A Year Unlike Any Other

Well… 2020 just can't end soon enough for me. COVID just keeps coming - and in novel ways. We are now faced with the emergence of a new and particularly contagious strain that appeared in the UK over the past several weeks. The situation is bad enough that the entire country has shut down and travel is banned from there to most of Europe. Dr. Fauci reported today that the mutation is likely already here in the U.S. as well, simply adding to the absolute necessity of getting vaccines manufactured, shipped, and administered to millions and millions of people across this country. The fact that we finally (after some six months) got a stimulus bill passed in Washington to help small businesses and everyday people, just doesn't seem to matter much. The positive impacts of the agreement were already priced in by investors weeks ago, so Monday's news is not enough to push major indices forward in the face of our current reality. In addition to record breaking infections and deaths each day, we are seeing unemployment claims jump precipitously as new shutdowns are being put in place. I can go on and on, but all of you are well aware of where we stand as a society. I remain amazed that markets have been as resilient as they have.

Technology has provided humans worldwide the solution to living in the world of a pandemic. We always find a way, and this time technology was it. As a result, we have seen big tech pull the major market cap weighted indices forward. All other sectors have lagged far behind. Earnings remain negative year-over-year but appear to be bottoming. Earnings drive bull markets and we will remain in a fundamental bear market until we see earnings turn positive. Stock markets are forward looking, so it is not surprising that equity markets would begin to move up in anticipation of rising earnings in the future. In fact, this is the norm and why I have been watching for signs that this phenomenon is occurring. We have been watching for participation in sectors typical of a growing economy, which include cyclicals, consumer discretionary stocks and industrials. Technology alone cannot sustain a cyclical bull market. People need jobs and income to support our economy. Unfortunately, the vast majority of those jobs come from sectors other than technology. We have pointed out before that we finally saw the S&P 500 equal weight index (RSP) begin to outperform the S&P 500 market cap weighted index (SPY). This is strong evidence that investors are shifting money into companies other than big tech, which has been the go-to default trade throughout COVID. Normally, technology is a mid-cycle bullish trade and certainly not considered a "safe" trade. Currently, risk is completely controlled by COVID and technology is the one clear defense. As a result, people are buying technology as a defensive position, all the while knowing it also does well during bull markets. Investors have taken the position that it is a "can't lose" trade. I am typically very skeptical of "can't lose" trades, but it is something to think about moving forward. Is this tech trade the new normal? Can we just buy the five FAANG stocks and forget about everything else? I don't think so. The world changes slowly and in fits and starts. COVID-19 has certainly increased our reliance on technology, but I do not believe it has rendered the rest of humanities endeavors obsolete. Other jobs, services and passions still matter and support most households nationwide.

As this historic year comes to a close, it seems we are near the top of this very slippery and steep mountain that we began climbing in February. Technical price resilience supports this conclusion. Our country is facing a logistics problem not seen since World War II in finding a way to deliver the vaccine. It is a race against time. I have every confidence that we will get it done, as we always have. The bigger question is just how many people (and businesses) we lose in the interim. There is no consolation in losing a loved one or in losing a business you have built over a period of years. Those losses will define the end of the great recession of 2020 and when the next cyclical bull market begins.

Last week's commentary can be found here.

G. Chadd Mason
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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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