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# “By The Way”

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“Predicting is difficult especially about the future”

It always seems strange and almost irreverent to be writing about financial markets when we are dealing with a tragic event like the current world-wide pandemic. We still need to recognize that while our health is the number one concern, the financial health of global economies and individuals will also have a profound impact on our well-being. We find ourselves in the midst of a powerful relief rally for the S&P 500 Index. The S&P 500 commands our attention as the market which is the most important and most indicative of the current environment. After the rapid 30% drop which ended on March 23rd, the rally has recovered almost half of the decline and that fits with history and stock market theory. The obvious question on everyone’s mind remains is this a rally within a new bear market or the beginning of a bottoming process that will lead to eventual new highs. As I have often said looking into internal measurements of the market and not just the major averages can be helpful. At the March lows those internal measures became deeply and historically oversold. Since then the advance/decline line has improved significantly, the number of stocks participating in the rally (breadth) has been good, stocks above their moving averages have rebounded. All in all this rally has exhibited the kind of widespread participation that would suggest we are experiencing a bottoming process. Given the unprecedented nature of dealing with this pandemic, nothing can be taken for granted and weaker markets that test the March lows can be expected, but for now it appears we are building a base for better things to come three to six months down the road.

The Federal Reserve Board and the Government in Washington (along with almost all global central banks and many other governments) have responded with massive amounts of liquidity injections and fiscal spending, to counter the dramatic negative effects of the closures and lockdowns due to the pandemic. It was only months ago that theoretical arguments regarding “Modern Monetary Theory” (MMT) and “Helicopter Money” were just that, theoretical. MMT, a backbone of Bernie Sanders economic policy, stated simply, espouses the notion that a government can spend as much as it wants in its own currency without concern for credit or financing constraints (like how to pay it back) until inflation becomes an issue. Helicopter money was so ridiculed only a few years ago that former FED chair Ben Bernanke was derisively given the nickname Helicopter Ben for once suggesting the policy. The idea behind the theory is that if the economy is bad enough the government could just write cheques to the citizenry to prop up spending. While neither concept has been fully implemented in the last two months, current policies are certainly closer to making them a reality. That is not to disparage the efforts being made as all methods are required to offset the severity of the current economic decline, but from topics of discussion to real time partial execution in such a short

space of time is remarkable. The FED has stepped up to the plate to support credit flow not just with the quantitative easing we have seen in the past, but with specific injections of liquidity in the overnight lending markets and by buying state, municipal and corporate bonds, particularly those on the edge of being downgraded. The ex FED Chair Janet Yellen has even suggested the FED be granted the power to buy equities should the need arise, which again was considered anathema but a short time ago. The fiscal authorities have also waded in with expanded unemployment payouts, programs to help small businesses and direct payments to almost all citizens in need given the widespread closures. JP Morgan CEO Jamie Dimon wrote that given government subsidies it seems 30% to 40% of those recently unemployed will have a higher income than before they were laid off.

If there is one certainty it is that economic reports are going to be disastrous, but as Goldman Sachs points out data is backward looking, and the market is forward looking. In other words, with so much of the economy closed down and people staying home we all know the numbers will be bad and that is reflected in the market. The real question is how long will the lockdowns continue and what will the ensuing recovery look like? I can't foresee a sudden v-shaped snap back, but there are some hopeful signs that the pandemic is peaking and plans for a slow resumption of normalcy are being put in place. Given this is uncharted territory nothing is certain. I believe that at least the initial recovery should show a good bounce if only because it will be coming from such a low base, but after that I find things much more difficult to envision. Lots of pseudo experts are suggesting there will be major changes in behaviour. No doubt there will be change but I am more sanguine, believing most people can't wait to get to a restaurant or a football game (as soon as it's safe) and may have discovered working from home isn't all it's cracked up to be.

The U.S. Presidential election has definitely taken a back seat in the news. It has also become less of a contentious issue for markets as the two far-left democratic hopefuls have retired from the race.

The old saying that predicting is difficult especially about the future is truer than ever in these uncertain times, but if the market gives us a window into the future we have reason to maintain an optimistic outlook.

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