Emerald Connect | 4996_Mid Year Outlook Series- 1 on 1 Interview_Wells Fargo Advisors _7th July 2020_02

[MUSIC PLAYING]

Hello and welcome to Asset TVs Mid-year Outlook series. Joining us now is one of the top advisors in the country, Joe Montgomery. He's managing director of investments at the Optimal Service Group of Wells Fargo Advisors. Joe, before we look forward, I want to begin by looking back. Stocks went from all-time highs to a bear market and a recession at record speed, but it wasn't your typical recession. Tell us a little bit more about this engineered recession.

Right. It really wasn't if there is a typical recession. This was engineered in keeping with the pandemic, the attempt to adjust. You're continuing to see adjustments made. We would expect there will be more in the next month from the government certainly. But if you look back on it, nobody predicted it. Nobody could predict it. And we're in an environment where it pays to be flexible and adaptable.

Certain things have borne out. Diversification has really mattered. That has been a big factor although you're seeing the technology stocks run very hard, continuing to outpace everything else, but still diversification. It mattered before. Probably matters even more right now.

And with the massive drop-off in stocks, would you say that the pandemic and the recession pushed people to look more at other asset classes?

Yes. I think people were willing to look. Certainly, we've always counseled that. With an institutional background, we've always been broadly diversified. But what has really happened is people have tried to look for places where they could add value that seem a little-- I hate to use the word cheaper-- but a better value. You don't want to get caught in the value trap that people are discussing with equity versus growth.

But at the same time, you can look at certain asset classes where there may be opportunity that people have not been in perhaps like high yield, which has still got a pretty big spread and therefore an opportunity that they've not historically had very often. So usually, this has been a pretty good opportunity for that. So you got a little lower risk, and you got an opportunity for some upside.

And an opportunity to rebalance as well, would you say?

Yes. Rebalance-- one of my favorite words, often discussed and infrequently done. We think that has--

it's been great. We've been able to actually prune things that have kind of run back up particularly high. And we've added those to some things that have been laggards. Even at some points, there've been opportunities to add to things like municipals.

And with the government basically telling you they're not raising interest rates for a couple of years, it's allowed us to work through that. Look at credit quality. Same thing as high-yield corporates but even high-yield [INAUDIBLE].

Yeah, often talked about, but not always done. Do you think that this recession has, for whatever reason, given people the confidence to rebalance?

I think so. They've been open to it. Greed and fear-- those are the two emotions that we work with every day in this business. You see the people's reactions to it. And those people that can do the right thing-- let's call it rebalancing in this case-- in fearful times, that has generally proven to be smart and been very rewarding.

And looking forward, there's been a social awakening in the US and around the world. How is this impacting institutional investors? And do you think that we'll see some of those trends trickle down into the private markets as well?

Yes, that's a great question. I think it's really looking to the future but the future is now. And we're in the middle of it. I think diversity and inclusion, you're going to be hearing about that. And you're going to see people acting on it. It's been talked about a lot. You've had a lot of coming out of ESG discussions, interviews I know you folks have done. You see it in the press regularly. What it would appear to me, though, people are going to be asking, and they are going to be expecting answers.

So what we're working on institutionally now is the listings and defining-- it seems obvious when people have a position what the definition of diverse is and what inclusive is. But it gets a little more interesting when you set out to define that. So you know who has an opportunity to participate. The good news is if you look for it, you can find excellent management that is very diverse and very inclusive.

And what would you say is different this time around? What are you hearing from institutional investors? And do you think there's more momentum surrounding ESG as well as diversity and inclusion?

Yes, I think it is. Clearly, it comes up at almost every meeting, so that ought to tell you something. And they're expecting reports on it. We're in the midst right now of performing three-- well, I wouldn't call them searches, but just informational reviews for people projects institutionally to look for that diversity and inclusion.

And part of it is going back and checking what you already own that may fit that category. Because as I said, there are plenty of excellent managers that are being hired strictly off of the performance. Nobody even is aware of what might make them diverse or inclusive.

Certainly a major theme to watch moving forward. Joe, anything else that you'd like to highlight as part of your mid-year outlook?

Well, I think when you talk about looking back-- and none of what's occurred in the last few months was expected. So what we've been trying to do is again looking for things that are diversifiers. So from a pure investment standpoint, it probably involves credit strategies like I was mentioning high-yield and otherwise, convertibles even.

But on a bigger scale, it's going to be very interesting to watch how these markets react as we start to develop vaccines. And as you watch the news, there's information all over the place about what may be coming, what is coming, what is already almost there, what isn't almost there. Nobody really knows for sure.

But to me-- and I think the way we're trying to look at it-- is you want to be positioned so that when things do change again-- and they will, and hopefully it'll be for the positive because of the vaccine development-- then I think you want to think a little bit ahead about what's going to-- where do you want to be when that occurs, and what will be affected once we get to the vaccine.

Yeah, the vaccine certainly seems to be the major wild card in all of this. Do you think that the financial community can truly return to normal until we have that vaccine?

I don't see it being the normal the way we had it before certainly. Once the vaccine's in place, I think we will get to whatever the new normal is, and then it won't be a matter of financing based off of an engineered recession. That's what I think would be the normal that I would hope for.

We've all had people we know or that have suffered from the virus, in some cases have passed away from it. So there is bound to be an impact on what happens in the world because of this and also what happens in the rest of the world, but also what's coming along at the same time with the protests that are occurring. All of this is going to have an impact on what things look like coming out on the other side.

Yeah, financial markets do not exist in a vacuum, and they're certainly watching all of these global developments. Well, Joe, thank you so much for your time and insights. Really great to have you.

Pleasure to be with you. Be safe

You too. And thank you for watching. That was Joe Montgomery. He's managing director of investments at the Optimal Service Group of Wells Fargo Advisors. I'm Jenna Dagenhart with Asset TV.