CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

June 14, 2020

Who Could Have Imagined?

Six months ago, we were heading toward year-end holidays, ignorant of what the immediate future had in store for us. Then the Coronavirus, the lockdowns and self-quarantining, the deaths of more than one hundred fifteen thousand Americans, the collapse of economic activity, the loss of some twenty million jobs in America and the swift and deep decline in stock markets. And then the murder of George Floyd and the rise in protests across the country (and around the world) against America's terrible history and its terrible present of racial discrimination and violence against African-Americans. The year is not quite half over. In the next half, we will have more Coronavirus, more economic hardship, more reverberations from the George Floyd murder and a presidential election. Buckle up.

I remember 1968 well, punctuated as it was by the assassinations of Martin Luther King and Robert Kennedy, the rioting about racial matters combined with anti-war demonstrations, and the near conflagration at the Democratic National Convention in Chicago. I remember the assassinations of John Kennedy and Malcolm X in 1963 and 1965, but I also remember the hope engendered by mid-sixties civil rights legislation. I was inspired by Tommie Smith and John Carlos at 1968 Olympics in Mexico City. I remember feeling optimism about the future in that black year. My optimism appears to have been somewhat misguided; the Viet Nam war did not end until 1975, even though Lyndon Johnson withdrew from the 1968 presidential race. The civil rights legislation and the riots in 1968 did not notably improve the circumstances of blacks in America. Richard Nixon, perhaps foreshadowing Donald Trump, created a constitutional crisis with the Watergate break-in and its aftermath. And, turning to investment matters, 1968 marked end of a twenty-year bull market of nearly uninterrupted advances and ushered in a fourteen-year period of bear markets and stasis. In June of 1949, a month after my birth, the S&P 500 stood at 14. By December 1968, it had advanced more than seven-fold to 107. By August of 1982, it advanced by only two more points to 109. As Mark Twain may--or may not--have said, history does not repeat itself, but it does rhyme.

The chart on the next page shows some history, from which rhyming patterns may be emerging. It shows the S&P in the bear market that began the Depression. From its peak in 1929 until its bottom in 1932, the S&P fell by 86 percent. (Yikes!) During that period, the market put on five rallies of 20 percent or more, including the first such when the S&P rose by 44 percent. That 44 percent rise in from November 1929 to April 1930 rhymes pretty closely with the S&P's recovery from the late March lows this year to the highs last week, also 44 percent. The 1929 to 1932 bear market was desperately awful, but I could have illustrated the same point of big counter-trend rallies within all the recent

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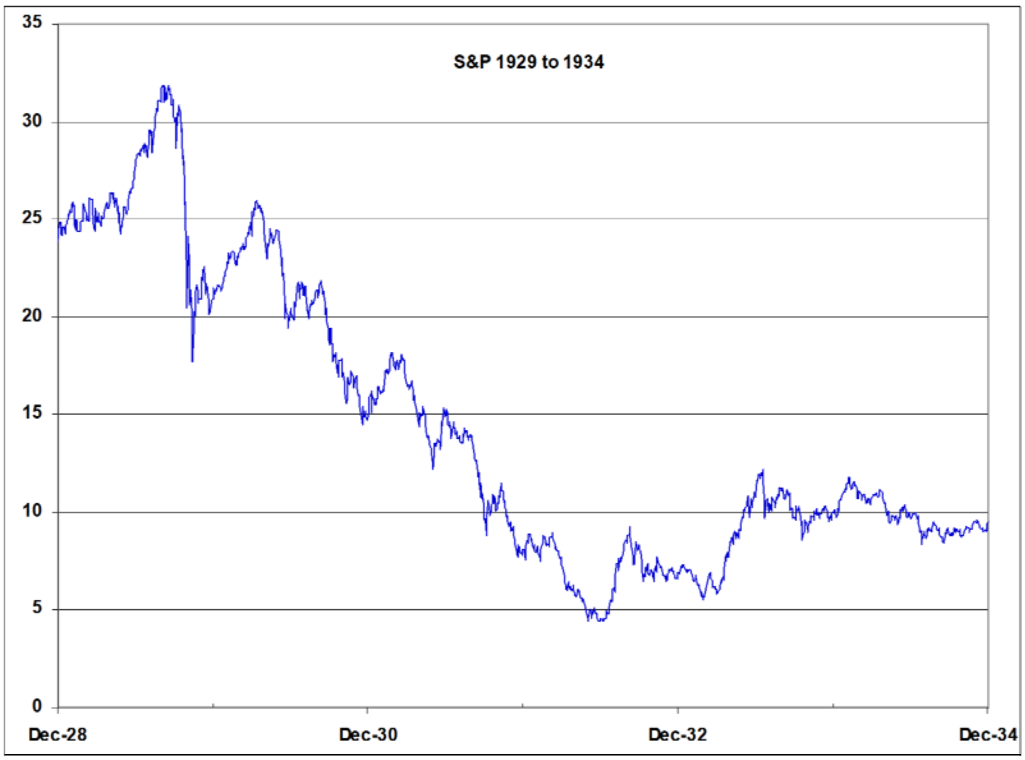
bear markets. (To make matters worse, the stock market did not recover its 1929 peak until 1954, fully 25 years later.)

The National Bureau of Economic Research (NBER) announces the beginnings and endings of economic recessions. Last week, the NBER declared that this recession (or will we ultimately characterize this as a depression?) began in February, the month before the lockdowns began, showing what has been evident from the economic reports, namely that the economy began to contract before the Coronavirus lockdowns. Some optimists now offer the argument that the recession ended in May! Doubtful. If the recession ended in May, why are jobless claims still rising at a rate well above 1.5 million per week? In the recent four recessions, weekly jobless claims never were as high as 700,000.

Perhaps we should not dwell upon the economy, because the Federal Reserve Board, with its remarkable policies, has driven the US stock market rapidly upward since it began its latest rounds of support in late March. Among other things, it has added another $3 trillion to its balance sheet and has increased M2, the main measure of money in circulation, by $2.5 trillion since early March. Both are by far the largest ever. Guess what: from the March bottom to the recent June top, the increased value of American publicly traded securities is just about $2.5 trillion. (The money had to go somewhere, I suppose.)



At last Wednesday's press conference following the two-day meeting of the Fed's Open Market Committee, Jerome Powell, the Fed chairman, noted the parlous state of the American economy and, once again, promised to take action as needed. Every one I know takes Mr. Powell at his word now--despite his famous course reversal in January 2019 from monetary tightening to monetary easing, now known as the Powell pivot. But history has demonstrated often that, while the Fed can mitigate the effects of recessions and bear markets, it is powerless to eliminate them. We are in early stages of a very severe recession and in early stages of what is likely to be a memorably awful bear market. Bly eschewing stock investments, this year, we avoided the losses in February and March. Core's investments in long-term Treasuries and in gold, very successful over this last year, will, in my judgment, continue to anchor our portfolios and continue to lift them in value.

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