Bell
Institutional Investment Management

EQUITY & FIXED INCOME OUTLOOK SEPTEMBER 2021

Fear and greed are powerful motivators. We see it every day in the investment markets. When things are going well, greed often dominates investment actions and is reflected in excessive risk-taking. When events turn negative, greed is rapidly replaced by fear. Have you ever noticed that a market sell-off occurs very rapidly over a short period of time? Have you also observed that a recovery is more muted, with the market taking much longer to return to the previous high? This is because fear lingers in our minds much longer than greed does. (I'm sure there is a psychological explanation for this, but that is outside of my field of expertise.)

Aldous Huxley's 1932 science fiction novel, *Brave New World*, is based on the idea of eliminating individuality through conditioning that aims to get humans to accept an abnormal life as normal. Today, our pandemic responses, originating from our fear of being infected by the coronavirus, have upended "normal" life. In many ways, we have come to accept those abnormalities as part of a "new normal." How long it lasts remains to be seen – but the grip of fear continues to influence how we behave and respond.

Let's get back to fear's influence in the investment markets. In spite of the fear that exists among consumers, the stock, bond and real estate markets are at or near record highs. This appears to be at odds with consumers' elevated fear profile. A fearful consumer tends to rein in spending. When consumers generate two-thirds of the gross domestic product, like they do in the U.S., reduced spending slows economic growth. When consumer fears finally fade, that should provide even more support for the economy and the markets – which at this point seems hard to imagine with the existing, already-elevated markets.

We are starting to field calls from clients who are concerned about market volatility going into year-end. In the vernacular of portfolio management, that means reducing volatile allocations like stocks and going into more stable allocations like bonds. The challenge is that stable allocations don't return any meaningful interest income, so movement into these types of asset classes is often followed by the question of how to generate more income.

The answer to *that* question is reaching into more risky sectors of the bond market that have more stock-like volatility, which in turn negates the intent of reducing potential volatility in the first place (sounds like a setup for a George Carlin joke!). Rather than trying to time the market, it is best to revisit an asset allocation only if you have a change in income needs, long-term goals, long-term risk profiles or other reasons related to your individual investment profile.

In every asset allocation, we aim to maximize return commensurate with risk in our quest to be great stewards of client investments. Thank you very much for your confidence in our team!

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