

Back to the Office and Back on Top!

"I'm the King of the World!"

-Leonardo DiCaprio in Titanic (1997)

My comment: for whatever reason, the fact that the U.S. stock market has just closed above the all-time high it achieved back in mid-February makes me think of this iconic line from the movie 'Titanic'. I don't think many of us actually believe or feel we are the King or Queen of the World these days, but don't tell that to the stock market.

Monday August 17th (yesterday) was my first day back in the office since March 19th. And Tuesday August 18th (yesterday) was the first day in which the US stock market (as represented by the S&P 500 Index) had surpassed and closed above its previous all-time high reached back on February 19th. Is this a coincidence? Well, maybe it is but I do think there should be a strong correlation between the direction of the stock market and our personal perception that things are getting better. I have to admit that 'getting back to the office' took longer than I expected. But even a long term optimist such as myself has been surprised how quickly the US stock market returned to its all-time high. P.S. The Canadian stock market still needs to increase by about seven percent to return to its all-time high.

An optimist might be guilty of thinking that since the U.S. stock market has returned to its year highs mainly on the back of the big mega cap high tech stocks along with 'Stay at Home' stocks, imagine what it could do as the market breadth picks up?! This is just a fancy way of saying that the markets may have much further upside once other sectors begin to benefit from an economic recovery and the distribution of successful vaccines, e.g. financials, industrials, the energy sector, along with the travel and leisure industries.

In support of a 'bullish' (read: optimistic) scenario for the stock market, allow me to provide this longish quote from market bull Jim Paulsen, chief investment strategist at Leuthold Group and former chief investment strategist at Wells Capital management (a division of Wells Fargo):

"The depression-like collapse forced companies to ...cut everything they could to try to survive this pandemic. What that has done is put them in a unique position with incredible profit leverage because they whittled down costs so low and increased efficiencies. ...We could have a big profit recovery. ...There's a ton of portfolios 'waiting for a pullback', and if that doesn't happen, there's \$5 trillion of money market funds that could find their way back into the market next year."

(Source: CNBC TV, August 12th)

But despite my long-term optimism, it is also the nature of my profession to do the best I can in identifying potential stumbling blocks in the future. By way of example, two things that are very much on my radar screen are: (1) the political scene south of the border, and (2) September and the first half of October tends to be a choppy period for the markets. I am also paying particular attention to the current uncertainty about government stimulus plans along with U.S./China trade tension. On the subject of the U.S. political scene, one must give plenty of consideration to how a potential Biden presidency combined with Democratic control of the Congress would impact the markets. I am also carefully analyzing the sectors and companies that would benefit or be hurt by such an eventuality.

Should you have any questions or concerns, please feel free to reach out.

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