

MARKET COMMENTARY – NOVEMBER 1, 2020

*When quacks with pill political would dope us,
When politics absorbs the livelong day,
I like to think about that star Canopus,
So far, so far away. ~ Bert Leston Taylor*

Taylor was a celebrated American journalist, humorist, and poet whose life and career straddled the 19th and 20th centuries. He composed the wistful stanza above in 1919, peering up at the vast nighttime sky in an age before light pollution. Today, rather than gaze upward when we wish to escape the vexing strife, we look downward at a screen, a portal to the tangled Web. And while we'll set aside possible commentary on the direction of our society's focus today versus yesteryear – down versus up – one thing is certain. Taylor's sentiments remain apropos.

We cannot hope to lasso bright Canopus for our readers and bring it hither for meditative inspection. We can, however, discuss one of the many brilliant earthly pursuits that need not be plunged into the political realm. Business is a topic that is germane to us all. Elon Musk has said that business and capitalism simply involve the art of making things that people want. So essential is business to modern life that a contemporary of Taylor's put it, *The business of America is business* (Calvin Coolidge).

With modestly restrained lockdowns, business activity has improved dramatically from the bowels of the second quarter. A host of measures demonstrate that, with time, American producing and spending can again recover and eclipse higher heights. Third quarter GDP, reported last week, shattered lofty expectations. Initial unemployment claims have tumbled from their spring peaks to levels that suggest a more typical acute recession. Real retail sales have already surpassed the spending levels seen in February. The aggregate savings rate remains soundly positive.

Corporate earnings and forecasts, too, are admirable. Entering the 3Q earnings season, expectations were for results to fall 25% from last year. As of this moment, with over half of S&P 500 companies having reported, the decrease in net income is "only" 8%. In normal expansionary years, such a drop would of course be bad news. But a 17-percentage point improvement over expectations is significant and something to celebrate. It also demonstrates the resiliency of American businesses. Even the nearly decimated airline industry is expected to be cash flow neutral by year-end.

Which brings us to corporate outlooks. As readers might expect, forecasts show a wide range, especially across industries. Energy remains challenged and is expected to remain so for the foreseeable future. But technology, communications, staples, health care, and discretionary all have rosy outlooks. Falling in the middle are financials, industrials, materials, real estate, and utilities. The point is that corporate leaders are crafting paths that ought to produce positive growth in revenues and earnings in the coming twelve months. And barring further lockdowns, they seem achievable.

It is certainly true that many emerging technology and health care stocks are vastly overpriced. It is exceedingly difficult to know which companies will survive in this winner-take-all environment. Therefore, it remains important to own a small mix of potential kings. However, it is equally important, perhaps more important than ever, to avoid chasing rumors of instant wealth. After all, trees don't grow to the sky.

Before closing, we must tug us back down from the shining heavens and to earth. Even worse, to politics – albeit peripherally. Coronavirus remains at-large in the community. This author has long believed that we will all come down with it – via infection or vaccination. We are heartened that the young among us are rarely hospitalized and succumb to it on an even rarer basis. For example, the CDC's website shows that since February 1, 2020, 170,000 Americans ages 44 and under have died from **all** possible causes. About 6,000 of those are from the virus. The data for older Americans are more severe, but directionally similar. Tragic. Nonetheless there is cause for hope.

So, in the midst of a bleak news cycle, we ask that you intrepidly conduct the business of America. Produce. Consume (responsibly). With truth and wisdom, vote if you haven't already. Then, when that sacred civic duty is done, return to the business of America. To the business of your family. To the business of your faith. And perhaps, just perhaps, by minding our business, we may manage to rope the brilliant Canopus a little nearer to us all.

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Sincerely

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