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Living in “Peculiar Times”
Investment Commentary
July 30, 2020

Given the uniqueness of the times in which we live, we believe a short perspective and a little common sense may be helpful. J.P. Morgan CEO, Jamie Diamond, recently coined the phrase “Peculiar Times.”

Federal, state and local governments reacted to COVID 19 on or about February 19 as New York hospitals became overwhelmed. We must go back to 1918 – 1919 and the Spanish Flu to find such healthcare conditions. As government mandated shutdowns occurred, first bond, and then equity markets went into freefall. The S&P 500 dropped from 3338 to 2338. Phrases such as “Black Swan,” “Dash for Cash” and “Meltdown” became common. Data would soon support the notion that we were entering the worst recession since the Great Depression.

March 23, 2020, Jerome Powell, Federal Reserve Chair issued the following statement, “*The Federal Reserve is committed to using its full range of tools to support households, businesses and the US economy overall, in this challenging time.”* Soon, as specifics were released, the interpretation became, “We will do whatever it takes.”

As the Federal Reserve took action, both stock and bond markets began to rally throughout the 2nd quarter of 2020, and continue. The Dow had its best quarter since 1987. The NASDAQ had its best quarter since 1999. The phrases “QE4ever” (Dr. Ed Yardeni) and “Quantitative Easing in perpetuity” (Bob Brinker) were used to forecast low interest rates and excess money supply as far “as the eye could see.” “Stay-at-home” stocks had dramatic gains.

Congressional fiscal policy joined the Federal Reserve in a “tag team” to restore economic confidence until the health care system could better defend, attack, and ultimately (we hope) inoculate against COVID 19.

Financial markets recover, yet the human condition still suffers. I called this the “Great Disconnect.” What is going on?

As for Federal Reserve policy, we must go back to the period of 1947 – 1952 when the Federal Reserve served under the Treasury with a mandate of interest rates below the inflation rate as a government policy to stimulate the borrowing of money and growth creation.

- Federal Funds Rate and US treasury instruments with maturities from 0 to 10 years ranged from 0 to .7%

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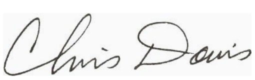
- Corporate debt first lost value (default and liquidity investor fears), and then, rallied as the rest of the world acquired corporate debt of the United States. Corporations refinanced (did not issue new) debt at much lower interest rates, improving cash flow and ultimately earnings.
- The bigger the corporation, the stronger their stock recovered in the 2nd quarter.
- Technology related stocks soared, perhaps based on the perception "stay-at-home" work practices will drive new business. The biggest five of these now make up 20% of the S&P 500. In short, growth stocks got stronger. The big got bigger.
- Economically sensitive companies typically described as value stocks, have lagged and remain much lower than their February highs. They are not yet anticipating an economic recovery.
- In short, since March 23, we have experienced more of a "market of stocks" than a stock market.
- US companies have recovered better than their foreign counterparts have. We have often heard that the rest of the world "buys American" during times of uncertainty. In recent days, this may be changing.
- Smaller companies, lacking the resources of their "Big Brothers," are also lagging in the recovery.

In conclusion. When experiencing "a great disconnect," we are reminded of the importance of context, common sense and sound customized strategies based on time-honored principles. We cannot anchor our mental health in the Infodemic of a fluid news cycle. Find your "anchoring" of health care in 1918, Federal Reserve policy "anchoring" in 1947, social unrest "anchoring" in the 1960s and technology stock boom "anchoring" of 1999. The Prudent Man Rule and common sense are good "anchors" when normal statistical measurements in an Infodemic World seem so troubling.

We are living in peculiar times. "Stay true to your life's purpose and only adjust your investment plan as necessary" is perhaps the anchoring for investors in a world that seems turned upside down.

Respectfully submitted and always willing to be wrong,



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