CONWAY• JARVIS LLC
Investment Outlook

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Update

The Return of a COVID Economy Cools the Market

As previously noted, the markets have taken on a more speculative flavor as earnings season fades from memory. We've seen increased volatility as traders go offside to "play" the headlines and move the indexes dramatically. Today, we find the NASDAQ off 7.30% from its November record high, the DOW off 5.72%, and the S&P 500 down 4.50%. That divergence among the indexes points to investors simply culling some high-priced winners and fine-tuning portfolios rather than "selling the market." Absent an event, the scarcity of investment alternatives to equities reduces the prospect of any broad sell-off threatening a bear market. While recent economic data points to a lower growth trajectory, we remain correction-tolerant due to the continuing, though uneven, expansion of the economy.

Since our last Update, some clarity has been gained regarding a few items we noted then. It's official: *The new COVID variant is surging globally and looks to become more than just the slight headwind we anticipated.* It's become a cause for consternation, and action, among the ranks of traders. An early assessment points to milder symptoms than COVID-19 for the vaccinated. As investors, we'll await more information as to what policy response to the variant may follow. No doubt, this is a headwind for stocks, but we believe a repeat of Q1 2020 is highly improbable because of the availability of vaccines and the development of new drugs to treat symptoms.

Meanwhile, speculation surrounding Jerome Powell's reappointment as Chair of the Fed has ended. He's been nominated and will be confirmed while a very highly qualified Lael Brainard will assume the role of Vice-Chair. This eliminates the potential for a departure from current monetary policy and any uncertainty that would follow. The stock market responded favorably to that good news last week. It responded poorly this week to the good news of Powell's willingness to speed up tapering. It's a matter of perspective. Investors should view accelerated tapering and normalized rates as an indication of continued expansion for the economy. *Traders* see the possibility of higher interest rates as trouble, for the moment.

We believe the withdrawal of monetary support (QE) for the economy will be more than offset by fiscal policy initiatives. There's the recently enacted $1 trillion infrastructure package and a $2 trillion social-spending initiative passed by the House and forwarded to the Senate. While the latter proposal is likely to be reduced in scope, there will be a substantial deployment of capital coming from the fiscal side in the months ahead. Investors are advised to avoid making significant changes to portfolios based on headlines surrounding what promises to be a messy negotiation.

So far, relieving supply chain constraints on a grand scale remains elusive. Some private sector companies (AMZN, WM, COST, etc.) have employed their logistic capabilities to plumb alternative supply routes with some success. While goods may be made available, the byproduct is higher prices that continue to drive the inflation narrative. That continues to be a headwind for stock prices, but any significant drawdown of the market should be viewed as an opportunity. A number of quality stocks are currently inhabiting correction or bear market territory. Investors should view that weakness as an occasion to add some of those issues that are missing due to previously stretched valuations. Stay tuned.

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