

Quick thoughts: Wall Street and Main Street disconnect



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JULY 16, 2020

There is a disconnect between the stock markets and Main Street. Stock prices remain elevated despite economic data indicating deep economic harm. The fiscal, monetary, and political responses to the COVID-19 crisis globally have led to a world awash with liquidity and short-term fiscal stimulation. Much of that liquidity has gone into the stock markets, explaining a great deal of the markets' ascent in the second quarter.

The COVID-19 pandemic seems to have accelerated changes that might have otherwise taken a decade or more. Please read our *Global Investment Outlook* where we discuss many factors currently affecting the markets, including:

- Waves of COVID-19 infections, historic unrest around racial injustice, the upcoming US elections, growing tension between the United States and China.
- Examples of rapid industry shifts include: work from anywhere, remote sports and entertainment, greater reliance on restaurant take-out and delivery services, increasing industry consolidations, supply chains returning domestically, bankruptcies of many small—especially retail—businesses, and the move of urban digital-era hubs to lower-cost areas.
- Globally, while low interest rates, fiscal stimuli, and easily available financing have helped keep alive some weak companies, debt is not a substitute for lost revenues and profits.
- The FAAANM stocks (Facebook, Apple, Alphabet, Amazon, Netflix, and Microsoft) appreciated 263.82% since 2015, about one-third of the S&P 500 Index's return. The rest of the US equity market (S&P 500 Index without the FAAANMs) appreciated 35.68%.¹
- The US markets have generally outperformed overseas markets. However, if you exclude the FAAANM stocks from US indexes, the US equity markets have performed about in line with overseas' markets, and any difference is from currency moves.

The key question looking ahead is whether the stock markets will continue to climb based on monetary and fiscal responses or whether something could make equity markets unwind. I continue to believe that stock market and economic fundamentals will not remain disconnected forever. I think companies that will do well over time will have: clear business strategies, economic moats, workforce diversity, attention to Environmental, Social and Governance (ESG) factors, returns above the cost of capital, strong balance sheets, positive cash flow, and skills leveraging technology.

A handwritten signature in black ink that reads "Stephen Dover". The signature is fluid and cursive, with a large, stylized "D" and "O".



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Endnotes

1. Source FactSet, as of June 30, 2020. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or guarantee of future results.**

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