

Dear Valued Investor:

Investors like labels for the economy and financial markets—many of them with the word “great” in them. The Great Depression. The Great Recession. The Great Lockdown. Well, we’ve moved into what we might call the Great Disconnect. How can stocks have rebounded so strongly in the last month amid so much suffering and economic damage? What’s Wall Street seeing that so many on Main Street are not?

For one, in the United States more than 20 states have already begun to reopen their economies, and others have plans to begin very soon. In Europe, lockdowns are being eased, following Asia’s lead. Even gradual progress like this may help the stock market focus more on what’s ahead than where we are right now.

As lockdown restrictions are lifted, timely indicators like vehicle traffic, electricity consumption, public transportation use, daily consumer confidence surveys, and a wide variety of weekly economic indicators point to a low mark in economic activity in the United States in April. The “Great Lockdown” recession of 2020 may be over already—although it may not be officially declared a recession for several more months.

Nowhere to go but up isn’t normally very reassuring, but to the stock market it may be. Historically, when things have looked their worst, the opportunity in stocks has tended to be the best. The S&P 500 Index has usually hit its bottom and started the climb back up about five months before a recession has ended.

Other factors have helped boost investor sentiment recently. Market participants have gained confidence from the bold stimulus response from policymakers in Washington, DC, and the Federal Reserve. The total amount of the stimulus this year is about 22% of the entire US economy, based on gross domestic product (GDP). During the entire 2008–09 financial crisis, the total amount of stimulus was 16.6% of GDP. And there may be more. Surging unemployment and weakening finances at the state and municipal levels may be catalysts for more action. Though millions of jobs have been lost to this crisis, many millions surely have been saved as well.

The medical community also has provided reasons for optimism. Though no one knows for sure when a COVID-19 vaccine will be ready, rapid progress is being made, and several promising candidates are now in human trials. Testing capacity has also ramped up, while some of the best capitalized and most innovative companies in the world are developing contact-tracing tools to help facilitate safe re-openings. While stocks may have come a bit too far, too fast in the short term, markets are clearly responding to these positive developments.

Reopening the US economy will be a gradual process, and temporary setbacks may be possible. Some of the lost jobs may not return. The possibility of disappointment as the “Great Reopen” unfolds is real. We are facing a tremendous challenge, but it is being met with incredible resilience, resourcefulness, and innovation. Together we will get through this crisis and return to better times.

Please take care, and do not hesitate to contact me if you have any questions or concerns.

Sincerely,

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All data is provided as of May 6, 2020.

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