Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

The P&A Blog

May 1, 2020

The market isn't the economy

by Jon Sevenker

Over the last six weeks, 30 million people have filed for unemployment…a staggering number. Yet over the same time period, the S&P 500 is up 22%, and from the March 23rd low, the stock market is up 31%. How can this be?

Over the last couple of weeks, we've had conversations with clients that invariably turn to why stocks continue marching higher even as the economic news is so dire. Putting on our financial pundit hat for a moment, here are five reasons why stocks have bounced since March 23rd:

- **Short covering** - Investors who think stocks will go down can borrow shares of a stock, then sell them with the hope of being able to buy them back at lower prices. This is called short selling. A majority of the initial rally in stocks from the March 23rd low was attributed to shorts "covering" their bets. In other words, they were forced to buy back stocks they had borrowed to limit their losses now that stocks were going up.
- **Government actions** - The biggest driver of the stock market rally comes in the form of unprecedented measures taken by the Federal Reserve, US Treasury, and Congress. The message to the market is clear, "we have your back" and we'll do whatever it takes to fight the economic effects of this pandemic.
- **Health implications -** The main goal in shutting down the economy and urging (or forcing) people to lockdown and practice social distancing was to prevent the virus from spreading as fast as it would have otherwise. The markets have rallied in part due to the perception that we have flattened the curve to a sufficient standpoint thus far. And on April 29th, Gilead Sciences announced positive results for one of their drugs in treating COVID-19. An effective treatment is a much-needed bridge to an eventual vaccine.
- **Bad news vs. uncertainty -** Markets dislike uncertainty more than they dislike bad news. Bad news is relative and often not as "bad" as once feared. Expectations drive stock prices as much as fundamentals do. All news, both good and bad, lessens uncertainty.
- **FOMO** - Don't discount the fear of missing out. As this rally has gained steam, professional money managers were forced to put cash to work so as to not further hinder their performance against their benchmark. Professionals like to think they are rational investors, but they succumb to emotions, too.

In some ways, this market rally is completely confounding. The job losses and economic impact from the coronavirus appear devastating. In other ways, this makes perfect sense because the stock market is not the economy.

Imagine driving down the interstate at 80 miles an hour. If you're the stock market, you look out the front windshield to see where you're going. If you're the economy, you look in the rearview mirror to see where you've been.

We have no idea whether the actions taken were the right ones or what the long-term impact of these moves will be. None of us know where this market is going on a short-term basis. Not Jim Cramer. Not Mark Cuban. Not Pittenger & Anderson. So don't interpret this post as an all-clear signal or a celebration of the end of a bear market. What the experience of the last two months does remind us is just how difficult it is to time the market and just how quickly new information is processed by the markets. As Warren Buffett once said, "In the business world, the rearview mirror is always clearer than the windshield."

Clicking on the links above may result in you leaving the Pittenger & Anderson, Inc. website. The opinions and ideas expressed on these external websites are those of third-party vendors and Pittenger & Anderson, Inc. has not approved or endorsed any of this third-party content. For the full Terms & Conditions of using the Pittenger & Anderson, Inc. website, click on this link.

Pittenger & Anderson, Inc. does not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any transaction. Additionally, Pittenger & Anderson does not short stocks. To learn more about our investment approach, check out our Form ADV.

To view this article and others like it online, visit the P&A blog at https://pittand.com/blog/.