The Stock Market Continues to Climb as Protests Spread Nationwide

Equity markets closed out the month of May with big gains. The S&P 500 climbed more than 5% for the month despite a lot of volatility. Swings of more than 1% a day were the norm as investors continue to try and sort through the carnage that has been the past three months. These gains are on the back of April's rebound from the March 23 low and leave the blue-chip index down only 6% for the year. Impressive is an understatement when considering the fact that it was down 35% just over eight weeks ago.

In addition to the simple percentage gains, the S&P 500 closed the week and month above its 200-day moving average. This is likely the most important news of all. That technical barrier is watched by retail and institutional investors alike. When we are above it, many large money managers that follow rules-based systems must move back into stocks and off the sidelines. If we can hold above the 200-day moving average over the near term, we may see several big up days as cash comes out of money market accounts and back onto the playing field.

So, what is driving this obvious disconnect between the stock market and everything else going on in our country? How can the stock market keep climbing as it appears our country is falling apart? A deadly virus continues to spread among us, now having killed more people in four months than the Vietnam War did in over a decade. Unemployment is at the highest level in one hundred years. Forty million people are living off government benefits and will likely do so for the remainder of 2020 as our leaders attempt to stave off a tsunami of evictions, foreclosures, and bankruptcies, which are staring us in the face. Our national debt is many trillions of dollars and climbing. Our cities are being burned and looted as years and years of failed policies (and promises) come home to roost. Protesters of all colors and walks of life are coming together to push for meaningful change. I am afraid this change is about much more than police brutality (although that is certainly enough by itself). I am afraid that COVID-19 and the aftermath of shutdowns and layoffs has further shined a harsh light on the reality of the divide between those who have in this society and those who do not. It is a scary thing when a part of our population is living a different life altogether than most others.

Our founding fathers wrote of this threat. Many economists and scholars have opined on this phenomenon. My son Jack, who just graduated from high school, told me that he studied it as well. He learned that it was a natural progression associated with the transformation of a society from agricultural to manufacturing and then from manufacturing to technology. His class was AP Human Geography and he was studying part of what is known as the "Demographic Transition Model". The idea is that as our society evolves, many industries and people get left behind. When their economic value becomes less relevant, the associated wages and opportunities likewise decline. As advancement becomes increasingly pronounced, more and more people are disenfranchised, and a smaller and smaller group can move forward. The effect becomes cyclical and self-perpetuating. Many wise people on both sides of the political aisle have studied this and acknowledged that over time our evolution becomes a threat to the existence of the society itself. In other words, the society becomes too smart for its own good and cannot survive. I certainly do not have any great answers to this, and as we look back over the last one thousand years of history, no one else has either.

My job is to protect my clients' money first and grow their money second. I am not a politician and do not base our investment decisions on political policies or even how good or bad I think we are doing as a country or society. I just want to know the game we are playing and can take it from there. Are we playing basketball or football? If I know that, I know how the ball is going to bounce and I can do my job. The market is a lot like me as a money manager. It is agnostic and is just concerned with doing its job. That job is pricing assets relative to one another. Right now, the market is looking ahead through all the noise and indicating that opportunities in stocks outweigh opportunities in other assets like bonds, treasuries, commodities, and real estate. It is not concerned with the Demographic Transition Model and didn't take AP Human Geography, but I am concerned. Not as an investor or money manager, but as an American. I love my country and can't imagine being born anywhere else. I believe we are the best that has ever been and can and will do what no other country ever imagined. I am still concerned.

Last week's market commentary can be found here.

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The COVID-19 health epidemic has had substantial global economic impact on financial markets. As of March of 2020, restrictions to travel and business spanning the economy for activities not deemed essential have been imposed throughout the United States. These restrictions have caused unprecedented volatility and uncertainty in capital markets and have negatively impacted the economy. It is unknown how severe the impact to the economy and capital markets will be if the epidemic persists for an extended period of time. The epidemic may have a material adverse impact on Cabana's investment advisory business including, but not limited to, the performance of our portfolio strategies.

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