



# CONWAY • JARVIS LLC

## Investment Outlook

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### Update

#### **A Disconnect between the Economy and the Stock Market**

For nearly 30 years we've preached, yes preached, that *in the long run* stock market performance will correlate with that of the economy. However, in the short-term the market often disconnects from the economic data and prices in factors that may or may not have an impact on the economy. That brings us to where we are today: Early in Q1 the public safety response to COVID-19 took the form of an unprecedented self-imposed economic shutdown designed to arrest the spread of the virus. The stock market appropriately priced in the resulting recession almost immediately as evidenced by the Flash Bear market that culminated in the lows of March 23<sup>rd</sup>.

In the past several weeks, the performance of the S&P 500 and NASDAQ tell a story of an economy poised and ready to bounce back. This week those indices churned near their retracement rally highs as the narrative surrounding the virus gave way to that of the Grand Reopening of the economy. Some investors are looking beyond the grim economic data dead ahead and anticipate a quick and smooth recovery. We hope they're right. However, we have our doubts since we're seeing generational effects on the economy as a result of the shutdown.

This morning's employment report is a good example: 20.5 million jobs lost, 14.7% unemployment, and only 60% of the population participating in the workforce. That takes us back to 1948. Like we said: grim data. However not unexpected. That perhaps is why stocks advanced almost 2% this morning on that news. It might also explain the Bloomberg News ticker comment of this morning that tracked across the screen: "It could have been worse". We haven't seen that one before in the annals of market commentary.

Nevertheless, we're now seeing some of the most damaged companies in the most damaged sectors "catching a bid." That's encouraging and part of the bottoming process for the market. However, there is the prospect for disappointment that the recovery isn't as quick and smooth as some investors believe and that the recession extends into the second half of the year and beyond. For that reason, we counsel clients to continue exercising patience as we digest the results of the Grand Reopening. We have identified a number of companies we would like to own, most all at prices lower than today. The next few weeks will be interesting.

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