Brightworth®

Published on *Brightworth* (https://brightworth.com)



# Financial Market Update: June 2020

Submitted by Don Wilson on 06/08/2020 - 01:24

**Don WIlson, CFA, CFP® | Partner | Chief Investment Officer**
**Jeffrey A. Harrell, CFA | Director of Portfolio Management**

Volatility is back! Last week the stock market suffered one of its worst declines in months leaving many investors questioning if the rally from the March lows has come to an end. Prior to this sharp drop stocks had been consistently marching higher and higher leaving many investors perplexed as to why. After all, consumer confidence remains low, corporate earnings are projected to collapse 30% or more in 2020, and unemployment is over 13%. Couple this with an escalation of geopolitical pressures abroad and racial tensions here at home and you seemingly have a perfect storm for financial market Armageddon. Admittedly, we did have a very encouraging employment report come out recently with 2.5 million jobs added in the month of May, but by no means does this suggest we are out of the woods yet. Thus, given the lingering economic concerns what could possibly be supporting stock prices near record highs? Enter the Federal Reserve.

We normally like to keep these updates void of too much economic theory, but to explain what

is going on we are going to provide some context of what appears to be driving financial markets at the present time. While we are all aware of the economic difficulty so many Americans are currently facing, the response by the Federal Reserve has investors confident a prolonged downturn will not happen. David Rosenberg, of Rosenberg Research, summed it up perfectly in a recent research report to clients, "… statistically speaking, the correlation between the equity market, and the Fed balance sheet has now crossed above 90% over this interval (the stock market bottom until now), even greater than the already-intense relationship during the 2009-2013 era of ever-expansive QE (quantitative easing). The correlation between the S&P 500 and the real economy over this interval is close to zero."

The aforementioned "Fed balance sheet" refers to the assets and liabilities of the Federal Reserve. Again, we are not going to turn this into an economics class, so we will simply offer a translation of this complicated monetary policy tool into one word…liquidity. Keeping everything as simple as possible, when the Fed increases the size of its balance sheet it injects liquidity into the economy and when it shrinks its balance sheet it removes liquidity. In less than three months the Fed has expanded its balance sheet by more than $3 trillion. For comparison purposes, it took the Fed over five years to reach this level of balance sheet expansion in the aftermath of the global financial crisis (GFC). This is all an investor needs to know to understand the level of intervention taking place in financial markets at the present time.

The bull market that ended in March of this past year may have been the longest in history, but it still experienced numerous – albeit relatively brief – downturns that were consistently stemmed by Federal Reserve intervention. With these results still fresh in most investors' minds it should be no surprise that actions taken which trump even the most aggressive policies during the past decade have been met with a resounding level of euphoria. Thus, with Fed support likely to continue for as long as the economic downturn lasts, stocks may continue to move higher even if the economy remains challenging.

The takeaway for our clients trying to make sense of all of this is to remind yourself how important having a disciplined investment strategy is. Unfortunately, we have heard countless stories of investors that made drastic changes to their portfolios near the bottom of the downturn. The speed and intensity of the rebound now has them in a difficult spot, trying to determine if "getting back in" is the right thing to do. This is not an enviable position to be in. Further, the rally has been so strong, some who stayed the course are now wondering if they should reduce their risk since economic uncertainty still abounds. If you have asked yourself this question we would encourage you to read our article from last month that addresses this ( click here [1]).

Although we will never endorse an aggressive market timing strategy as both empirical evidence and real-world experience demonstrate time and time again the futility of this, reassessing your risk after a major market collapse and swift recovery is definitely a prudent investment decision. Discussing how you reacted during the downturn with your advisor is a great way to determine if your accounts are invested consistent with your personal risk tolerance.

*Have more questions about the financial market?* Click here [2]

*The statements and opinions expressed herein are subject to change without notice based on market and other conditions. The information provided is for informational purposes only and should not be construed as investment or legal opinion. Please consult a tax or financial advisor with questions about your specific situation.  Investors may not invest directly in an unmanaged index. Past performance is not a guarantee of future returns.*

Continue reading ? [3]

---

**Source URL:** https://brightworth.com/content/inv/marketupdate/june2020

**Links**
[1] https://mcgilladvisors.brightworth.com/knowingrisktolerance
[2] mailto:info@brightworth.com?subject=Question%20about%20financial%20market
[3] https://brightworth.com/content/inv/marketupdate/june2020