# Weekly Investment Strategy

## May 26, 2020
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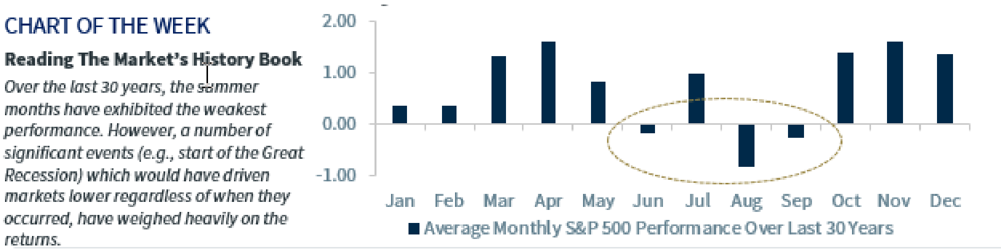
**Key Takeaways**

- Leaders are an 'open book' when discussing future action
- Equity market will not 'turn the page' on volatility just yet
- A vaccine would alter the COVID-19 'narrative'

Tomorrow, the New York Public Library will virtually celebrate its 125th anniversary. For its patrons and readers across our nation, the words "reading gives us someplace to go when we have to stay where we are" have never been truer. All states have officially begun their phased reopening, but the "stay-at-home" mandate has been replaced with "safer-at-home" guidance to encourage residents to still take steps to mitigate the spread of COVID-19. When it comes to our views, you will always find us in the 'non-fiction' section of the library, as we provide fact-based research and analysis on the economy and financial markets. While we may enjoy reading 'fiction' on our own time, there is already enough mystery and drama in the financial markets! While the efforts of the team are far-reaching and complex, these weekly write-ups are just an 'abstract' of our detailed work. We hope you continue to find our views to be resourceful even after we 'turn the page' on the outbreak.

- **Economic Downturn May Call For Every Trick In The Book |**The unprecedented nature of the virus caused an unparalleled economic downturn, most notably reflected in the labor market with unemployment claims rising to 38.6 million. The speed and precision of the initial monetary and fiscal stimulus response has proven to be successful thus far, but testimony from Federal Reserve Chair Powell and Treasury Secretary Mnuchin this week revealed that some time may be needed for all aspects of such policies to be implemented, for their effectiveness to be analyzed, and for future policies to be structured in a way that targets any remaining deficiencies. Only half of the fiscal stimulus passed has been fully deployed, and certain Fed lending facilities (e.g., Municipal Lending Facility) will not be fully operational until the end of this month or early June. In the aggregate, policymakers appear to agree that support for state and local governments and relief for businesses attempting to receive relief through the Payroll Protection Program (PPP) are critical for the economy to reach its full potential once a rebound begins. This collective understanding supports our expectation that additional phases of fiscal support will likely be passed next month.
- **Cannot Close The Books On Market Volatility |**Memorial Day Weekend serves as the unofficial start to the summer, but while we may be able to enjoy the warmer temperatures, many vacation plans have been cancelled and large gatherings are still prohibited, leaving no question that this summer will be quite different. One question that tends to present itself around this time is should investors "Sell In May and Go Away?" The short answer is "No" as investing should never be an all or nothing decision and more importantly, investors should stay true to their personalized asset allocation strategy. Analyzing data over the last 30 years reveals that it is accurate that the summer months have exhibited the weakest performance of the year, with June and August being down, on average. However, it is important to note that summers have oftentimes been plagued by significant events—the Russian Currency Crisis, the beginning of the Great Recession and the downgrade of the US government credit rating. But the reality is that those events, regardless of the month they occurred, would have driven the markets lower. In fact, more recently, the trend has been more favorable for investors, as eight of the last ten years have seen positive S&P 500 performance.
- **The Potential Storyline For Summertime |**With the S&P 500 rallying ~32% from its recent lows and valuations the most expensive we have seen since 2001, equity markets are likely to be volatile this summer. Some of the volatility-inducing catalysts include the potential for a second wave of COVID-19 outbreaks, a failed therapeutic or vaccine, mounting election uncertainty, and growing tensions between the US and China. In fact, a temporary pull-back of ~5 to 7% at some point during the summer is consistent with the average drawdown we have seen over the last ten years. However, if this downside pressure were to occur, we would tend to use it as a buying opportunity as the long-term prospects of the equity market remain healthy assuming the economy starts to rebound by 4Q and there are further medical enhancements to combat the COVID-19 virus.
- **Vaccine Would Be One For The Record Books |**Hundreds of biotechnology and pharmaceutical companies are hoping their efforts to advance a potential vaccine through the necessary trials will come to fruition, and it appears as though the equity market is hopeful too. On Monday, the S&P 500 rallied to its highest level since March 6 in part due

to promising data released from Moderna's Phase I vaccine trial. Higher dosages of the potential vaccine led recipients to produce ' neutralizing' antibodies similar to those found in the blood of recovered COVID-19 patients. These antibodies that stop the virus from replicating or infecting cells are crucial in order to have a successful, effective vaccine. Many risks remain though as typically, the failure rate for a vaccine is ~90%. Even still, the funding, time, and efforts being put toward this feat are unprecedented and the initial data has enhanced the probabilities of developing a vaccine (per our Biotech Analyst) by the fall (20%), year end (25%), mid-2021 (50%) and eventually (~90%). For investors, the timing of a vaccine or therapeutic will continue to be a driver of market volatility.

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