



Contrary Market Indicators

June 2020

*“Live so that when your children think of fairness and integrity, they think of you.”
— Jackson Brown, Jr.*

A good friend told me that while he was in medical training to become a surgeon, he was consistently reminded that if he was unable to make a diagnosis then he should not do anything; much better to take action once you have more clarity on the situation. This approach - whereby you should stop and think, try to understand the situation, and then take purposeful action or inaction - transcends medicine and is instructive as to how to approach many difficult situations, including finances.

Currently, there seems to be a large disconnect between the U.S. stock market and the economy, the bond market, and the rest of the world quite frankly. While the U.S. stock market is anticipating a very quick and strong recovery, the bond market and economic indicators here and abroad seem to indicate the opposite. So, we stopped to think about this disconnect, and tried to understand it, and the only answers we found were question marks. In fact, all our research seems to contradict itself; some numbers indicate a quick, strong recovery while others indicate a long, weak recovery.

For instance, last week the Federal Reserve governors gave their predictions for growth (or lack thereof) and interest rates. For the former, they predicted the economy would contract by anywhere between 4% and 10% this year, which is an extraordinary divergence of opinion; next year was just as uncertain with at least one official projecting an additional 1% contraction even though most expected growth of around 5%. As for interest rates, all 17 participating officials said they expect to hold rates near 0% for all of 2021, and 15 even thought rates would stay there through 2022.

LPL Research has also made several observations that seem to indicate that contrary indicators make a proper diagnosis of the economy out of reach. They state that the “path of the economy over the rest of the year depends on whether COVID-19 infection rates continue to fall, facilitating more and faster re-openings and a return to some semblance of normal consumer behavior. Alternatively, a potential second wave of the virus could lead to lockdowns being put back in place and consumers staying home.”

LPL further states that “[i]mprovements in the timeliest data over the past several weeks are encouraging as states have moved their re-opening plans ahead,” but then remind us that “a large portion of the US economy cannot be easily socially distanced, which may limit the pace of the recovery by capping the amount of economic activity that can be recovered quickly.” So, even though LPL Research remains “optimistic about a gradual recovery in the second half”, and is “encouraged by recent

signs of improvement in the labor market and some of the timeliest data on economic activity”, they also acknowledge that “forecasting in a COVID-19 environment remains very difficult” and foresees “constraints on the pace of recovery in the second half.”

Due to this massive lack of clarity amidst these contrary indicators, we strongly feel the most prudent action to take right now is to not take any action; in all seriousness, we feel the best course right now is to do nothing until a better diagnosis can be made (hopefully in the next few months). Thus, we are advising clients to purposefully not take action, to not buy or sell stocks or bonds within your portfolio - there’s just too little information to make changes to portfolios that, from the beginning, were created with the intention of preparing for something to go right and something to go wrong.

Last, but certainly not least, I’d like to offer my thoughts on recent events here in America. After the murder of George Floyd by a police officer, there is understandable anger. However, this anger, I believe, may stem from more than just any single incident; I believe the protests are also about historical and current discrimination where it may still exist. Either way, similar to our advice on the markets where we suggest that the first step is to stop and think, and try to understand, I believe we need to do the same with the current (and historic) state of racial affairs here in the U.S.

But then instead of purposefully not taking action, I believe we need to purposefully take action to end any continuing discrimination, and I think the best action we can take is to actively love one another. Using the words of Martin Luther King, Jr, (which I believe apply to people of *every* color), “[s]omebody must have sense enough and morality enough to cut off the chain of hate and the chain of evil in the universe. And you do that by love.”

Thus, although I do not see discrimination (much less “hate” or “evil”) everywhere I look, I still think that by consistently loving other people, regardless of race or color, we can root out and destroy discrimination where it may still exist, because “love is the only creative, redemptive, transforming power in the universe.” So, for my part - knowing that the practice of loving is not a passive ideal but rather an active one - I will continue to stop and think, try to understand, and then take action in my daily life to treat everyone the same, because *everyone* benefits from a more loving world.

As always, thank you for your friendship and trust. Stay safe, stay healthy, and take care!

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