The S&P 500 Inches Closer to All-Time Highs, Encouraged by Q2 Earnings

Major equity indices are positive for the year. The Nasdaq is now at all-time highs on the back of blowout performance from Amazon, Google, Facebook and Netflix. These companies, along with the tech sector in general, have thrived amid social distancing and remote working. Technology is the driver of innovation and will continue to benefit as humans are required to adapt to the new world brought on by the COVID-19 pandemic. Another winner is Walmart, which in its efforts to keep up with Amazon has found itself capable of providing basic necessities to people through a variety of channels. The S&P 500 is within a whisker of its all-time highs reached in February. FactSet Data is reporting that of the companies which have released second quarter earnings, more than 80% have beaten sales and revenue expectations. Some of this is due to outstanding management in navigating this year's difficult conditions and some is due to analysts having set the bar extremely low. Regardless of the reason, companies are still working and grinding forward.

President Trump unilaterally implemented additional economic relief when it appeared that neither Republicans nor Democrats could reach a consensus. At first glance, he appears to have split the difference in hopes that continued negotiation will occur behind the scenes. Whether you are a Trump fan or not, his action is necessary to prevent a cataclysmic waterfall of defaults and evictions. It remains to be seen if these types of stopgap measures can keep a severe recession or even depression at bay. In my view, we are just buying time until a medical solution is obtained.

One thing appears certain - interest rates are going to remain historically low for a very long time. Real rates (after adjustment for inflation) are deeply negative. This means that you are actually losing money by investing in many bonds, CD's and money market accounts. That fact alone forces money into equities, preferred shares and other risk assets as investors desperately search for yield. In addition to benefitting stocks, gold has moved above 2000 per ounce. Investors are buying gold because it represents a store of value against a deteriorating U.S. dollar and interest rates are no longer a deterrence. The dollar is now at its lowest level in more than two years. While a strong dollar evidences a strong U.S. economy, a weak dollar benefits our exporting manufacturers, as well as commodity producers. This may not be a bad thing right now. Those sectors can use any help they can get.

Look for a pullback or at least a period of consolidation as the broad markets reach the February highs (3400 on the S&P 500). The ability to break through that level will likely dictate whether we have completed the shortest bear market in history or simply completed the sharpest bear market bounce in history.

Last week's market commentary can be found here.


G. Chadd Mason
CEO, The Cabana Group

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