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The US Economy Has Seen the Bottom: What Happens Next?

Throughout the month of August, Weiss, Hale & Zahansky Strategic Wealth Advisors has kept you up to date with information about the impact of policy and politics on the markets, examined the effects of COVID on economic policy, and discussed the potential effects of the presidential election. As August comes to a close, so does our conversation about policy. However, first, let's take a look at what we can expect from here on out.

Some of you may be wondering if a stable recovery is on the way. Despite all the bad news, the leading economic indicators we track signal that yes, a durable economic and market bottom is in. The shortest recession in memory is over. While political wrangling and a wobbly economy driven by ongoing coronavirus fears could lead to periodic bouts of volatility, the backdrop for longer-term investors remains robust.

The Road to Recovery

Now comes the longer economic recovery – shape to be determined – if COVID-19 cooperates.

Three components are necessary for a durable recovery. First, we need broad-based confidence – consumer, business, and investor – to drive the economy forward. Next, we look for green shoots, signs beneath the surface that economic expansion is starting to take hold. Third, the alleviation of significant financial stresses. That entire progression happened over the second quarter.

Investors look toward future earnings to determine stock prices. It's all about income, growth, and potential. Right now, there is a lot of hope that the economy will continue to recover, and with that will come more jobs and more spending.

Many investors are also hopeful for a viable coronavirus vaccine, which would hopefully put an end to social distancing requirements and help improve parts of the economy that are currently hurting the most (travel, dining, hospitality, events, and in-person entertainment).

Unprecedented Policy

The U.S. Federal Reserve's (Fed) quick and decisive actions more than restored market function and order. Financial conditions improved as liquidity was restored, primary capital markets re-opened, and volatility declined. Thus, recovery is taking hold on Wall Street before Main Street.

Central banks have played a key role in shoring up and encouraging global equity markets, not only the Fed but the European Central Bank and others. We hope – and expect – that they will continue with these important actions.

Government legislation has played an equally important role, worldwide, and continued Congressional action is clearly necessary. The amount of government support may be shrinking, but it is not going away entirely. Overall, fiscal policy should remain accommodative through 2021 and become a modest headwind in 2022. Policymakers likely will continue to find ways to provide support to their constituents so long as COVID-19 remains a major economic threat.

The government has pumped trillions of dollars into the economy in the form of direct stimulus payments, loans to small and large businesses, extended unemployment benefits, and additional spending.

The Paycheck Protection Program helped save thousands of small businesses by providing a lifeline to help them maintain payroll and keep people off unemployment. The government also included targeted loans to some businesses in specific industries, again preventing the layoff of thousands of employees and potentially keeping entire industries afloat.

Finally, the extended $600 weekly unemployment benefits were designed to replace income up to the national median income when combined with state unemployment benefits that average $378 per week. This benefit kept many people afloat.

The Brightside

Consumer confidence will continue to be a widely monitored economic indicator as the recovery continues, given the importance of consumer attitudes and spending on the overall economy. Consumer behavior is not getting worse, which is encouraging.

The coronavirus pandemic hasn't had a negative financial impact on everyone. But it has shifted how many people are spending their money. A prime example is spending that would have been earmarked for summer vacations. Fewer people are traveling, staying at hotels, or eating out at restaurants. But that doesn't mean they aren't spending money elsewhere. Instead of spending money on airline tickets, hotels, and restaurants, they may be shopping online or spending more money on hobbies or home improvements. And of course, some of that money may have ended up in the stock market, further pushing up stock prices.

Buoyed by rock bottom interest rates and the easing of lockdowns, the housing market is showing signs of life with solid improvement in housing.

July's existing home sales report shows sales increased by more than expected during the month. This result represents the single best month for existing home sales on record. It brought the pace of existing home sales to its highest level since 2006, highlighting the strength in the housing market once reopening efforts took hold. Record low mortgage rates have been the major driver of this rebound in housing and continued falling rates in July certainly helped bolster the impressive surge in sales.

Looking Forward

The recession may be over, confidence continues to rise, and recovery is on its way, but the U.S. economy remains fragile. Recovery could be hard and long. This will create both risks and opportunities for U.S. equity investors – if they are careful. The risks remain the same – consumer confidence and virus containment – but recovery remains on the horizon. As for the opportunities, don't let concerns of the markets hold you back from achieving your financial life goals. Using our Plan Well, Invest Well, Live Well,™ process can help you stay focused on your goals and continue to stay confident in the markets. For more articles and information regarding COVID-19, visit our website www.whzwealth.com/covid19-resources. For information about financial planning call us at 860-928-2341, or email us at info@whzwealth.com.

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