



**MEDALLION**  
WEALTH MANAGEMENT

**August 2020 Market Commentary**

## **Just Keep Truckin' On...**



*Sometimes the light's all shinin' on me  
Other times, I can barely see  
Lately, it occurs to me  
What a long, strange trip it's been*

**Grateful Dead**

<https://www.youtube.com/watch?v=pafY6sZt0FE>

Probably the greatest understatement of all time is to say that 2020 is strange. The Covid-19 virus has now killed over 685,000 people globally while spreading economic devastation. Countless businesses have gone bust and millions have lost their jobs.

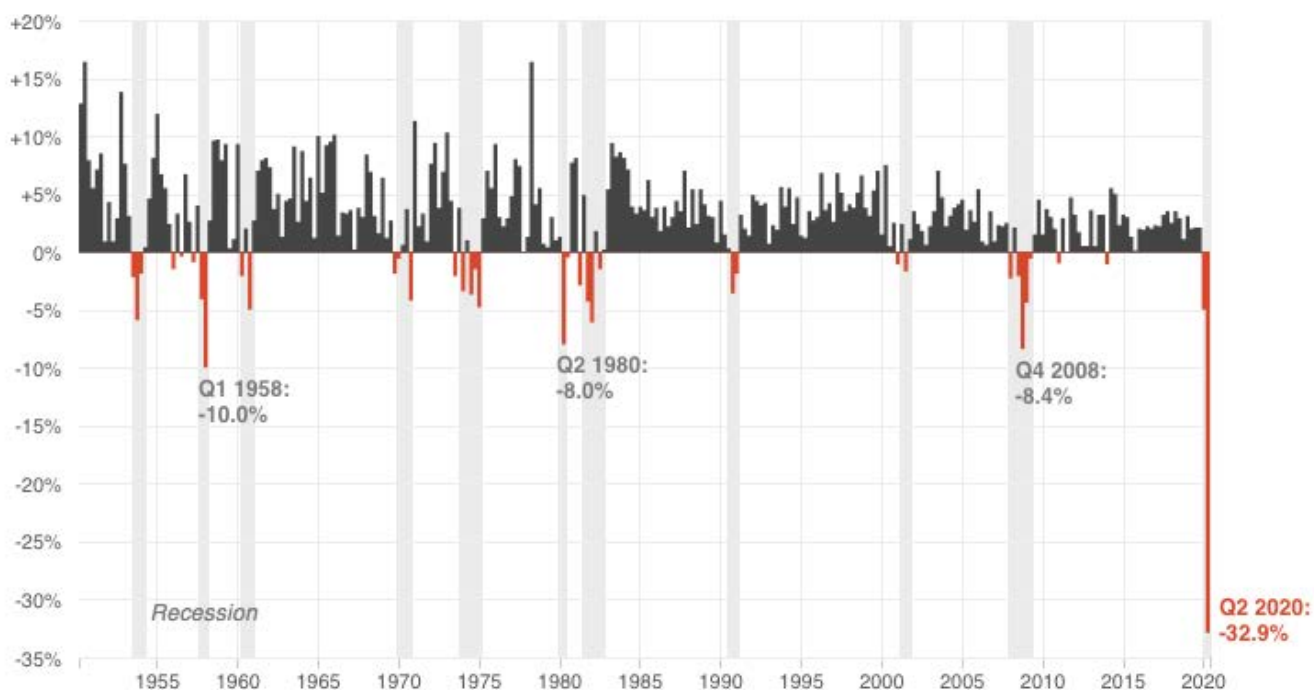
To counter this severe collapse in economic activity, government debt around the globe has exploded higher. By some calculations the Federal Reserve and the Federal Government pumped about \$5 trillion into the economy in the 2nd quarter, which compares to nominal GDP of \$4.85 trillion measured quarterly. Never has fiscal and monetary stimulus come close to matching the nation's economic output in a quarter. Never have we seen this type of economic collapse or government response.

Wages and salaries plunged at a \$680 billion annual rate, but personal income soared by \$1.386 trillion due to \$2.42 trillion in transfer payments. But even with this historic increase in personal income, spending declined by 34.6% as stressed and scared households boosted their personal savings to a record high of 25.7% up from just 9.5% in the first quarter.

The 2nd quarter's GDP plunge was nearly 4 times greater than the 4th quarter of 2008 and the Great Recession.

## Economy Shrank At 32.9% Rate In 2nd Quarter

Percent change from the preceding period, seasonally adjusted annual rate



Source: [Bureau of Economic Analysis](#)

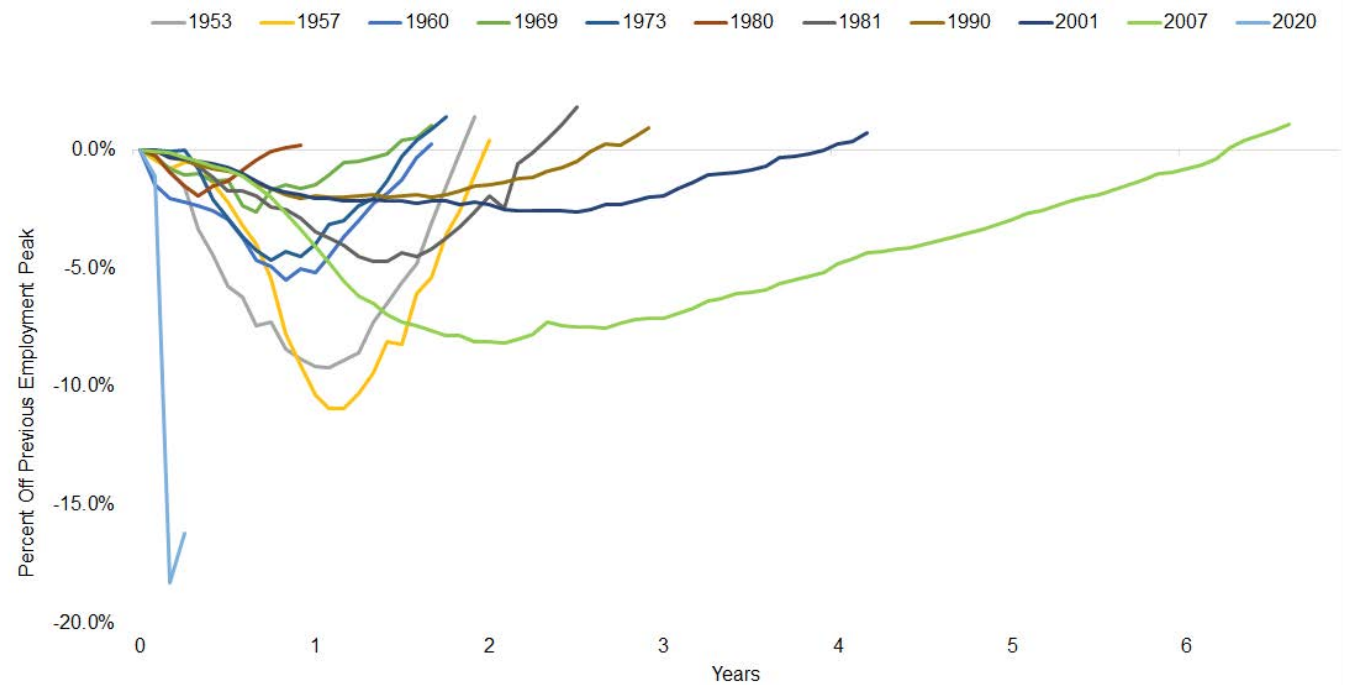
Credit: [Alyson Hurt/NPR](#)

What makes this recession so strange is that it was a government-mandated recession. Our elected officials decided to turn off the economy in order to slow the spread of the virus (remember “flatten the curve”). They believe that they can mitigate most of the negative consequences of the shutdown through debt and transfer payments, and that soon we’ll have a vaccine and they’ll be able to flip the switch on and we’ll be back to business as usual.

This is the greatest economic experiment of all time and absolutely no one knows how it will turn out. We thought 2008 was pretty bad, as we had the longest, weakest economic recovery ever. But 2020 is like, “Hold my beer...”

## Length Of Time Before Jobs Fully Returned After A Recession

10 Recessions Since 1950 Took 30 Months On Average To Reach The Previous Employment Peak



Source: LPL Research, Bureau of Labor Statistics (BLS), Nation Bureau of Economic Research (NBER) 06/24/20

*Truckin', like the do-dah man  
Once told me, "You've got to play your hand"  
Sometimes the cards ain't worth a dime  
If you don't lay 'em down*

When it comes to investing probably one of the most useful adages I've learned over the years is that we don't design the game or make the rules, we just have to play our hand to the best of our abilities. Never has this been more true than today. The really tough thing about today though is the rules are changing while we're playing.

Historically you could rely on certain rules of thumb to help you calculate the odds of playing. We had valuation metrics like Price-to-Earnings, Price-to-Sales, Total Market Cap-to-GDP, etc. We had historic relationships between interest rates and stocks, but most importantly we had nearly pure, capitalistic price discovery. The weak were dispatched while the strong survived, and innovation and productivity were rewarded.

Today, due to massive government borrowing and direct intervention in the capital markets, we have to adjust to a new set of rules. No longer do weak firms necessarily fail; they can continue to access the capital markets at record low rates or even get direct loans from the government. As Ruchir Sharma recently wrote in the Wall Street Journal, "Easy money fuels the rise of giant firms, keeps alive heavily indebted "zombie" firms at the expense of startups, which typically drive innovation." This distorted capitalism, with the government picking winners and losers, has also contributed to the rise of social unrest and growing support for socialism. Again, we don't have to like this, but if we are going to invest we have to recognize that our playing field has changed.

Massive increases in government spending are usually met with rising interest rates, but today's record spending is coexisting with record low yields on almost all debt instruments. The yield on the 10-year Treasury is now 0.54%, while the 5-year treasury yields only 0.21%. Over 28% of global debt now trades at negative rates. And U.S. High Yield bonds just had their strongest monthly return for the last 105 months, up 4.8%.

A collapse in the economy and in corporate earnings is usually met with an equally nasty bear market, and while the S&P 500 did initially plunge 35% it has quickly recovered and is now actually up 2.52% YTD through July. The markets belief is that the Government will be successful in flipping the switch back on in the very near future when the vaccine is discovered.

In the last several months, we have tweaked our portfolios a bit to reflect what we see happening in the global capital markets. We have become a little more U.S. centric considering the massive fiscal stimulus, a bit more growth orientated versus value, and a little more willing to ride our winners even though historic valuations look stretched. On the debt side we have been inclined to increase our credit risk with the Fed actively supporting the corporate bond market.

Yes, these are unprecedented times in many ways, especially in our capital markets. It is imperative that we adapt, that we recognize things are changing at warp speed, and that we find a way to keep truckin' on.

*You're sick of hangin' around and you'd like to travel  
Get tired of travelin', you want to settle down  
I guess they can't revoke your soul for tryin'  
Get out of the door and light out and look all around*

*Sometimes the light's all shinin' on me  
Other times, I can barely see  
Lately, it occurs to me  
What a long, strange trip it's been*

Be careful out there.

Chris Wiles



*Where Trust is Earned*

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