T-I-N-A*, Rotation and Tremendous Expectation! Newsletter June 2020

TW ADVISORS

Rarely, if ever, has a market recovered so strongly in the midst of such a poor economic environment. Market actions have befuddled market pundits, advisors, and investors.

In the throes of market tumult investors concerned about a severe economic impact ran for the hills. Even in the Great Recession the economy never shut down anywhere near the extent of the COVID-19 event. Unemployment reached 20% and measures of the stock market fell by 35- 38% from the peak reached in February.

Median Forecasts for Selected Variables in the Current and Previous Surveys

	Real GDP (%)		Unemployment Rate (%)		Payrolls (000s/month)	
	Previous	New	Previous	New	Previous	New
Quarterly data:						
2020:Q2	2.1	-32.2	3.5	16.1	168.6	-7,647.8
2020:Q3	2.0	10.6	3.5	12.9	132.8	2,328.9
2020:Q4	2.1	6.5	3.6	11.0	116.7	900.9
2021:Q1	2.2	6.8	3.6	9.3	114.5	514.9
2021:Q2	N.A.	4.1	N.A.	8.8	N.A.	739.1
Annual data (projections are based on annual-average levels):						
2020	2.0	-5.6	3.6	10.8	168.5	-933.3
2021	2.0	3.1	3.6	8.1	125.2	314.4
2022	2.0	4.1	3.7	6.2	N.A.	N.A.
2023	2.0	2.2	3.9	5.1	N.A.	N.A.

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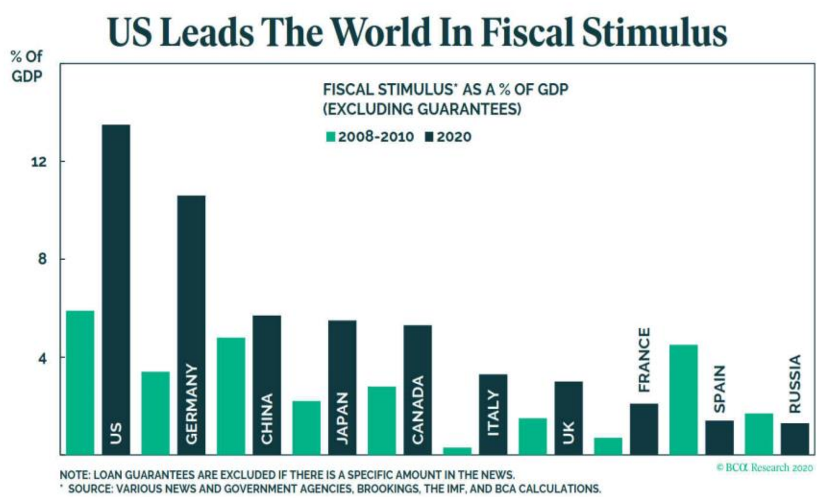
At the advent of a huge Government led stimulus for businesses in the hope of a trickle down for employees the market turned off the bottom very quickly. Some economists predicting an extended downturn in activity (GDP) began to shorten their view of the extent of the downturn. While many analysts stopped giving much consideration to post COVID-19 earnings, the Philadelphia FED Professional Forecasters survey recently pointed to a GDP change of over 10% as soon as the third quarter of this year (TABLE).The change in expectations, while not guaranteed, seems to have given the market the confidence it lacked to move forward.

While the advance form the bottom was welcome, it was at first a narrow rise focused mainly on the large and popular tech stocks often known as FANMAG (Facebook, Amazon, Netflix, Microsoft, Apple and Google). The tech heavy NASDAQ market raced past the average stock and other indices. Recently, performance from formally out-of-favor groups like Value stocks, Small cap and International stocks has improved and have a long way to go to recover from the initial drop. While it is too early to say a trend is in place, diversified investors should benefit from a broad-based recovery that will likely be driven by the expectation of better earnings as the economy opens and business is brisk again.



A major conundrum for investors is the difficulty in assessing the true value of a company considering recent poor business output and uncertainty of activity to come in the next several quarters. The market has clearly valued the market overall with the expectation of a quick end to the malaise and a rapid recovery. Internally there are still some value opportunities should the economic trend continue at this pace, but disappointment may bring back some of the volatility we saw earlier.

With interest rates not offering much in the way of return, dividends on equities and investments in stocks overall may end up becoming the main choice for investors. There are also arguments that stocks are attractive due to "TINA" (There Is No Alternative) and the lack of options elsewhere. If investors react positively to improved results the trend could continue.

We are again heavier in our allocation to stocks but at current valuations are keeping our eyes peeled for event shocks that could be driven by a COVID-19 reoccurrence or even the political/social events overshadowing our nation at this time. Please feel free to call us if you have any questions. (*T-I-N-A- There Is No Alternative)

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