The U.S. stock market continued to climb in July with the S&P 500 returning 5.64%. Macro Cap stocks, Growth stocks, FAANG (Facebook, Amazon, Apple, Netflix and Google) and FAAMG (Facebook, Amazon, Apple, Microsoft and Google), all outperformed the broad market. As we noted previously, the market rally since March 23rd has been driven by a relative handful of companies positioned to do well in our modified stay-at-home economy. Companies that make money while we sit on the couch watching Netflix, shop online, and work from home are doing quite well as their recent earnings results demonstrate.

The market is also demonstrating that it anticipates a continued recovery for the economy, consumer spending and corporate profits.

Economic Headlines have been eye catching as U.S. Gross Domestic Product (GDP) contracted by 32.9% in the second quarter on an annualized basis. We note that a decline of this magnitude was widely expected given the lock-down induced recession, and importantly that it is backward looking. There was a marked reacceleration in economic growth in the last two months of the quarter. It may not be an exactly V shaped recovery, but it is certainly a positive development.

While economic momentum has picked up, concerns about a roll back of the reopening of the economy remain. New cases of Covid-19 continue to rise in the Southern and Western portions of the U.S. Progress is being made on a vaccine, or multiple vaccines, to prevent Covid-19. Whether a vaccine will be available by 2021 is in question. If it comes to be, developing an effective vaccine in so short a time would be an unprecedented accomplishment.

News of the labor market remains mixed but continues to improve. While unemployment has moved lower, initial jobless claims continue to exceed 1 million each week. The extra $600 per week of unemployment benefits have expired and an extension in some form is under discussion.

Previously, we have pointed to the unprecedented magnitude of Federal Reserve action and Fiscal stimulus. The questions remain, is the bridge long enough? Is it wide enough? The Fed says they will do whatever it takes and Washington is currently considering an additional stimulus package. As Washington works to reconcile differences in approach and the form that stimulus will take is not yet clear, what is clear is that further assistance will be needed as Covid-19 continues to spread.

As we think about the magnitude of the Fed's actions and fiscal stimulus we wonder, what does a trillion dollars look like? It looks like this: $1,000,000,000,000. That is a whole lot of zeros. A stack of $1 trillion in one dollar bills would circle the earth almost 3 times. A stack of dollar bills equal to all the fiscal stimulus and the Fed's balance sheet expansion would reach to the moon and back. This all makes the late Senator Everett Dirksen's comment "A billion here, a billion there, pretty soon you're talking real money" seem quaint.

There has been increasing talk of inflation rearing its head as a result of the Fed's printing press, multiple trillion dollar plus stimulus packages, and a likely $3-4 trillion federal budget deficit. However, at this point the evidence is thin. With an implied inflation rate over the next ten years is 1.48%, inflation is not yet something to lose sleep over.

Concerns over inflation and its potential impact on the U.S Dollar as a store of value have led investors to seek alternatives. Gold prices have risen by 29.4% year-to-date and by 10.5% in July alone. Recently, the poor man's gold – silver – has rallied; and so too have crypto currencies.

The U.S. Dollar has recently weakened against both major currencies and emerging market currencies. On one hand this makes the goods we import more expensive. On the other hand, it makes our exports more attractive abroad. To multi-national U.S. companies, this is an opportunity which for many may have a positive earnings impact.

In a disconcerting note – a research piece titled "The next FAANG Stocks" floated across our desks last week. Emboldened by the stock market's recovery, investors appear to be already looking for the next big thing. The Fed's low interest rate strategy is intended to incent people to take on more risk with their money as investors stretch for yield. At this point, nearly 80% of the stocks in the S&P 500 pay a higher dividend yield than the 10 Year U.S. Treasury Bond. This has led some investors to purchase stocks for yield without taking into account the volatility of the market and the potential for losses. This is known as TINA; There Is No Alternative. Another factor playing out in the market is FOMO: Fear Of Missing Out; the results of which is illustrated by the handful of stocks that are pushing the market higher. Investors who take on a level of risk which in the past they would consider imprudent, crowded trades and herd mentality can lead to excesses that are concerning.

Over time, fundamentals drive the market; though the market very often moves first as it anticipates change. While the path of the economy is unclear due to Covid-19, the trajectory is positive. Economic fundamentals are undoubtedly improving; companies suited for this economic environment are being rewarded by investors with higher stock prices; volatility is declining; liquidity in the credit markets has strengthened; the Federal Reserve's actions are supportive and there is potential further fiscal stimulus to come.

The path forward will not be linear. There will be setbacks; but successes as well. We will continue to monitor the ever changing situation to identify opportunities that appropriately balance risk and reward, diversify investments and undertake tactical allocation changes which we believe will assist in achieving our clients' individual goals.

We advocate a neutral position relative our clients' strategic asset allocations. We believe risks and rewards are roughly in balance at this point. We have cash available to deploy, but to be overweight stocks at current valuation levels and with a lack of visibility into the future is not where we currently want our clients to be.

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