Rodney's Take

October 5, 2020

Will the Market Be a Long-Hauler?

President Trump's tweet early Friday morning announcing he had COVID-19 sent the futures into a tailspin. While the Friday trading session didn't end in a bloodbath, it wasn't exactly pretty, either. After the massive bounce from the March lows and the almost 10% retracement in just before Labor Day, the selloff at the end of last week felt like a dose of reality.

The new virus will be with us for quite some time, as will the knock-on effects.

While President Trump's health doesn't directly affect the markets, it certainly adds variables that can't easily be pinned down. We can quickly go down the road from Trump's incapacitation to Pence leading the ticket on November 3 or perhaps to both Trump and Pence falling ill and the fate of the nation falling into Speaker Pelosi's hands. The most likely scenario is that President Trump recovers but, because of his age and health, suffers symptoms for at least several months. There's a good chance he'll become a long-hauler.

Uncertain times, indeed. And investors hate uncertainty.

Between Trump's announcement around 1:00 AM and the opening bell on the New York Stock Exchange, the Department of Labor announced that the U.S. economy had created 661,000 jobs in September. That's not as many as people had expected, but the falling unemployment rate, which dipped from 8.4% to 7.9%, had people breathing easier. They shouldn't be.

While we've made some solid employment gains since the bottom of the shutdown, we've still added back only half of the jobs we lost, so we're about 11 million jobs short. More workers filing for unemployment benefits today are listing their job losses as permanent than those who filed early in the shutdown, and we still have more than 26 million people filing continuing claims for unemployment benefits.

I've tracked GDP estimates by the Federal Reserve for over a decade. They consistently err on the upside, guesstimating growth at a higher rate than actually occurs. In June, the Fed estimated GDP growth this year at -6.5%, followed by growth of 5.0% and 3.5% in 2021 and 2022. That comes out to 2% growth over three years, or 0.67% per year. After that, the Fed estimates long-term GDP growth at 1.8%. Remember, this is the group that has been consistently overly optimistic.

Maybe investors are taking some profits off the table, locking in capital gains at a known tax rate. Perhaps they aren't interested in being long and potentially "wrong" through what could be an extended, contested election. Or perhaps we're looking at the new normal, in which millions of workers who lost their jobs in travel, hospitality, and leisure won't ever go back and we'll have to reabsorb them into the workforce over time.

In a sense, all of us are likely to become long-haulers, suffering the economic effects of the pandemic long after the virus fades. Perhaps investors are protecting some profits as they prepare for the long road ahead.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.