

## CRISIS? WHAT CRISIS?

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Fans of progressive rock may remember an album released by the band, Supertramp, in 1975 titled “Crisis? What Crisis?”. The album cover featured a man relaxing on a beach chair, in his bathing suit, under an umbrella with a cold drink, surrounded by industrial waste and pollution. I’ve long been a fan of classic rock album covers and their less than subtle social commentary. This particular one always struck me as a satirical illustration of how vast segments of society simply carry on, often ignorant to the surrounding mayhem.



I liken the behavior of the current stock market to that man on the album cover, rebounding from the swiftest decline in history, all but dismissing the mayhem that surrounds. From the S&P 500's record high on February 19 to its most recent low on March 23, it experienced a 34% decline in reaction to the economic shut-down of the global economy in an attempt to stem the spread of COVID-19. From March 23 to June 19, the S&P 500 has recovered by 38%! The rapidity with which these whipsaw gyrations happened gave new meaning to the term “volatility.”

Bolstering the recovery in the market was swift, almost knee-jerk government intervention by the Federal Reserve, Treasury Department and SBA with some individual states providing immediate support to small business and individuals to soften the economic blow of the shut-down. Certain industries have been extremely hard hit: travel, hospitality and discretionary retail, with major lay-offs or furloughs of staff. Others have managed to thrive in the challenging environment: technology, e-commerce, and essential retail, all finding favor in delivery of goods and services in a socially distanced society.

Now that society is starting to open again, there is a decidedly optimistic outlook for equities. Much of this optimism is grounded in the fact that the economy was in extremely good shape when the pandemic struck. It seems as though the market has largely discounted the impact of

what will surely be abysmal second quarter earnings results. The aforementioned swift government stimulus may have bridged the economic gap enough to relaunch from a rolling start as opposed to a dead stop. There are many variables to consider in making such predictions, however: Will a second wave of the pandemic force another shut-down? Will consumers' fear of exposure to COVID continue to plague commerce? Will Q2 numbers be so bad that they cannot be ignored? How long will the "new normal" disrupt the return to "old normal" in terms of travel, dining, entertainment, etc.? Have new habits developed during quarantine simply displaced old ones? Certainly, work routines have been dramatically impacted by the necessity to work from home. Anecdotal evidence shows that many businesses will not be allowing the bulk of their personnel to return to their offices until autumn or even next year. Upon return, those offices will likely look quite different with social distancing as a priority. The impact on commercial real estate will bear watching as new norms develop.

The single, most important variable in this whole quandary is the development of a vaccine to COVID-19. An eventuality, the big question is one of timing. Countless brilliant researchers in both the public and private sectors are seeking a successful therapy. It's hard to overstate the impact the announcement of a breakthrough will have on the market, especially in its hyper-volatile state. Notwithstanding, many of the questions asked above still need answering as the economy moves forward.

No commentary can be written today without mentioning the current racial strife plaguing the U.S. More disturbing than a health pandemic and more difficult to eradicate, racial inequality is a stain on the legacy of this great nation. Unfortunately, it will not be treated by a vaccine, only by hard work, honest discourse and a commitment by society honor the rights of all, without exception.

In times of uncertainty, it is imperative to resist overreacting to headlines and stay the course consistent with your risk tolerances. We continue to recommend conviction to established asset allocation targets in support of commitment to long-term investment goals. If risk tolerance has changed, we are always available to discuss.

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<sup>1</sup> The cover art copyright is believed to belong to the label, A&M Records, Inc., or the album designers: Fabio Nicoli, Paul Wakefield and Dick Ward.

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