BURKE
FINANCIAL STRATEGIES

No Ifs, Ands or Buts

John Burke, MS, CFP® | February 2020

On Tuesday, John Burke made another appearance on Liz Claman's Closing Bell on Fox Business. You can watch the short segment by clicking:

https://video.foxbusiness.com/v/6129587790001/#sp=show-clips

Here is our latest market commentary:

Last week the market started to get worried about two new events - Bernie Sanders rising in the polls and the spread of coronavirus. The market does not like Bernie Sanders because amongst other things, he once proposed a tax of 100% on income over $1 million, and he is downright hostile to corporate America. The coronavirus, well, we don't think we need explain how frightening that is, though there is more to that than investors think, as we will explain below. Given these concerns, we are surprised at how well the markets have done the last three days. It is as if investors are now ignoring these current concerns. In this market update, we explain why we agree that, in the longer term, things are starting to look better, but that is only if you accept the market's **No Ifs, Ands or Buts argument.**

This year will be a difficult year for our market commentaries because we try to be non-political. Many of you like Bernie Sanders, many of you like Donald Trump, and one would guess the rest of you are somewhere in between. Well, please forgive us, but we favor candidates that will support the market. We like to see you make money. With that said, we think the markets would be happy with a President Biden or a President Bloomberg, and no, the market probably would not mind Trump being re-elected. But we believe a Bernie Sanders or an Elizabeth Warren Presidency would not be good for markets, and yet, the market seems to be ignoring Sander's recent rise in the polls.

Just as worrisome to us is that the market seems to think the authorities have the coronavirus under control. If this is because the earlier SARS virus had little impact on folks outside of China, we may be mistaken. There are important, scary differences and misunderstandings about the SARS virus. Yes, it was about five times more deadly than this one, but it was far easier for authorities to get under control. That virus hit China 17 years ago. Today, Chinese are far more mobile because they are more affluent. They drive, they fly and they take cruises. And individuals with this virus, unlike the SARS virus, are contagious BEFORE showing symptoms. The SARS virus was controlled by 19th century technology – the quarantine. No vaccine was ever developed, nor were medicines developed to treat the patient. The same may well be true this time, and if so, using the quarantine to contain it will be much more difficult. The economy has already been affected in China, and if the virus spreads, the world economy may be impacted. We hope we are overly concerned.

Now if the election works out and if the virus passes, we have otherwise become more optimistic about the world economy and therefore, the stock markets. Early 2020 indications are that the global economy is starting to do better. One of the pluses in the U.S. is that household formation (think youngsters moving out of their parents' home) is clearly on the upswing and that won't be interrupted anytime soon. This is a good long-term trend. On top of that, wage gains are better than what the press is acknowledging, which is another big plus. Finally, inventories levels have been subtracting from growth. While this may be partially attributed to ecommerce, it looks more like businesses have been too conservative, and that may help as they build inventories back up again.

It is also looking likely that the economic truce between the U.S. and China is starting to help. The ISM Survey of manufacturing turned positive in January, which was supported by the government's release of actual manufacturing numbers.

Finally, according to Bespoke, the Congressional Budget Office and the International Monetary Fund forecasts for global growth are too low because they have clearly missed out on interest rates, as they both have in the past. Both have predicted rates will rise, which would hinder world growth, but they have consistently missed this point in the past. For some reason, both have forecasted significantly higher rates while rates last week once again headed lower.

The football player Don Meredith once said that "If 'ifs' and 'buts' were candy and nuts, wouldn't it be a Merry Christmas?" Well, the market is partying like they are candy and nuts, but we don't think now is a time to get MORE aggressive with your investments. If you are concerned about the issues we raise here, please give us a call to discuss.

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