The Stanley-Laman Group, Ltd.

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The U.S. Economy - Half Full or Half Empty?

Many investors simply cannot understand (or accept) why the S&P 500 and Nasdaq have returned +39% and +44% from the March lows, given the damage to the Real Economy. The Financial Media reporting that "this time is different" and that a V-shaped recovery is nothing more than wishful thinking, has not helped. Furthermore, many believe (or suspect) that last week's 1,862 Dow decline was a sneak preview (confirmation bias) of an impending sell-off and evidence that the big one is indeed coming!

Questions:

1) Is the market out of sync with the Real Economy?
2) Are market gains being driven by institutional traders rather than economic merit?
3) Will the market sell off once the real damage to employment is fully realized?
4) Why invest in equities until greater clarity is available for the following:
   a. Covid-19 2nd wave
   b. A vaccine or treatment
   c. Long-term impact to dining, travel, cruising, concerting, education, gambling, living in densely populated metro areas, etc.

Observations:

The economy and the stock market run on two different time schedules. The Economy is now while the Stock Market extrapolates earnings and recoveries into (and sometimes well into) the future.

The state of Employment and Consumption will ultimately broadly dictate corporate earnings. Models tracking the post-Covid return of consumers to travel, employment and consumption are being developed. (Sample below)

Indicator	Weight	Category	This Week	Last Week
Foot traffic to consumer discretionary outlets	28%	Consumer Behavior	67%	65%
Traffic congestion	18%	Movement	39%	39%
Total Job Postings	11%	Employment Activity	49%	49%
Employee hours at small businesses	11%	Employment Activity	70%	70%
Unemployment Web Traffic	11%	Employment Activity	53%	50%
Domestic flight activity	9%	Movement	35%	30%
International flights	2%	Movement	14%	12%
Restaurant bookings	6%	Consumer Behavior	35%	24%
National transit ridership	4%	Movement	34%	32%
Implied US Economic Activity	100%		51%	50%

*Jefferies Group LLC, June 2020

Below are some recent economic data points.

- U.S. retail sales jumped in May by 18%, the most on record and double the consensus forecasts.
    - All categories increased in May, including a 44% surge in sales of motor vehicles and a 29% jump in restaurant receipts
- A gauge of builder sentiment jumped by the most on record in June and was nearly triple the gain projected by economists.
    - Builders pointed to tight inventory, increasing mortgage applications, low interest rates, and rising confidence among buyers
    - Buyer foot traffic more than doubled in one month even as builders report rapidly growing online and phone inquiries
- Wells Fargo's Chief Economist, Jay Bryson, historically quite balanced and sober in his views, recently informed a private group of executives the following:
    - The recession likely ended in April (although this will take twelve months to show in statistics) and will be the shortest and deepest on record
    - He expects unemployment to fall to 9% by year-end and 6% by the end of 2021

Our Thoughts and Predictions:

Employment and retail consumption will remain strong through year-end, as people return to work and re-engage socially, even if a "second wave" emerges.

It appears increasingly likely that a vaccine will be discovered earlier than expected and the virus will continue to mutate into weaker and weaker strains in the interim.

The stock market will remain volatile but record cash and money market levels ($4.6 Trillion) and near zero interest rates will drive high-quality U.S. growth companies higher and higher.

Companies that deliver solutions for E-commerce, Cybersecurity, Artificial Intelligence, Machine Learning, Cloud-based Processing, Automation, Robotics, Remotely Managed Applications, Medical Devices, Biotechnology, etc., will continue to lead the market.

Waiting to buy into 5% and 10% market dips is far less important than finding great companies which can double or triple in value over the next three to five years. And these businesses are out there as next generation disruptors and market leaders are constantly forming and emerging.

Please don't hesitate to contact us if we can be of any assistance.

Sincerely,

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