Weekly Investment Strategy

May 15, 2020
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Review the latest Weekly Headings by CIO Larry Adam.

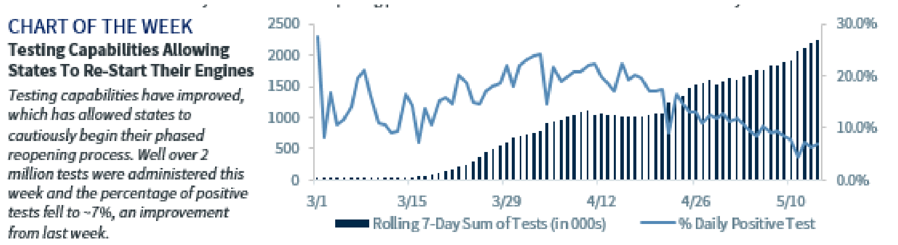
Key Takeaways

- Fed decides to 'steer away' from negative interest rates
- Congress will put the 'pedal to the metal' to pass more aid
- States to 'put the breaks on' if second wave occurs

Formula 1 celebrated the 70th anniversary of its first World Championship this week! More than four million spectators attended last year, many of whom were looking forward to commemorating the start of the landmark season this past March. Unfortunately, like many other events, COVID-19 forced Formula 1 to postpone its events for the foreseeable future. Similarly, investors have been forced to 'shift gears' as well. Entering the year, the US economy and equity market were sitting in the favorable 'pole position.' However, as the year has progressed, investors have experienced harsh 'G-forces' as the economy and markets have had to corner, accelerate and then brake digesting all the COVID-19 effects. While there are many laps to go before we reach the 'finish line' of the outbreak, we remain confident that policymakers and elected officials will take the necessary and appropriate measures and actions to help our economy safely reach the chequered flag of recovery.

- **The Fed Does Not Have A 'One Track' Mind |**Upon the first signs that COVID-19 would be detrimental to the US economy, the Federal Reserve took a full speed ahead approach. After implementing two emergency rate cuts, establishing facilities to improve credit market functionality, instating a $2.3 trillion lending program in support of the Payroll Protection Program (PPP), and expanding the size and scope of quantitative easing, many were wondering if the Fed was 'running on fumes' and would resort to reducing interest rates below zero. This week, Chair Powell expressed that the entire committee (FOMC) is in favor of 'steering away' from negative interest rates, as the move could directly harm bank profitability and indirectly cause a lending shortage during the time the economy needs it most. Instead, the Fed has proceeded with its plans to purchase investment-grade debt. The Fed stands ready to purchase $750 billion (~12.5% of the $6 trillion corporate bond market) of individual corporate bonds or ETFs in order to provide liquidity for a market that has seen record levels of issuance. In the months ahead, the measures taken this week should be further evidence that the Fed will act by any means necessary to get the economy back on the right track.
- **Fiscal Policy Going 'Full Throttle' |**Congress' initial actions in response to the COVID-19 outbreak showed they too had the need for 'speed.' In three phases, $2.2 trillion of loans and direct aid was approved in hopes of alleviating the economic harm faced by individuals, businesses of all sizes, hospitals, and state and local governments. Once it became evident that the aid provided would be insufficient, Congress agreed on a supplementary $484 billion package to help small businesses and 'hotspot' areas combat the virus. But still, Congress knows its race to limit the economic downturn is far from over. This week, negotiations for a second multi-trillion dollar stimulus package continued with many items being readily agreed upon (e.g., healthcare response, increasing broadband internet access, amending PPP restrictions). However, many partisan points of concern remain and both sides seem to be 'driving' a hard bargain. For example, Democrats are in favor of more direct payments to individuals (i.e., $1,200 per person and dependents) and funds for mortgage relief and renters' assistance while Republicans want to focus on liability protection for businesses. For this reason, we believe the next round of aid may be slower to come about (likely in June), but that ultimately Congress will put the 'pedal to the metal' in order to address the needs of the nation, especially in an election year.
- **Coming Out of the Economic 'Pit Stop'|**Although only 10 states have met all three criteria set forth by the Trump Administration, 33 have embarked on a phased path toward reopening their economies. Governors across the nation have relaxed stay-at-home orders, and begun a gradual process of reopening essential manufacturing facilities, non-essential or low-contact businesses, and parks for outdoor activities. The hope that the phased approach to reopening will occur smoothly has contributed to the equity market's ~28% rally from the March low. However, it is important for investors to realize the risks associated with this process. First, although states may have re-started their engines, the psychological impact of the virus may stop the true return to 'normality' from accelerating too

quickly. This could be especially prescient for particular industries (e.g., restaurants, retailers, travel, events) that rely on consumers being in larger crowds or high-contact areas. Second, our nation's political leaders and medical experts realize that we may need to put the 'brakes' on if a second wave of cases occurs. Georgia, South Carolina, and Alabama were among the first states to reopen, and other states are closely monitoring their case counts, hospitalization counts, and death tolls in order to determine if their roadmaps to recovery are appropriate. Given that these states opened up ~fourteen days ago, the next few days' statistics will be critical to monitor as the average incubation period is ~14 days. Ultimately, there seems to be a collective understanding that this is a task that cannot be 'raced' through, but investors should be mindful that any setbacks in the reopening process could cause some 'turbulent' market volatility.



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