Confused

I mentioned this a few weeks ago, but I don't think I've ever spent so much time thinking about the "macro" picture. Honestly, I don't like it. My passion lies in looking at individual businesses and quirky situations, not trying to decipher the the trajectory of the economy or how a virus will spread / slow.... but, for many businesses, it feels like you need to have a view on the economy / Covid in order to make an investment call.

Perhaps an example would highlight this best: for a business like cable or one of the internet giants, you can still rely on individual company fundamentals because the economy / COVID won't impact them that much... even if we never discover a cure for COVID, I'm pretty sure people are going to watch high speed internet access or to catch up with their friends on Facebook (in some ways these businesses might be slightly improved by a cure taking longer because demand for internet / time spent on the internet increases as people are forced to stay inside and cancel all their other plans, though that's likely outweighed by the economic and human toll the virus takes). But for just about any other business, you need a view on the virus getting cured or controlled at some point. Want to buy Disney? It's probably a good buy..... but you're implicitly underwriting that we'll have COVID under enough control to open up theme parks to some capacity and resume sports leagues (for ESPN and ABC) within the next few years. Buying a hotel franchisor (Hilton, Marriott, etc.)? Again, they're probably too cheap.... but you're implicitly underwriting travel returning at some point in the next few years; if it doesn't, so many hotels are going to go bankrupt and the franchisors will burn through so much money that I'd guess the whole industry needs to restructure. Interested in a small bank? The government providing enough stimulus and support to "save" small businesses (which make up much of small banks' loan books) is the most critical part of looking at a bank's loan book these days, and a view that the rate curve normalizes to a place where the banks can make some money lending is nearly as important.

So, I've never enjoyed thinking about macro, and I've never thought there was any edge to had from it. Or, if there was an edge to be had, I'm pretty sure I'm not the person to have it. But it seems critically important for an investor today. For what it's worth, here's my current macro view:

Confused.

The confusion isn't just about the classic photo of Cramer celebrating the Dow's best week since the great depression against a breaking news headline of 16m Americans losing their jobs in three weeks. Stocks tend to bottom when the data is the darkest, so that makes some sense (I guess?_.

It's more confusion over the whole market gapping up on phase one data for a vaccine that won't be ready for a year. Is America (as expressed through the stock market) really 5% more valuable now because there was some promising early data from one drug? It seems crazy to me that one drug could cause such a huge increase in market value for the whole country; for one drug to move the market so positively implies the stock market was pricing in significant chance of no vaccines for years (which was not the base case of anyone I knew), and that this one drug has shifted that paradigm on its head.

It's that stocks are ramping higher even though the current depressed environment will persist for some time. Many companies don't appear to have the liquidity to bridge the gap between the current depressed environment and a more normalized one in a year or so without significantly diluting shareholders, and the market just doesn't seem to care and is arms wide open to equity issuance / money raising. Maybe there's been an environment with more secondary sales in the past. I don't know. But, among the type of companies I mostly follow (which tend to be better businesses than average with strong cash flows and run by shareholder focused management teams), I've never seen share issuance at anything close to these levels. I've seen more announcements of equity raising so far this month than I think I did in all of 2019.

I'm not alone in that confusion. Every major capital allocator I respect seems to be taking a more cautious approach. Berkshire was a net seller of stocks in Q1'20, and it wasn't just airlines as they sold the majority of the Goldman stake. Brookfield's views (that there will be more opportunities three or six months from now, but it is a great time for distressed debt) seems consistent with every major private equity shop I've listened to: it's a great time to make an investment into a distressed company that's seen their sales go to zero overnight and needs liquidity; outside of that, have lots of dry powder ready because you probably see better bargains tomorrow.

Obviously, no one knows what the future holds. And the big private equity players / Berkshire's views might be a little influenced by the amount of data they get. They get real time looks at how all of their portfolio companies are doing, and I suspect it might be hard to be too bullish when you're getting data from all of your companies that shows real time economic data 10x worse than the Global Financial Crisis and stocks are somehow only down 10-20%.

Maybe the market's taking a less biased view than those professionals. It could be as simple as looking a few years out and saying, "hey, if earnings simply return to 2019 levels and interest rates stay this low, basically every company is a screaming buy." I guess that makes sense, though it ignores a lot of pain and capital needs along the way.

And ignoring all that pain (and the capital needs!) is confusing to me.