ValICENTI Advisory Services, Inc.
BULL & BEAR BULLETIN

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CELEBRATING 35 YEARS

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The Bull and Bear Are Tussling in a Different Arena in 2020

The clarifying word regarding the intermediate outlook is perhaps best described as "uncertain", given recent events and market movements. There has been rapid equity, bond and oil market price action, a Federal Reserve intermeeting rate cut and a Coronavirus related shock to economic activity, all occurring in the first quarter of 2020. Market participants now will maneuver this period of uncertainty by looking for opportunities in the changing dynamics as well as mitigating risks along the way.

We know that running diversified and balanced portfolios gives the benefit of not having to absorb the full breadth of down moves in individual securities and specific asset classes and holding some cash and near cash equivalents such as shorter-term paper provides optionality to exploit opportunities due to price volatility in a measured way as the fluid situation develops. The current market setup, though more volatile day to day than has been the case, appears to be one of assessment in a fluid period and otherwise normal functioning.

On the economic front, the data was coincidentally pointing towards a slowing of activity towards a trend growth rate of around 1.9% real GDP prior to any external shocks. Labor market data such as initial claims and nonfarm payrolls were constructive and stable. Wages enjoyed some upward pressure though the work week hours faded into the global industrial weakness and unused capacity in the industrial economy widened a bit further. Service related sectors of the economy remained constructive and, given that we are midway through the final month of Q1, this quarter's growth will likely not be significantly negatively impacted given our relative economic strength and resilience.

On the market side, stable and low inflation assisted capital markets while keeping rates from accelerating higher. The S&P 500 was up 31.48% in 2019 on a total return basis and, through the middle part of February 2020, gained an additional 5.07% on top of the previous year's gain. Finally, due to the recent negative market reaction, the S&P 500 was down peak to trough roughly 15% as of March 9. Concurrently, however, the large move down in rates has been a positive tailwind to bond prices, providing some support overall to portfolios.

We do not yet know the ultimate glide path for coronavirus containment and its timeline. Therefore, the exact impact to Q2 and Q3 growth is uncertain and the range of estimates may be varied. The downward lurch to oil prices and bond yields are significant and just how enduring the related disinflationary or deflationary forces behind these moves remain to be seen. There may also be a requirement for policy makers to act further to assist the moment with additional easing or support. All eyes will be on sectors and industries that may be near term impacted, what corporate cash flows look like and how credit is functioning.

Financial asset managers making calculated judgements may have quality opportunities to enhance portfolios for longer-term positioning. Supply chain disruptions and corporate investment decisions born out of these types of economic dislocations and the resulting country, sector and industry prospects can shift decidedly when the economic landscape changes. As an investor, seeking to discover as much as possible about these circumstances is a worthy endeavor when market regimes shift whether temporarily or for the longer-term. Finding the winners and losers in all the volatility is for Bulls and Bears to fight out in a new arena.