

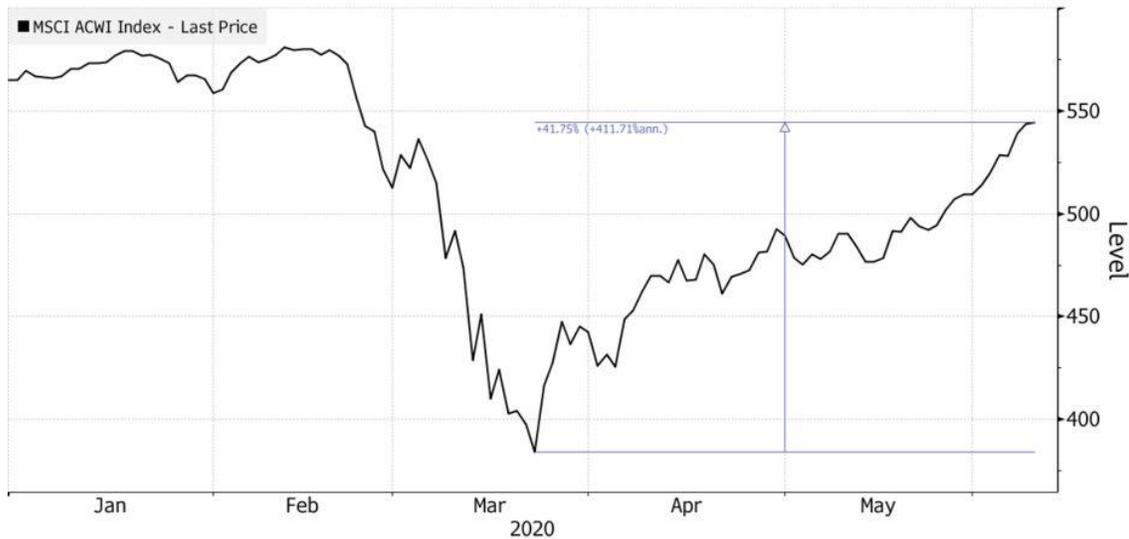
10, June, 2020

This Market Recovery is Hard to Justify

Global (MSCI) stocks have rebounded significantly since the March low, and that has many industry people concerned that things may have come too far, too fast.

Big Rebound

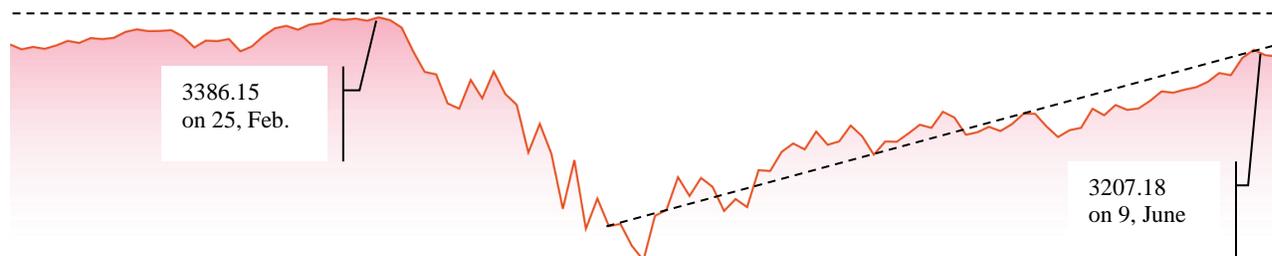
Global stocks have rallied more than 40% from a low in March



Source: Bloomberg

The US markets show an even stronger picture of being heavily over-bought, which means over-priced at this point. This as of 9, June, 2020, at which point we're still in recovery mode, we're still partially locked down, business is opening up gradually, but far from fully open and perhaps a year or more away from that. Yet we're only 5.35% off the February all-time high for the S&P 500

S&P 500; from high to low and recovery



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This is one of the principle signs that the rally in the markets is stretched, and perhaps subject to another pullback if the Corona virus rebounds, or if trade tensions with the US and China ramp up again.

Getting Expensive Global stocks are trading at their highest valuation since 2002



The price to earnings ratio shown above, is a typical measure of how expensive the market is, and to some extent whether it's over-bought or not. At this point, the bounce-back is huge, and much faster than one might expect, as well as being very much in advance of any matching recovery in the general economy. Admittedly this is a 12 month-forward chart, but 12 months from now the economy may only just be getting back to a semblance of 'normal', and likely far from the peak we've see in February this year.

It is acknowledged that the recovery in the economy is fairly significant so far, but from a virtual stand-still, that's not saying much. A recovery from our recent low point is still a long way away, and a long, long way up. The markets may have recovered by around 40%, but the economy is so far behind the markets that 12 months seems very optimistic at this point.

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