



BOB CARLSON'S

Retirement Watch
SPOTLIGHT SERIES

The Hibernation Economy and Beyond Investment and Economic Review June 2020

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The Hibernation Economy

What's unique:

- **Suddenness and rapidity**
- **Global nature of crisis and responses**
- **Government-ordered shutdowns**
- **Rapid rise in U.S. unemployment**
- **Service sector led the decline**
- **Fiscal and monetary policy responses**

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Historic, Necessary Response

- **Historic deficits, credit supply**
- **Recession/depression since March**
- **Massive decline in income, activity**
- **Liquidity crisis resolved quickly**
- **Fiscal and monetary policy coordinated**
- **Data way behind known activity**

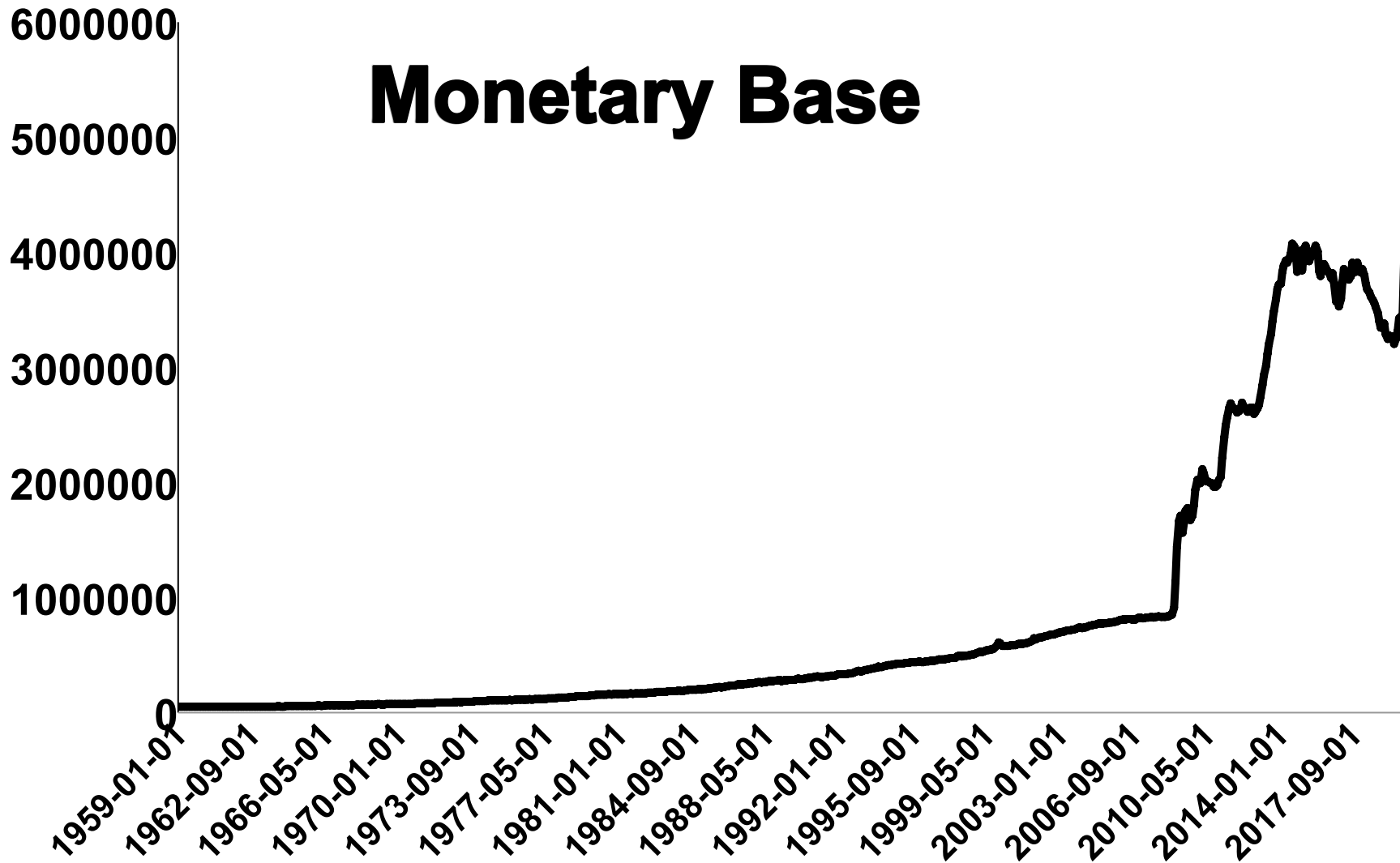
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Why We Didn't Sell In March

- **Random, shock events hard to trade**
- **Sudden, sharp drops usually reverse**
- **Liquidity crisis exaggerated declines**
- **Selling is to avoid protracted declines**
- **Don't want to sell when market oversold**
- **Month-end data tend to work best**

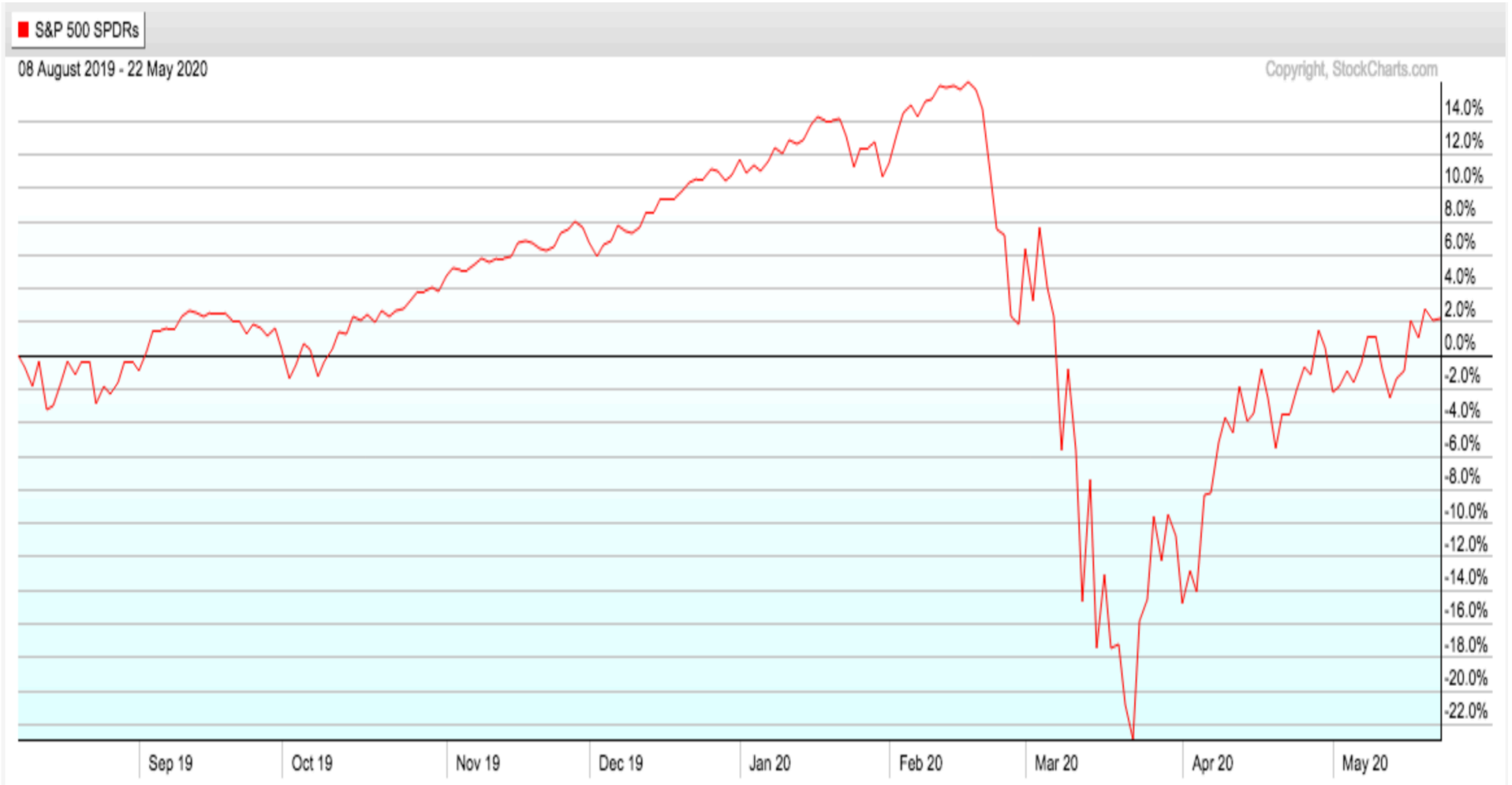
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Why We Didn't Sell In March



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Markets vs. The Economy

- **Market snaps back while economy falls**
- **Markets are forecasting:**
 - **Low interest rates for a long time**
 - **Feds bail out many companies**
 - **Most optimistic view of virus**
 - **Return to old normal soon**

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Markets vs. The Economy

- **But not all stocks recover equally:**
 - **Digital companies to dominate**
 - **Resources continue to lag**
 - **Strong balance sheets rewarded**
 - **Larger companies rewarded**
 - **U.S. stocks rewarded**
 - **Trends of last decade re-enforced**

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Debate: Shape of the Recovery

- **The Alphabet Debate**
- **Depends on scientific developments**
- **Absent science, depends on confidence**
- **Supply chains tough to recreate**
- **How will some industries bounce back?**
- **Ripple effects**
- **Self-reinforcing downturn**

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Debate: Shape of the Recovery

- **Initial recovery rates will be strong**
- **Levels matter more**
- **When will GDP, income return to highs?**
- **Productivity will be lower**
- **Will people resume old activities?**
- **Financial crisis took four years**
- **Depression took more than 10 years**

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Fading Stock Market Supports

- **Rising profit margins**
 - **Globalization**
 - **Productivity**
 - **Low wage growth**
- **Stock buy backs/mergers**
- **Antitrust, anti-corporate sentiment**
- **Anti-technology sentiment**

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Interest Rates & Inflation

- **Markets say low rates indefinitely**
- **Fed won't raise rates for years**
- **WW II policy of managed rates**
- **Fed will tolerate higher inflation**
- **Low inflation trends in place for now**
- **Priority is fighting deflation**
- **When will inflation return?**

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Interest Rates & Inflation

- **Government rates declined**
- **Corporate rates not so much**
- **Lending standards tightened**
- **Potential for higher real rates**
- **Would damage economy**
- **Bad to hold bonds, even cash**

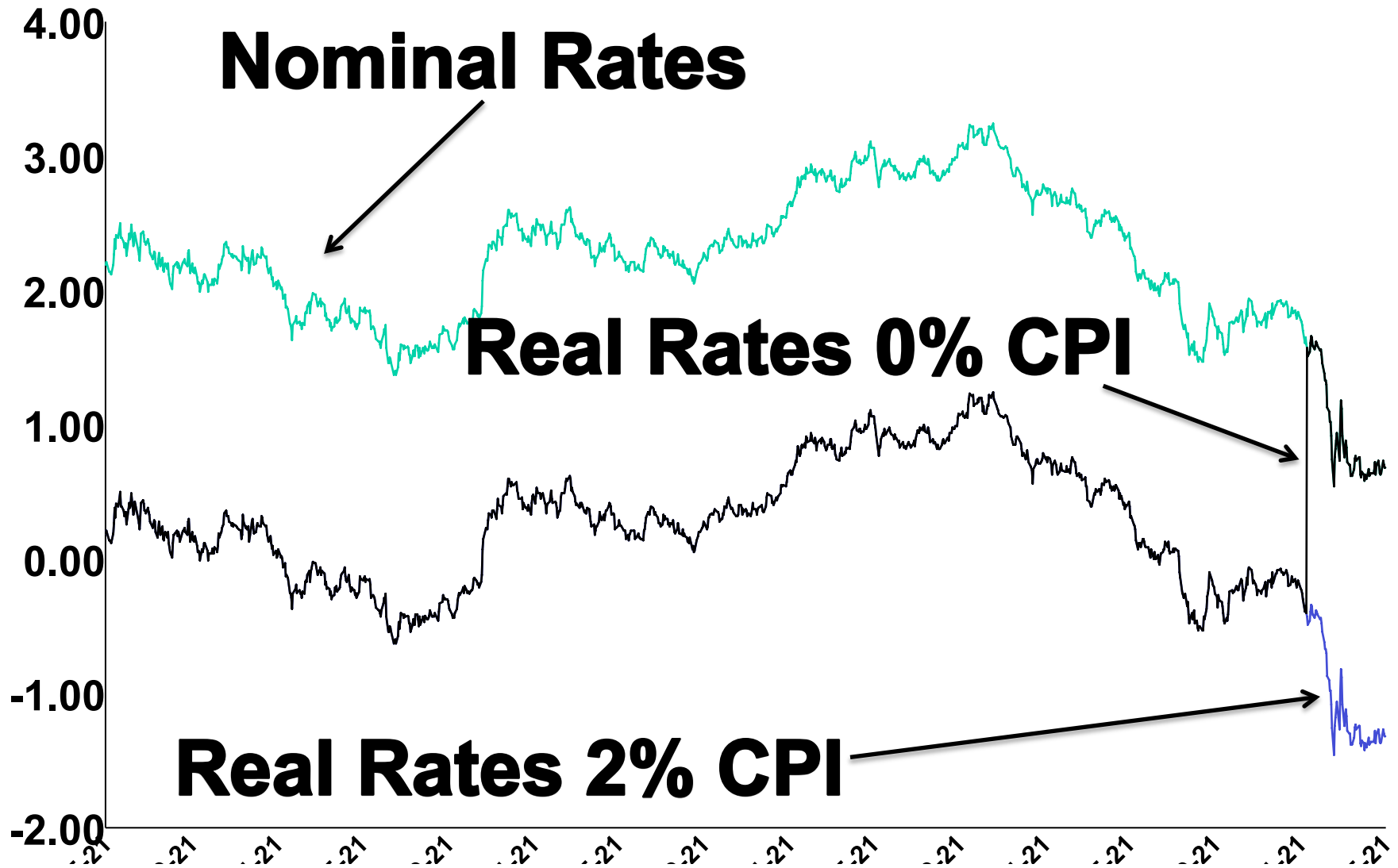
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Other Concerns

- **State and local governments**
- **Europe: Italy, Spain, split in EU**
- **China: debt, lower growth, aging population, inflexibility**
- **Emerging economies**
- **Low oil, commodity prices**
- **Ripple effects – second, third order**

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Changes in Activities, Economy

- **New policies could stay for a long while**
- **Risk fiscal support ends prematurely**
- **Multi-year trends accelerated**
- **Less shopping? Fewer offices?**
- **Will supply chains change?**
- **Long-term physical distancing?**
- **Travel: hotels, airlines, entertainment**

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Silver Linings

- **Policymakers have learned**
- **More able to avoid/moderate depression**
- **Economy correcting imbalances, excesses**
- **Rearrangement of super powers**
- **Entrepreneurship, innovation highlighted**
- **Trends, changes are accelerated**

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Investment Outlook

- **More possible outcomes means need more diversification**
- **Be prepared for more shocks**
- **Cash, gold, TIPS least risky**
- **Consider gold mining companies**
- **Low rates & growth make stocks more risky**

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Investment Outlook

- **Supports for high stock returns are fading**
- **Europe is more troubled**
- **Interest rates likely to vary little**
- **Nominal bonds more risky**
- **Income seekers need more diversification**
- **Gold will continue to do well**
- **Active management should boost returns**

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