MARKET COMMENTARY – JUNE 1, 2020

A Narrow Rally.

The rally we've seen in stock market indices since the recent low on March 23 has been somewhat astounding. Amid worsening lockdown-driven economic devastation, stocks, as measured by the S&P 500, are up 38% from the bottom. This merry phenomenon is driven by the roaring twin engines of hope and cash, cash, cash.

The first engine, hope, boils down to investors gazing forward through the fog of economic wreckage. With each day of re-opening activity, so the hope goes, more folks will get out of their homes. More economic activity will occur. Another job might be added to the economy and therefore, unemployment rolls decline. And the squinty-eyed, discerning hope further sees that as the year unfolds, those improvements might slowly build upon one another so that 2020 may end on at least a stabilized trend.

We'll make no further commentary on the hope engine. It is one that we possess. Admittedly though, we have little economic data to support it today.

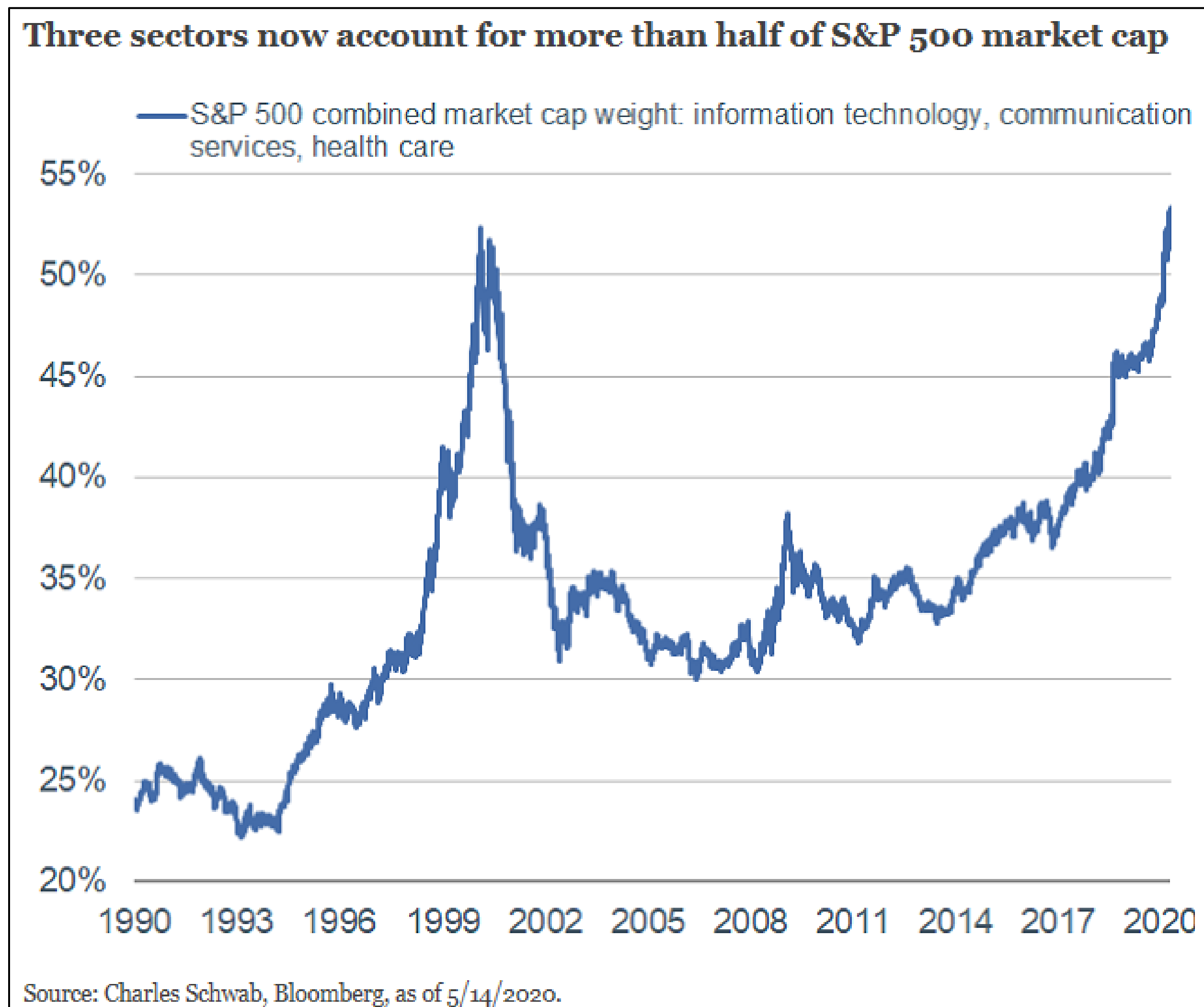
The second engine, cash, cash, cash, is easier to witness empirically. Over March 23-24, Congress passed the first of their monstrous spending bills. Simultaneously, the Federal Reserve increased their commitments to support the functioning of credit markets. Suddenly, trillions upon trillions of government "funny" money was flooding a weakened system.

Consumers spent – at home improvement stores, at groceries, online. Consumers spent. Companies poured money into mandatory technology to facilitate working from home and fulfilling orders. Investors invested, driving stocks upward.

And the rallies *might* make sense. **If** the reopening goes on without a hitch. **If** the recovery is closer to a V-shape rather than a U. Significant ifs. And so, the rally has potentially gotten ahead of itself.

But only for a certain slice of the stock market.

It turns out the strength of the headline rally is not the same for all companies. The recovery in prices has been driven by a small minority of names. The nearby chart shows that technology, communication, and health care stocks have grown to a record proportion of our stock market's value. Their weights had already been drifting higher in recent years. But the lockdowns and their aftermath have added power to the trend. Sexy tech stocks have bounced the highest and fastest – some of them to their pre-lockdown values. Meanwhile, traditional companies like financials or industrials are up from March lows, but nowhere near the levels of their high-tech cousins. And it is not just by industry that we can see these divergences. The rally has been concentrated in the biggest of the big, leaving small caps limping along.



To varying degrees, these developments have happened before. Big technology companies can usually stave off recessionary forces more successfully than others. And so, it makes sense that they might rally first. But these forces also create opportunities for the patient investor. Small companies will form and survive. Many banks and manufacturers will thrive. We must merely buy those that have bright futures at fair prices (or better) and allow patience and time to do the heavy lifting. We, at Stirling Bridge, are attempting to do just that right now – picking up quality companies in staid industries at still-cheap prices.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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