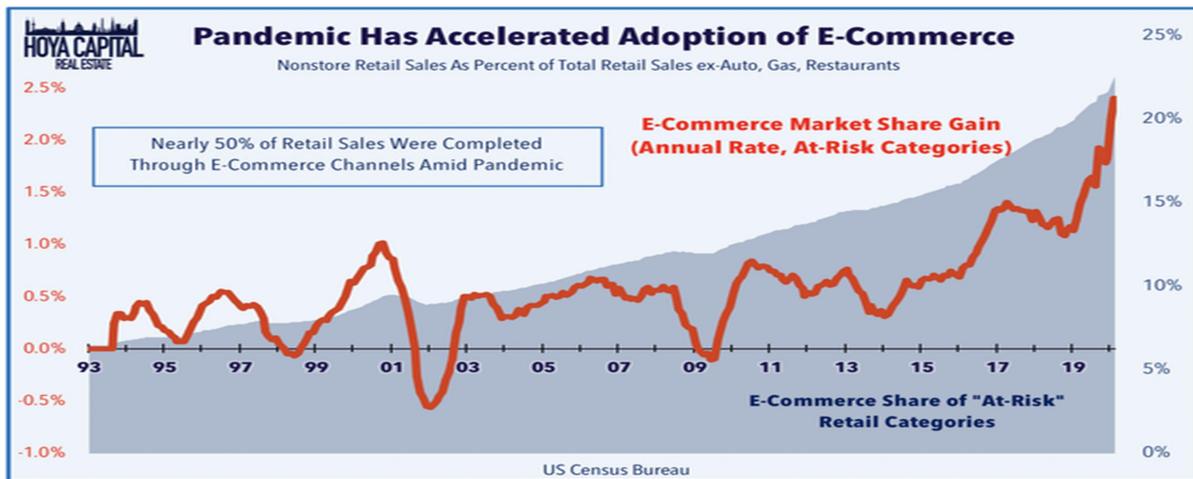
### 30 Year Mortgage Rate vs. 10 Year US Bond: September 30, 2018 to June 30, 2020



Source: Bloomberg, Fannie Mae Commitment Rates 30 Year Fixed Rate 60 Day: FNCR3060 Index, 10 Year US Government Yield: GT10 Govt. Data as of 6/30/20. Mortgage loan payments assume 20% down payment, 30 year fixed loan.

Housing is generally around 20% of the economy. As an aside I see a lot of home remodeling on walks through the neighborhood and Home Depot is packed at El Con Mall on the weekends.

- 2) ***The big get bigger:*** Much of the stock market's success has been the result of a run-up in value for a few big technology companies — including Apple, Amazon and Microsoft — that make up a large share of the index. And retailers like Walmart and Home Depot are growing in part because small businesses have closed, allowing the bigger companies to take even more market share.



While the consolidation of the large cap companies is a concern, there is more to this. With \$3T – \$6T sitting in cash, and earning next to zero, investment monies will go into the stock market. Easiest way to get exposure is buy the stocks mentioned above. One thing all of the above mentioned companies have in common is robust E-Commerce platforms, as do a lot of other companies. It has been mentioned the U.S. has three times as many retailers per capita as the next country, Canada. There will be creative destruction in the retail sector as assets get redeployed/configured/reshaped.

- 3) ***Betting on a vaccine:*** Given the daily headlines about the potential for a vaccine, investors want to be invested in the market when the news comes that there is a genuine vaccine, on the assumption that it will send stocks even higher.

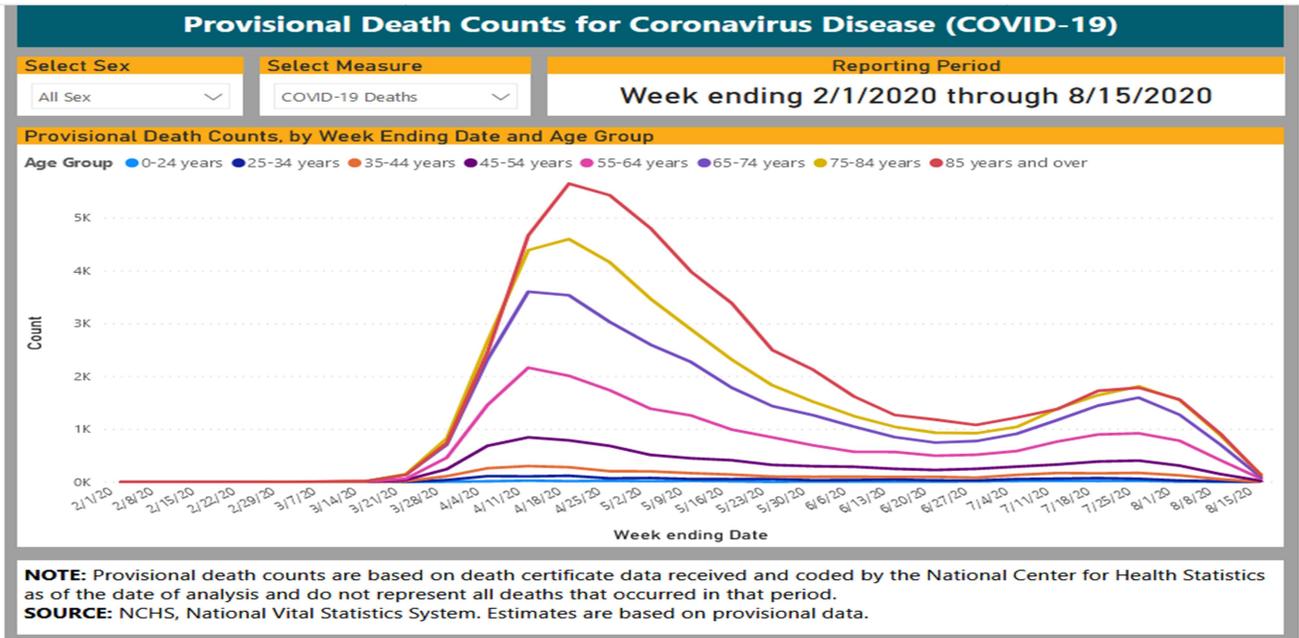
The following two graphs are from the CDC (Centers for Disease Control and Prevention) updated as of August 15<sup>th</sup>, 2020. They represent the deaths involving covid-19 and the number of new cases. This has fallen out of the news of late as other issues take center stage.

[https://www.cdc.gov/nchs/nvss/vsrr/covid\\_weekly/index.htm](https://www.cdc.gov/nchs/nvss/vsrr/covid_weekly/index.htm)

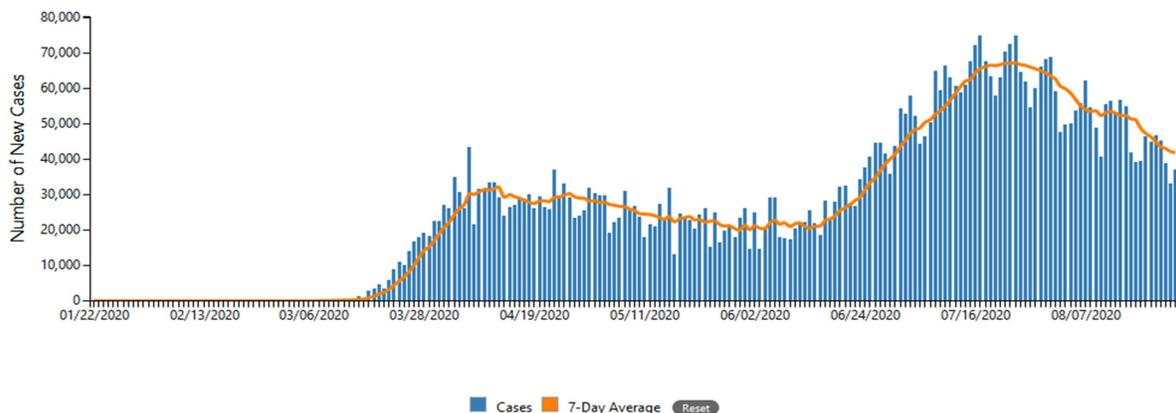
<https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html>

In addition, as the country rolls out testing, the number of new cases testing positive is decreasing. It was just announced that Abbott Labs, created a 15 minute test, and the Government bought 150,000,000 tests for \$750mm working out to \$5.00 per test. This is in addition to the 100+ companies worldwide working on a vaccine, with the expectation at least one of them will be successful. “Never underestimate human ingenuity” is what I wrote earlier with regards to solving covid-19.

In summary, declining deaths, and a falling count of new cases being reported for covid-19, is one of the underlying optimistic factors in the recovering economy and a stock market going up.



The following chart shows the number of new COVID-19 cases reported each day in the U.S. since the beginning of the outbreak. Hover over the bars to see the number of new cases by day.



The 7-Day moving average of new cases (current day + 6 preceding days / 7) was calculated to smooth expected variations in daily counts.

- 4) ***The only game in town:*** *With the Federal Reserve planning to print money for the foreseeable future, investors don't want to be in cash or bonds, which are steadily losing value. So where else can they put their money? The stock market has become a default.*

The Federal Reserve (FED) as we have mentioned previously has a dual mandate, jobs and inflation. The only Central Bank in the world to have this responsibility. From the August 27<sup>th</sup> Jackson Hole symposium put on by the Kansas City FED, for central bankers and economists from around the world, the following were announced:

- Jobs will be the number one priority of the FED from Chairman Powell. With currently 13 – 14mm unemployed, more monetary stimulus (fiscal stimulus comes from Congress) will be forthcoming to make sure all those who want to work will be given the opportunity.
- Inflation in the past had received priority, however with no inflation in sight; it has been targeted to get to 2% or higher. The FED has not seen meaningful inflation since the financial crisis of 2008 – 09; hence they will not worry about inflation until the economy gets back on its footing, with a significant improvement in jobs.

Jobs is one of the key factors for the U.S. economy, and while we are in a recovery phase, we still have 13 – 14 million people out of work. Longer term there is an important secular shift occurring from bricks and mortar retail, restaurants/bars, recreation (including sports/concert viewing) and air travel which represent 15% or so of the U.S. economy as these sectors are all contracting. Sectors that we see growing (making up 30% plus of the U.S. economy) include grocery stores, technology, health care, manufacturing and residential construction. The problem with secular change, is that this plays out over years rather than months and part of the process includes labor market destruction

- 5) ***Help from Washington:*** *As dysfunctional as Congress has proved to be, investors are betting that Republicans and Democrats will find a way to keep plying the economy with stimulus. (Anecdotal stories suggest some Americans have even taken their \$600 unemployment checks and invested them in the stock market.)*

I am trying not to smile as I absorb the statement from above. With second quarter, 2020 (2Q/2020) Gross Domestic Product (GDP) coming out shortly and a number of sources suggesting greater than 20% growth for 2Q/2020, I do not think we will see more fiscal stimulus. The FED has done all of the heavy lifting for obvious reasons. This is not a good long term strategy; it will work for an extended time, as it has for the last decade or two. **In the future we will need help from Washington/Congress that is well thought out, looking decades in to the future, similar to Eisenhower's grand plan for articulated highway's, this time for much needed infrastructure, roads/electronic/transmission grids.**

In summary people are optimistic that growth is returning to the economy, and an end is in sight for covid-19. The world will resume trading with one another albeit at lower levels, interest rates will stay very low for 2 – 3 years, and oil will stay in the \$50 - \$60 range. A what could go wrong moment would be the 100+ vaccines out for testing do not work, or covid-19 morphs into something else and we are back at square one.

## **Humor**

The following was sent to me, and brought a smile, the author is anonymous. My thinking is with the use of the word “dram” and the spelling of “favourite”, the author is from the UK, possibly Ireland.

“A new and easy test for the horror of covid-19 is being touted for seniors, it is simple, quick and positive (or negative if you see what I mean). Take a glass and pour a decent dram of your favourite whisky into it, then see if you can smell it. If you can, then you are halfway there. Then drink it. If you can taste it then it is reasonable to assume you are currently free of the virus because the loss of the sense of smell and taste is a common symptom. I tested myself 7 times last night and was virus free every time, thank goodness. I will have to test myself again today because I have developed a throbbing headache which can also be one of the symptoms. I'll keep you posted”.

**What steps are we doing at RMH?**

- We are looking at the portfolios and rebalancing where necessary.
- We are taking advantage of tax loss selling to lower future capital gains.
- We are looking at what insiders are doing with some of the stocks we have purchased.
- We are talking with portfolio managers on a one to one basis and participating in conference calls.

If there are ever any topics you wish us to explore, please let us know. ***We are here to help and guide you through these times.***

We thank you all for taking the time and reading “Market Watch.” It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

**On a personal note, RMH is now in the position to bring on new clients and please be sure to share this informational letter with whomever you wish. RMH’s focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires**

Richard Munding, CFA

NY Times 08/19/202 Andrew Ross Sorkin  
Samuel Rines, Avalon Advisors: It is All About Jobs, Not GDP  
Centers for Disease Control and Prevention: Excess Deaths Associated with Covid-19, August 15, 2020  
Lis Ann Sonders, Charles Schwab – August 10, 2020  
Samuel E. Rines - Avalon Investment and Advisory: Fed’s new Employment Focus, August 27, 2020  
Capital Economics – August 28<sup>th</sup>, 2020 – Personal Income & Spending