Does This Market Have "a Ways to Go"?

By Bob Deitrick, CEO
August 20th, 2020

- ***The short answer to that question is - Yes. We at PFP believe this stock market has "a ways to go" moving forward as we continue break through all-time highs even today.***
- ***The primary reason is the increased liquidity that is continuing from a lax central bank in response to the pandemic and the huge tax cuts going to support the unemployed.***
- ***We portend a spending boom in 2021 as pent-up demand from consumers and increased liquidity is unleashed once a successful vaccine is developed.***
- ***With bond yields and CD rates at record lows, there will be little alternative to dividend producing, conservative value stocks.***
- ***On Tuesday August 18th, the S&P 500 hit a new record high at 3389.78. Amazon and Apple were up 4.09% and .87% - in a single day on Tuesday, respectively as well.***
- ***Today, Thursday August 20th, the NASDAQ hit an all-time high of 11,264.95.***
- ***1-year CD rates at Capital One (for August) are paying only ½ of one percent (.5%)!***

Despite the S&P 500 hitting a record all-time high on Tuesday, we will likely continue moving higher within a narrow range in the market. There has been a boom in liquidity in response to the COVID pandemic, and that liquidity is primarily flowing into domestic equities.

There has been a 35% increase in the money supply since the beginning of March. That is more than 2x the increase in liquidity in the entire year following the Lehman bankruptcy in 2009 and this is the biggest increase in M2 we have seen since the end of World War II.

Furthermore, we believe earnings will beat analyst estimates next year by 5% to 10% due to a spending boom that will be driven by increased liquidity, therapies for COVID as well as a vaccine for the pandemic. Most of this cash is going to be flowing right into the economy as well as stocks.

Are there concerns in this environment? Yes, of course. The short-term risk relates to the Senate's incompetence and Congress' inability to pass a stimulus bill for our unemployed who number more than 17 million Americans. And we have a President who clearly does not want to leave the White House. However, these risks, in our view, will not be enough to derail this market.

Strong markets climb walls of worry. As we predicted in April, this will likely continue as the Fed remains accommodating and as we sidestep these political anxieties.

In our opinion, two factors will push investors further into equities. A successful COVID vaccine or therapeutic will begin to get things back to normal. This will be a boon for the beaten down sectors like the airlines, leisure, and hospitality services. A secondary factor that will push capital

into equities will be the hunt for yield. With CD's and bonds paying meager returns to investors, even the conservative investor will be allured to quality dividend-producing stocks yielding 2% to 3% compared to bonds and CD's that are paying close to zero. There are few alternatives to stocks, given current bond yields in our view. This increased demand should help push the market higher.

The market has seen some brisk gains in August within narrow breadth. The Dow and Nasdaq notched their best starts to an August since 1996, while the S&P 500 has had its best August start since 2009!

Tom Lee of Fundstrat states, "The market's under loved sectors may be on the verge of a breakout that could come when COVID cases peak. If this does materialize per Lee, "it will set the stage for a rebound for sectors pummeled since March. Coronavirus cases, which have topped 19 million globally and 5.3 million in the U.S., are declining on a seven-day rolling basis". Lee also points out:

"Based on prior periods in which they have determined that the national rise in COVID-19 cases have peaked, 20 days later, the market has staged a brisk run-up. When cases peaked in late April, it took 20 days before the epicenter stocks to start their massive (30%) rally. If cases peaked on July 24th, which looks definitive, the 20th day is August 14th.

We see this as the start of a new expansion; however, our economy will look vastly different moving forward. We suspect to see a record boost in productivity as many companies cut costs and adopt new tools enabling employees to work remotely at home. Those companies that learn to adapt to this post-COVID world will be the ultimate winners. We feel that mega tech, healthcare, and specialty consumer stocks will continue to reign as they have since March.

We also believe that government spending will continue into 2021. Further, pent up demand should bring people back to the airlines, the travel industry, and the cruise ships too. This has been a narrow market and it should begin to broaden but, for the time being, we will stay with the winners we have been with all year long. We are watching these political and the pandemic events closely and we are here to answer your questions, so feel free to call us at any time. Have a terrific and a safe week!