Bell Bank
Wealth Management

EQUITY & FIXED INCOME OUTLOOK JULY 2020

After nearly 35 years in the investment management business, I would like to be able to say I have seen it all – but each new day demonstrates that is not the case! Most recently, Hertz became the example that made this clear to me. The company filed for bankruptcy on May 22 and had a closing price of 55 cents on the next trading day. As confirmation that Hertz stock was nearly worthless, the largest shareholder, who at one point had owned 39% of the company, finally capitulated and sold his remaining shares at an average price of 72 cents. Fast-forward to June 8, when the market bid the stock's price as high as $6.25 per share, before closing at $5.53 – or 10 times higher than where it had been 2 weeks prior.

If we consider all at once the health of the investment markets, the economy and the physical wellbeing of the American population, we notice a big divide between the market and the other two. In the market, some equity segments reach new highs, and bond prices rise nearly as fast – while the economy struggles with 20 million continuing unemployment claims, rising bankruptcies, a pandemic that will likely outlast current government support programs, an employment to population ratio that has dropped to 52% and a deteriorating relationship with China, to name a few. Our population seems to fall into an "either/or" mindset, with people either aiming to get on with life as they have known it, or retreating into a cocoon and an altered way of life from which it may be hard to break free. In either state, the psychological stress is noticeable.

For investment managers, the conundrum is trying to determine if the friction between the market and the economy will drag down current progress, or if government stimulus and Federal Reserve intervention will overcome economic frictions and push the market even higher. According to a Bloomberg article by Andrew Husby, the increase through May in transfer payments to households added roughly $450 billion to personal income, while the shortfall in income excluding transfers was nearly $300 billion. This has sustained total income above pre-pandemic trends. Will it last? There are questions about whether the economy will be stable enough before some government support programs are scheduled to end on July 31, suggesting there may be growing sponsorship for extending these support programs. Our country must weave a delicate balance between providing income support through the pandemic's economic fallout and motivating a return to work and normalcy – while continuing to assess the health of our people, economy and markets.

Commercial real estate and apartment rents in densely populated cities are already seeing noticeable declines in lease rates, and we expect this ultimately to be expressed as a decline in commercial real estate market values. This might be the most pure indication of what is happening in the economy, because it appears to be a step removed from Federal Reserve monetary programs.

Employment will not return to pre-pandemic levels this year – and there's a good chance that won't occur next year, either. Families that have lost their source of income due to mandated business closings, and the owners of those business who lost their investments, will have a much narrower opportunity moving forward, suggesting they will need to rely on social safety nets until things get better. Improving the economic environment will remain a steep challenge, as parents wrestle with educating children at home while meeting the demands of working at home. None of these are insurmountable challenges, but they do suggest a lull in economic activity, the prospect for further market volatility, and the potential for subdued market returns for the foreseeable future.

None of these conditions is a reason to change your current investment allocations, if those allocations were properly focused on your investment goals before the pandemic.

Thank you for your business and for your confidence in Bell!

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Years of Investment Experience: 34 years
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