Weekly Capital Market Comments

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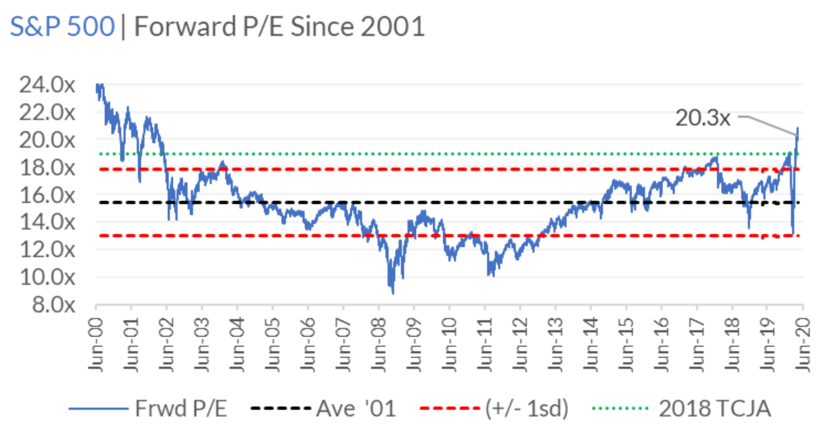
Dazed And Confused

But let's be clear straight away, we are talking about the song, not the movie, and in doing so, we are clearly dating ourselves. The opening verse of the song and ensuing eerie melody embodies how many investors must be feeling today.

On the one hand, FOMO forces us to chase equity valuations higher, despite the clear warning signs of an overvalued and volatile market. But still, like a siren, whispering hopes of COVID-19 mitigation and/or prevention and delusions of a "V-shaped" recovery, investors are cajoled into bidding stocks up. It's perverse, or perhaps just human nature, to want something you know you can't have…or maybe shouldn't have.

But over the last week, several accomplished investors have sided with us regarding equities; among them are David Tepper, Paul Tudor Jones, and Stanley Druckenmiller. And then there is the Federal Reserve Chairman, Jerome Powell, warning of a sustained recession if Congress and the POTUS don't act +swiftly. The over-arching theme is simple; that current valuations do not reflect the economic reality instore for the U.S. over the coming months. Yet, equities continue to trade at elevated levels. Even perennial-bullish sell-side analysts are sounding warning bells, but still, equities march higher. As we pointed out last week, perhaps traders expecting negative rates, but even Chair Powell batted this idea down (for now).



Source: NEPCG and FactSet

Currently, the S&P 500 is trading at 20.3x forward 12-month earnings and 19.3x 2021 consensus expectations. This, despite another ~3 million initial claims, bringing the eight-week total to over 36 million. And add to this, a dismal retail sales report this morning. At the current valuation, the S&P 500 is trading greater than one-standard-deviation wide to the long-term average of 16.4x, and in-line with the highs of 2018 Tax Cuts & Jobs Act (TCJA). Yet the U.S. economy may have just entered the deepest (but maybe shortest) recession since the Great Depression.

We continue to expect a "W" recovery in equity markets, especially as more disappointing economic data is reported. And let us not forget about the growing tensions between the U.S and China over trade, and the future uncertainty surrounding the 2020 Presidential Election (whereby political rhetoric will be uglier than 2016). And while many, if not most clients, have been well-positioned leading into these tumultuous times, some are "itching" to buy, in fear of missing out (FOMO). To these clients (especially our friend in San Diego – you know who you are !), we preach patience. **We'd love to hear your thoughts.**

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