Ep63: The First 90 Days

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PATTI BRENNAN: Hi, everybody. Welcome to the "Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best life.

Joining me today is Liz Young. I'm so excited to have Liz with us today. She's the director of market strategy for BNY Mellon. Guys, we are so lucky to have Liz Young, you have no idea. This woman is all over the place. Everybody wants her on their show as their guest, and we get to have her today. Liz, welcome to the show.

LIZ YOUNG: Thank you. What an intro. I'm so excited to be here.

PATTI: We're excited to have you on. Thank you so much. Folks, here's the way that I'd like to set this up. I'd like to break this up into short-term outlook as well as long term. Now, Liz, and I always talk. Liz, I don't want to put words in your mouth.

We always talk about you got to think long-term, you got to think long term. Let's face it, people don't live in the long-term, especially given the media, the hype, and the 24/7 cable news networks. We're getting inundated with things that we're supposed to be thinking about. Let's talk about the next 90 days. Liz, I'm going to put you on the spot, if it's OK with you.

If you were president, President Liz Young, you're going to make history today, what would you be doing for the next 90 days, for the first 90 days? Then we will segue into OK, let's talk about the next 900 days. How's that sound?

LIZ: Sounds good to me.

PATTI: Terrific. Given that we've had a tumultuous year. I can't even say the word. It's so bad.

So bad. Given what we've experienced and where we are today, what would you do if you were president? We can talk about policy. I'd actually be interested to learn, given your background –you're amazing in terms of your background and what you know– how important policy is going to be as it relates to our clients and their money.

Given that backdrop, given COVID, the election, the outcome, possibility of increased taxes, etc, anything special from your perspective? I'm going to throw a couple more, debt, deficits, etc. Anything special that you're optimistic about, concerned about, etc? What do you think over the next 90 days, in terms of what we could expect?

LIZ: Sure. You made a great point to kick this off, that although we love to focus on the long term, and you hear a lot of investment pundits talk about long term investing, and your horizon is longer than 90 days. That's all true. That's all absolutely what I would preach as well. The reality of it is that clients look at their statements on a monthly, quarterly, and annual basis.

It's not realistic to tell people that over the next market cycle, this is what you should think about, and try not to focus on the short term. It's almost impossible today to not focus a little bit on the short term, or at least be swayed by it or battle those emotions on a daily basis.

That being said, thinking about if I were president, which is a thought I've never been able to consider before.

PATTI: I think it's so much fun.

LIZ: I appreciate this opportunity. If I were president and I were looking at the US economy as the biggest player around the globe, and knowing that when the US sneezes, the world catches a cold. Maybe that's not a good analogy to use in the pandemic. Either way, we are watched by every single region.

We set policy from a Federal Reserve standpoint for the US, but we also have to keep in mind, and Jerome Powell knows this well, that as soon as the Fed does something, a lot of other central banks tend to follow. There's a lot to take into account.

If I were president today, and I was looking at where we are in this recovery or rebound phase, one of the things that I think you have to keep in mind is that there are parts of the economy that yes, are doing pretty well, and there are parts of the economy that optimistically, if you look forward, even 90 days, six months, you could imagine that they're going to be close to back to normal.

There's a lot of things that will reignite and have this flurry of activity as we get the vaccine deployed and as we get natural herd immunity that eventually comes over the course of the next few months. There are parts of the economy and certain metrics that are certainly not back to normal and will be a drag. One of those is the labor market.

That's something that is moving trend wise in the right direction, but jobless claims and some of the things that we worry about with sticky unemployed persons, that's still a concern. That's something that the next president needs to consider.

If I were that person, I would still be focusing in the near term on the stimulus to get the economy and the labor market to the other side of this when we can start to rely a little bit more on fundamentals. What I mean by that is the parts of the economy like small businesses, and the intertwined nature of that.

Small businesses employ 50% of the labor market. If we can keep small businesses alive and afloat, we can keep a lot of the labor market alive and afloat. If we can keep small businesses solvent, we can keep more consumers solvent. That's what I would be looking at first and foremost.

PATTI: That is a really, really insightful answer. 50 percent of employment is with small businesses. The key here, and part of what that CARES Act was intended to do, and it sounds like we need to continue to focus on that, is to enable those businesses to survive. They have to survive. Keep people employed, so that we can keep this concept of commerce continuing to occur in our nation.

LIZ: You can't underestimate the power of sentiment, too. Small businesses are the fabric of American society. It's the foundation and the bedrock of the American dream, and the idea that you can create and do whatever you want to here.

If we lose that dream, and if we lose that vision and the ability to do that, or if we get overwhelmed by the risks of doing that, some of the sentiment around it starts to die. Investor sentiment is a powerful force.

PATTI: Isn't it Bank of New York Mellon that has coined this term? I'm going to mess it up, Liz. It's histrionics or histrio-something. It's this concept of when something happens, a crisis happens, and the sentiment gets so negative that the reaction is almost worse than the thing that occurred in the first place. It's what we do when that happens, we pull back. It becomes this self-fulfilling prophecy. That's the issue with sentiment.

LIZ: It is. One of the things that investors have worried about, and self-included, was that sentiment got quite a bit extended in November and December of 2020. We had the election behind us, which the lead-up to that election was probably more agonizing than the election itself. The election was behind us.

We started to get positive vaccine news every single Monday for about four Mondays following. There was this exuberance and absolute elation in the market about, "Oh, my gosh, this isn't going to be forever. We're not going to be in this place forever." We pulled a lot of that positive sentiment forward into November and December.

Then you run the risk of if the timing is that far off, where the sentiment in the market is overheated, but we're not actually out of the woods yet, and we haven't actually started vaccinating, or we're not actually at a place where the economy can restart, we're still in shutdown in a lot of places.

Then there is a risk that we have a pullback only related to sentiment, where sentiment has to right-size itself to get back in line with where we actually are today.

PATTI: It's an example of the reality not meeting the expectations, and everybody is like, "OK, this is never going to end," and the markets react accordingly.

LIZ: That being said, one of the most important things that investors have to remember is that the market doesn't reflect what's happening exactly in this moment. The market is always a forward-looking mechanism. It's looking out about 6 to 12 months into the future, and trying to decide, "Are things going to be better or worse than they are today?"

What the market is expecting right now, or at least the stock market is expecting right now, is that things are going to be much better six months from now than they are today. That's one of the reasons why it's this age-old debate when you go through a recession and you come out of it. Are the markets disconnected from the economy? Yes, they always are.

The market is looking forward. The economic data we get, at least the majority of it, is looking backward at what happened last week, last month, last quarter. They're always going to have a disconnect. It's that at the end of 2020 into the beginning of 2021, they were so disconnected. The magnitude of that disconnect started to be a little bit nerve-wracking.

So far, we've avoided catastrophe. Hopefully, we can make it until early spring when we feel a lot better about vaccine deployment, herd immunity, and the prospect of reopening that it won't be a huge issue.

PATTI: Let's take that concept of the market being a forward-looking mechanism. For those of our listeners who may have been very concerned again during 2020 with the election coming up, and they were extremely conservative, maybe all in cash. Based on what you've said, are they too late to the party? Is it too late for them to get invested? Has that already been baked into the market?

The second part of that question would be based on what did so well last year. We always talk about this rearview mirror investing. There were pockets of the market that did extremely well and other areas that did not do well. What do you think about that concept, also?

LIZ: Sure. The first part of the question, are people too late? No. The answer is no. Categorically no. Are you too late on catching the 45 percent outperformance of Fang stocks? Yes. Are you too late to get back in the market and benefit from the economic recovery that should ensue, starting probably in the second quarter and accelerating into the middle of the year? No, of course not.

There's plenty still that we can look forward to. What I would say, though, is as you're entering the market, or re-entering the market, first and foremost, I say this all the time to our clients, you must be present to win. If you're not in the market now, it's time.

It's time to make sure that you're allocating to the parts of the market and the parts of the economy that you would expect to either go back to normal and maybe they were under-loved like you pointed out in 2020. If you expect them to go back to normal or get back to their pre COVID levels, then you want to make sure you have some exposure there. You can catch that on the upside.

The other side of that is what we saw towards the end of the year last year is that there was this big shift from the stay at home trade into the reopen trade. Some people might be wondering, "OK, but what does that even mean?" We use those terms as if everybody understands it.

The stay at home trade was the trade for things that kept us connected at home, kept us entertained at home, kept children educated at home. Basically kept us sane within our four walls. That was communications, that was technology, that was some of those education stocks.

It was things like streaming services. Everything that we did once it was Friday night and all we did was move from the office to the living room. It kept us occupied. As we move into a more realistic version of an economic restart, you should expect things that we call cyclical stocks or cyclical sectors to come back into the forefront.

Those are things like infrastructure, energy, financials, consumer discretionary, as the consumer starts to reignite. Coupling that with the expectation that now we have a blue wave in Washington, that there's going to be infrastructure spending that continues to drive that forward. Industrials benefit from that, materials benefit from that.

I'm thinking things like big heavy machinery that build bridges and roads. In order to build a road, you need cement. In order to build a house, you need copper, you need lumber. All of those things and parts of the economy that should reignite even further as we go forward.

PATTI: That is interesting, President Young.

This is very insightful overview of what we might expect in the next 90 days. Again, we're talking from an economic and a market perspective. We all know that the President of the

United States is going to focus on a lot of issues. Social unrest, social issues, things of that nature. We're focused on the economy and the market.

I think that what I heard was focusing on the labor market. That's the most important thing. We know that the COVID vaccine is being rolled out. It was clunky initially. I think that that's probably going to get figured out.

Hopefully, maybe not in 90 days, but certainly in the next six to nine months, we're going to get to that point of herd immunity. For people who may not have been present, may not have been fully invested, it isn't too late.

A thoughtful approach to what you're looking for long term in the next 90 days would be a good idea. Is that basically what you're saying?

LIZ: Yeah. It's almost as if you keep one eye open when you're sleeping. Make sure that you've got your ear to the ground and you're not oblivious to what's happening on a daily basis. You're also not letting it sway everything that you do and becoming too short term.

What happens when you become too short term as an investor is you try to chase trends, you try to call inflection points, and you start trying to time the market. I can say, if anybody had figured out how to time the market by now, most of us wouldn't be employed in these professions.

Nobody's good at it. Nobody is perfect at timing the market. Professional investors, non-professional investors, newbies, seasoned investors. It doesn't matter who you are, it doesn't matter how you were trained, nobody can perfectly time the market. There's really no sense in trying.

What you have to focus on is, what are the themes long term that you think are going to help investors are going to help the economy? What do you really believe in as an investor as well? Don't take your own personal opinion out of it.

There's things that I would invest in because they mean something personal to me or they're something that I use in my daily life. Maybe my mom wouldn't invest in the same thing. That's OK.

PATTI: I love that last part. It's all a whole different theme of socially responsible investing. That's important to a lot of people. Let's do this. I think we've got a good game plan for the next 90 days, thanks to President Liz Young.

Thanks to all of you. Join us for our next podcast, because Liz is going to stay with us. In that podcast, we're going to focus on the next 900 days. Thank you so much for listening. Liz Young, thank you for joining me for this wonderful, wonderful overview.

Feel free to go to our website. If you have any questions, we're happy to help. I want to make sure that these podcasts are informative and helpful to you. Go to the website. Let us know if there's anything else that you'd like to learn about. Until next time, I'm Patti Brennan. Thanks so much for joining us today.