

In the Markets Now

To stimulus or not to stimulus?

We believe in the old saying: a picture's worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

PWM Equity & Fixed Income Research

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REVISITING THE STIMULUS DEBATE AND OUR TEPID ECONOMIC RECOVERY

I wrote in July that the biggest near-term risk to the economic recovery (and ultimately markets) was the fate of additional coronavirus fiscal stimulus over the coming months. Well, July might as well be a lifetime ago given all that has occurred, but with the on-again, off-again (and on-again and off-again) debate over more stimulus, it feels timely to readdress the issue.

The CARES Act was highly successful as an income-replacement program—it put money in pockets of people who needed it the most, and quickly. These were the folks whose employment was directly affected by the pandemic—hairdressers, flight attendants, bartenders. On the economic side, stimulus helped keep retail sales afloat, and actually raised aggregate incomes. The idea being that as the temporarily laid-off return to work, the economy can continue on its pre-virus path.

The problem is that we are still in a pandemic, and for many companies, previously labeled “temporary” layoffs are fast becoming permanent. Just look to Disney, MGM, and others. While the headline unemployment rate continues to improve, the number of permanent job losers continues to rise (as seen below), and at a faster rate than previous recessions.



In my opinion, this is one of the most important charts in the world right now. The more lasting, permanent effects from the pandemic, the longer the true recovery will take. Permanent layoffs take productive workers (and future spenders) out of the market—hindering our recovery, putting more long-term burden on the government, and negatively affecting the lives and psychologies of millions. **As our partners at Strategas have said, “the easy part of the recovery may be over.”**

For the time being, however, the economy is holding on (perhaps this positive outcome is actually hindering progress in Washington, but I digress). Per Strategas, “timely data in September has been mixed, but...patchwork stimulus (executive orders, etc.) and personal savings have helped to extend a bridge to consumer spending in recent months.”

Bottom line: more stimulus may not be 100% necessary, but lawmakers are taking a risk by kicking the can down the road. **Despite all the noise around the election, it is still the virus that controls our fate.** And with a viable vaccine still months away (on the best-case timeline), a full reopening seems unlikely. By that calculus, it is the size and speed of whatever stimulus is passed that will likely dictate the path of our near-term economic recovery.

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