BLOG POST
Q&A
Part 1
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Q: Do markets need another stimulus package from Congress to advance?

Brian Lockhart: Yes. Correct. Absolutely. It is my opinion that we are only in the 2nd or 3rd inning of the economic impact that the lockdowns will ultimately have on the economy. The first three stimulus packages were passed with broad bi-partisan support as even politicians understood the need to keep the economic engine turning when consumers are told they have to remain isolated and quarantined.

We reached 30 million people unemployed in record speed as companies closed their doors and employees that were able worked from home. With very little data to quantify how much of an impact different aspects of the CARES Act had on the economy, there has been growing disagreement as to what is needed to keep the economy out of recession. I would put the odds of Congress passing a stimulus package before the election incredibly low, especially since the focus of Congress will switch to Judge Barrett who was nominated to replace Justice Ginsberg.

Without a broad stimulus package, it is difficult to see how the markets advance. Since the impact of the coronavirus first began in February of this year, the equity markets have clearly not traded on any sense of fundamentals. The excess liquidity provided by the Fed, along with fiscal stimulus injected by Congress, drove stocks to a remarkable recovery after falling more than 30%. Watch out below if the market is forced to trade on fundamentals.

Clint Pekrul, CFA: Based on recent market movements, it would certainly seem so. Understand, however, that the situation is highly fluid. A quick and viable vaccine to COVID-19 could reinvigorate the economy and we could ascend to new highs without a massive stimulus package. But suppose expectations for a vaccine are further out on the horizon? As we mentioned in past reports, vaccines can take years to test and develop. This scenario puts the onus on Congress to provide necessary stimulus in the interim. As of today, there’s no agreement in Congress on what a new, if any, stimulus would look like. Several major investment firms, including JP Morgan and Goldman Sachs, have already cut their GDP growth forecasts.

With no relief, many households will feel an immediate impact on disposable income. And given that we’re a consumption based-economy, a lack of spending will hit the earnings of many sectors. In the long-run, earnings drive equity valuations, and if investors expect earnings to deteriorate due to a lack of stimulus, I would expect some downward pressure on equities. Reaching new highs for the S&P 500 could prove difficult.