REFLECT, REIMAGINE, RESET, OR RE-SHUTTER?

News of accelerating U.S. infections in California, Texas, Arizona, and Florida abruptly interrupted the market's reverie this week, causing a sharp downdraft in global equity prices on Wednesday. Overseas, the virus continues to ravage Latin America while officials from Tokyo, Australia, Israel, and Germany also acknowledged concerns about pockets of new domestic infections. Many of the new positive cases have been found in people under 35; for example, in California, that demographic now makes up 44% of new infections. In his recent testimony to the House Energy and Commerce Committee, Dr. Anthony Fauci described the next two weeks as "critical" in thwarting spikes across states, and said if the U.S. doesn't get control of the coronavirus pandemic by fall, "you're essentially chasing after a forest fire."

Even so, the bar has been raised for re-implementing lockdowns. While the economic and social shutdowns were effective, they are expensive, and there is a growing concern that a second round will have less adherence than the first. Already, people in some parts of the country are gathering en masse, flocking to reopened businesses, and flouting guidance to wear masks in public places, including the President himself.

The more targeted strategy for containing Covid-19 is testing, tracing, and isolation, while allowing the rest of the population the ability to function close to normal wearing masks and using social distancing protocols. The goal of the forced shutdown that began in March was to stop the uncontrolled spread of the virus, which it did. The other goal was to buy us time to set up the public health infrastructure to do this testing and tracing and isolation at scale. But by most accounts, we failed to make use of that time, and markets are spooked as worries accelerate that more shutdowns may be looming in response to these spikes.

However, at this point in the pandemic, public health officials do have a better understanding of the spectrum of risk for the virus. We suspect that rather than issuing blanket orders to stay home, more nuanced guidance about what kinds of public spaces are safe and what precautions are necessary could ease the acceptance of pandemic control measures and avoid the need for broad-based shutdowns. Of course, all of this requires careful and nuanced public messaging, which has been difficult in the current environment of distrust amid fallout from mixed messages and heightened political agendas.

As the markets refocus on the virus, we are also seeing a refocus on further stimulus measures. White House Adviser Larry Kudlow said additional stimulus checks and tax rebates were both on the table for inclusion in the next fiscal stimulus bill. Treasury Secretary Steve Mnuchin raised the idea of more targeted jobs-focused stimulus such as payroll tax waivers, tax cuts for businesses and individuals, a $4,000 tax deduction for domestic travel, and massive infrastructure spending. Ohio Republican Senator Rob Portman has also proposed paying a $450 weekly bonus to unemployed workers who return to work. This weekly bonus would be paid for a limited time and in addition to the worker's wages. This idea reflects growing concern that the current $600 weekly unemployment bonus is a disincentive for unemployed workers to return to work given that in some cases these benefits are outpacing workers' regular pay. However, getting people to go back to work is not as easy as offering a $450 Back-to-Work Bonus. Many people want to work, but their jobs are no longer available. The economy is still in recovery mode, and job losses continue, as evidenced by this morning's unexpected uptick in initial jobless claims that demonstrate we have a long way to go to get back to full employment.

Markets will surely continue to fluctuate in response to the dueling forces of the virus and monetary and fiscal stimulus and as it awaits fundamental data coming soon in the form of second quarter earnings season kicking off on July 6. Those earnings reports will likely be a mess as they reflect the full impact of the shutdown, but the key will be any evidence of green shoots in results as the reopening got underway, and as companies show how they adapted to a pandemic operating environment. As Founder and Executive Chairman of the World Economic Forum Professor Klaus Schwab recently said, “The pandemic represents a rare but narrow window of opportunity to reflect, reimagine, and reset our world.” We agree, and will continue to make adjustments to portfolios to be responsive to those windows of opportunity on your behalf.

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ELECTION PREVIEW

With just over four months to go, Vice President Jose Biden has clinched the Democratic presidential nomination and taken the lead over President Donald Trump in most election polls. In prior election years, the stock market tends to be range bound ahead of the November vote and then rally in the aftermath. Of course, this is no typical election year.

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Ropes Wealth Advisors LLC
800 Boylston Street Boston, MA 02199-3600