Schroeder | Capital Management, LLC

Global Investment

Investment Review and Outlook – Fall 2020

Anxiety is high on Wall Street and throughout the country as October draws to a close. Bipartisan talks relating to another economic stimulus agreement appear to be stalled, the rise in COVID-19 cases is unsettling, and the economic recovery, while encouraging, is uneven. Additionally, a very contentious 2020 election has wide-ranging implications for taxation, healthcare and regulatory policies.

The U.S. Economy:

The economy is continuing to improve from the COVID-19 induced contraction during the spring, although reported data relating to the recovery has been mixed. Manufacturing activity is improving at a slower pace than over the summer and the services sector is also performing unevenly. Job creation has also slowed and weekly jobless claims remain a problem.

On the other hand, recent reports show a rise in consumer spending, with a nice increase in overall retail sales. Auto sales have been a particular standout. Housing demand has shown further strength due to limited supply and low mortgage rates that have led to aggressive bidding in many locales, especially in suburban America. Also encouraging, company reports for the recently ended third-quarter show earnings are coming in better than expected. On balance, most reports suggest economic expansion will continue to move forward, although at a modest pace.

The Federal Reserve:

While the Fed has affirmed its commitment to low interest rates and an accommodative monetary policy, Chairman Powell has raised concerns about the pace of economic activity and the growing need for an additional financial stimulus package from Congress. The Chairman suggested more jobless assistance and small business loans would help prevent the current upturn from decelerating. While Congress has shown a willingness to fashion another stimulus plan, thus far there is no agreement as to the timing or size of such an aid package.

COVID-19

After months of generally declining rates of new infections and deaths, statistics continue to show rising rates of COVID -19 virus cases across most of the United States and much of Europe, as the world waits for a vaccine and effective therapeutics. Regarding the latter, on October 22nd, the U.S. Food and Drug Administration approved the first and only therapeutic so far for treatment of COVID-19. The antiviral drug is Veklury (Remdesivir), produced by Gilead Sciences. Veklury shortens the recovery time for hospitalized patients by about 5 days.

On the vaccine front, Pfizer appears to be at the front of the race to create a vaccine. The company, along with its partner BioNTech, has developed a potential vaccine that is in late, third stage trials. If results show the vaccine is effective and safe, the company plans on submitting an application to the FDA for emergency use, possibly by late November.

The 2020 Election:

The stakes are high from both economic and regulatory standpoints with the stark differences between the presidential candidates on a wide range of issues including taxation, healthcare and regulatory policies. Also, the outcome of the presidential and congressional contests may not be known for some time after Election Day, with challenges, ballot recounts and other disruptive developments that could be very unsettling for the country.

Summary:

Despite the mixed readings of economic reports and occasional cross currents and volatility of the financial markets, there is room for optimism. The economy is continuing to recover, even with a few missteps, and Wall Street is handling these events quite well.

The recently approved therapeutic for COVID -19, produced in less than one year from the first reported case in the U.S., is a very positive development. With a little more time, we may also be seeing our first global vaccine as well. These developments are likely to be game changers for the U.S. economy: our businesses in general, employment levels, schools and colleges, entertainment and travel and an overall improvement of attitudes of individuals within our country. A return to more “normalcy” in the months to come compared with current restrictions and hardships that we are experiencing, month after month, is likely to have a dramatic, positive impact on our country.

For the most part, securities markets are persevering. This resilience largely reflects the fact that the Federal Reserve remains supportive by keeping interest rates low and advocating for further fiscal stimulus. Event risk is always a concern but rarely ends bull markets so long as the economic and monetary fundamentals remain supportive, as is the case currently.

Investment Strategy:

Our investment strategy has included avoidance of certain industries such as energy and financials that have been and will be impacted by current economic conditions both home and abroad. We have also reduced portfolio volatility by paring back high-priced technology shares, especially those negatively impacted by sluggish economic activity. This has had the result of generating higher than average cash levels in client portfolios. At the same time we have favored the selection of specific healthcare names that address pharmaceutical solutions and medical supplies targeting COVID-19.

At the present time, we are very focused on several potential areas that are likely to have an impact on near and intermediate-term investments: the results of the November election, whether it is contested, and potential new government policies, COVID-19 developments regarding the level of new infections and the potential approval of a new vaccine, and importantly, the details of the widely-anticipated new stimulus package by Congress.

Once there is more clarity on the aforementioned and other issues, we will readdress areas of the economy that will be beneficiaries of renewed growth and possible governmental policy changes, some new areas and some more traditional. In the current environment, attractive alternatives to equities, such as bonds and fixed income securities, are hard to find, given our historically low interest rate landscape. Our approach will continue to be very conservative with capital preservation as a key ingredient while maintaining vigilance to identify new opportunities including attractive candidates that generate higher than average dividend payouts. We are very focused on developments that may change the economic and investment environment going forward.

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President and Chief Investment Officer

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