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## **Market Recovery Amid Uncertainty**

Nearly all key economic metrics are outside the typical ranges we've seen over the past 5 years. Volatility has gone way up. Interest rates and inflation are very low. Unemployment is at level not seen since the Great Depression. GDP is negative for the entire first quarter of 2020. The impact of the Corona Virus pandemic has been massive.

As we balance both good and bad news, we must understand that investing is about the future; not just the short term but how the world economy will likely look in the long-term future. Often knee-jerk investment decisions are made because of the here and now, and not with an eye to ten years from now. As we make investment decisions for client portfolios, that is a key approach that matters.

Certain sectors have been hard hit. Traditional retail has seen bankruptcies of stores such as Nieman Marcus and JC Penny. Airlines have seen a drop in usage by 96%<sup>1</sup>. Oil companies are dealing with a barrel falling in price from \$61/barrel to a range from \$20 to \$30/barrel in recent days<sup>2</sup>. The tourism sector of restaurants, cruise lines, hotels, and casinos have had massive reductions in business.

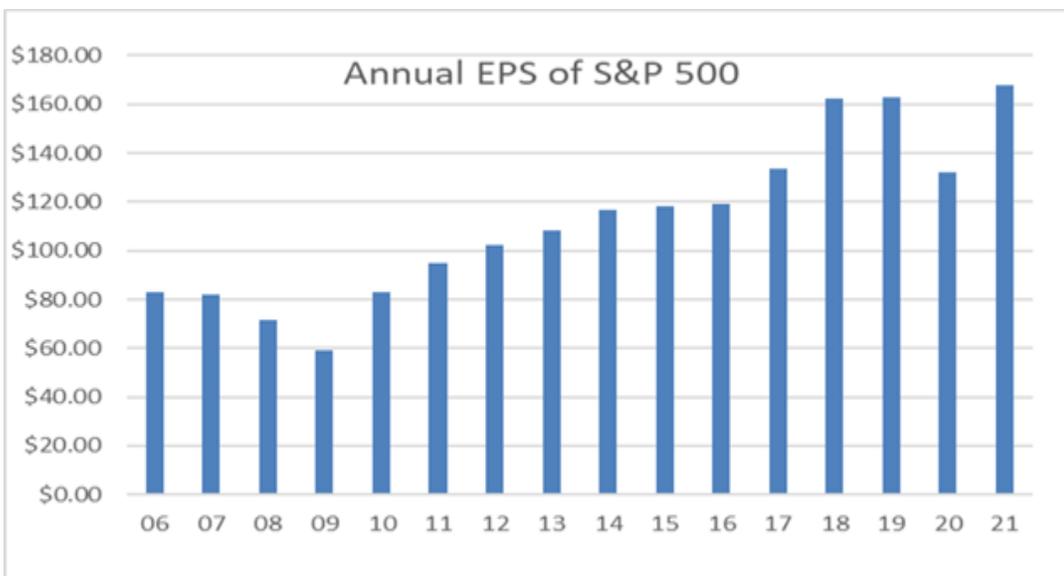
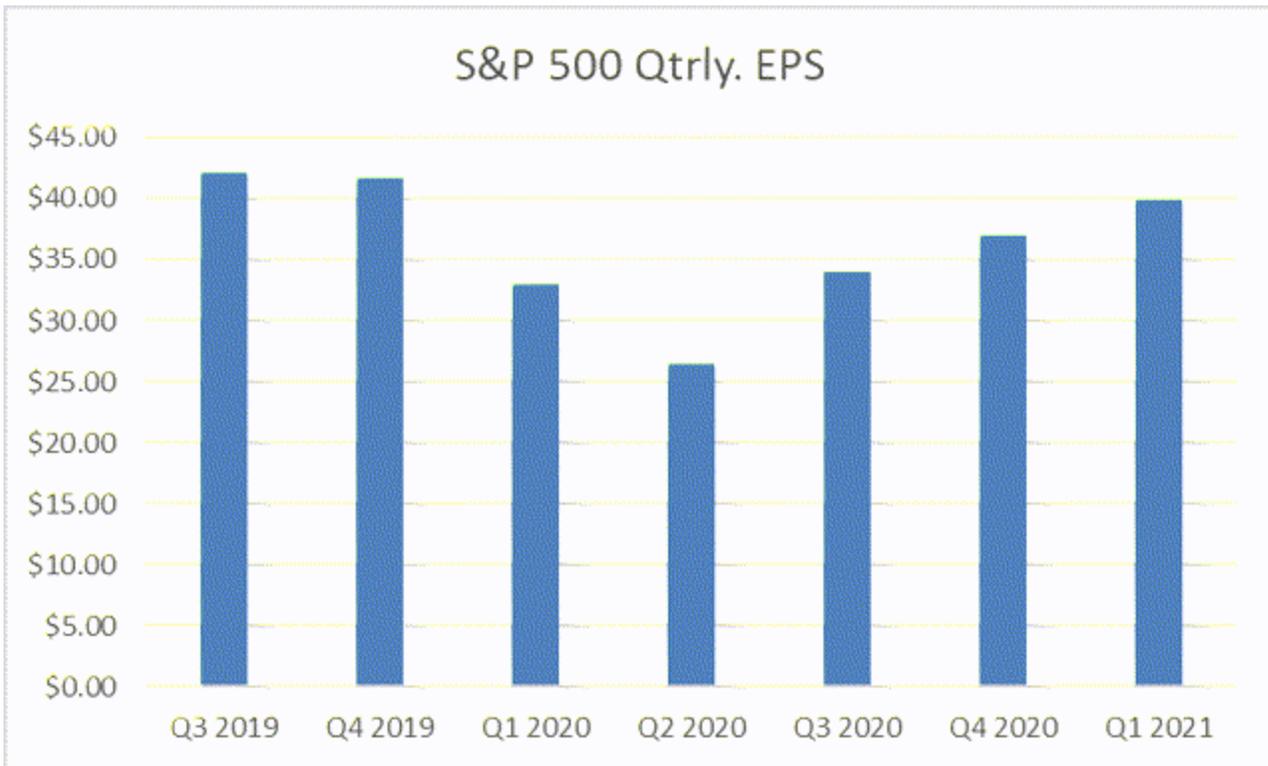
News headlines continue to beat the drum of bad news, highlighting, pandemic deaths and mismanagement. There is a real possibility that there will be additional waves of the virus in the months to come. The Corona Virus vaccine could be a year in coming if it comes at all.

There is more negative news for markets, the more you look for it, the easier it is to find. The longer we hear about the negatives the more it seems there is nothing but misery as far as the eye can see. However, we can also find good news and the more we look, the easier the good news is to find as well.

The Federal Government has injected nearly 7 Trillion dollars into the system in varying ways which not only supports economic activity, provides liquidity to bond markets, and provides money that is going towards equity investment. Bond Yields are extremely low which allows for borrowing at low costs, both for corporations and the government itself. Volatility as measured by the VIX reached its peak of 82 on March 16<sup>th</sup> and has fallen to 29 as of May 18<sup>th</sup><sup>3</sup>.

The economy and the investment markets themselves are looking at the pandemic outlook as well as the government and self-imposed restrictions. The re-opening of the economy looks extremely promising. 48 out of 50 states have some form of economically related openings. Auto plants, many beaches and related tourism, sporting events, are just a few examples of re-openings compared to last week or the week before. There are clear drivers and government interest for medical companies to produce protective equipment, ventilators, hospital capacity, Corona Virus treatments and promising potential for a vaccine. More and more, the view is that the economy will open slowly but surely over the next year.

There is clear uncertainty and pockets of the economy that may never recover. Yet, the impending deep recession is likely to last two to three quarters (and these estimates are already priced into the market). In our opinion, growth in the economy and S&P 500 earnings may resume by Q1 of 2021. One of the reasons the market is rallying.



Data Source for tables from [www.factset.com](http://www.factset.com)

An important reminder: We believe investors should not attempt to time the market and that the key to successful wealth management is to coordinate with your financial planner and establish the risk and return expectations for your unique situation.

Treasury Yields, earnings, and dividends sourced from Yahoo Finance and Ycharts.

1 <https://www.cnn.com/2020/04/09/politics/airline-passengers-decline/index.html>

2 <https://oilprice.com/oil-price-charts>

3 <https://markets.businessinsider.com/index/vix>

The S&P 500 Index is the Standard & Poor's Composite Index of 500 stocks and a widely recognized, unmanaged index of common stock prices. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. Rates of return will vary over time, particularly long-term investments. Forward looking statements may be subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied.

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