Lowe, Brockenbrough & Company

September 24, 2020

Change of Seasons

Dear Friends of the Firm,

Autumn has arrived. Refreshing autumn: that extra blanket, oysters and ham biscuits, a roaring fire. Could we endure summer's end without autumn's charms? Sadly, though, this will be no ordinary fall. COVID-19's going to make this challenging, but not wholly unfamiliar. The game of football is back, if not the fun (tailgates). Some of us are coming back into the office. And our firm will celebrate two scaled-down weddings - one couple blessed with vast experience, the other with youth. We're making due and we hope you are, too.

Markets have a rhythm to them as well, and fall can bring a reckoning after the distraction of summer. And this is 2020, not your average year. As we've written before, the injection of unprecedented fiscal and monetary stimulus have kept the economy and markets from fully unwinding, but, as always, with unintended consequences. While many sectors of the economy are still reeling from the pandemic, others have been supercharged by not only the change in our behavior (work from home), but also the stimulus. And in August, some COVID-19 winners' stocks, mostly tech, began to go parabolic. Why? Speculation is the best answer we can give, but parabolic moves always end, and only with hindsight are the reasons evident.

Apple, for instance, went from the largest company ever - at a trillion dollar market cap - to over two trillion by early September, and then fell nearly 25% over the next two weeks. That kind of move would be unusual for a small, speculative stock; it's mind-boggling for the largest company ever created. Is Apple worth one trillion dollars or two? The company has its hand firmly placed in the back pocket of the richest one billion people on this planet. A massive 5G phone upgrade cycle and a couple more tricks, and yes it could be worth two trillion…or more. It was never outrageously expensive. Not so for many other tech COVID-19 winners. Will we go back to work? School? Will we go back to the gym? Will we travel? Vaccines are coming, and we firmly believe the best answer to those questions is yes; so, some of these parabolic moves will be confirmed in massive future earnings success; many will not.

While it's true that the COVID-19 winners have literally pulled the markets higher and some number will likely fall back to earth, we don't believe this will be the primary determinant of returns over the next several years. That will be the economic recovery and the Fed. First the Fed. They've taken extraordinary steps to support the bond market and we don't believe they will (or even can) let go of the wheel anytime soon. In fact, they have declared that short rates will remain at zero for years, no matter inflation. And they've publicly talked about interest rate targeting: holding down longer rates too, if necessary. Remember, the Fed was methodically hiking rates back in 1999-00 to slow the economy. They precipitated the tech wreck and ensuing recession. They are doing the opposite now…on steroids. This is unequivocal support for stock valuations. As for the economy, the combination of cold weather and COVID-19 will

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almost certainly be tough. Ironically, this will very likely induce more fiscal largesse (no matter who's in charge) right before a vaccine is widely available and the rest of the economy (COVID-19 losers) is regaining its footing. Extreme monetary and fiscal accommodation is very potent stuff, especially if delivered at the right moment. It's hard to see stocks doing poorly in that environment.

We know it's not a good idea to bring up politics…ever, but we just can't leave the elephant in the room undisturbed. Rather than risk making some of you mad, we're going to annoy all of you by being pragmatic. Whatever the election result, the economy will still be struggling and both parties will be highly motivated to spend. Beyond that, if whatever happens turns out to be deeply unpopular, it will be neutralized in approximately 25 months (next midterms) and overturned in 49 months. We can't conceive of a policy, except war, that can do that much economic harm in a few years. Our best advice is ride it out. We don't know who will win or what will happen. Or to put it a better way: even if we knew who would win, we still wouldn't know what would happen; there are just too many unknowns. If you're in it for the long haul, just keep betting on the continued growth of our economy. If you're not, then let asset allocation be the guidepost that allows you to sleep well at night.

Stay safe and healthy, and please call if you need anything.

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