



Market Strategy Weekly

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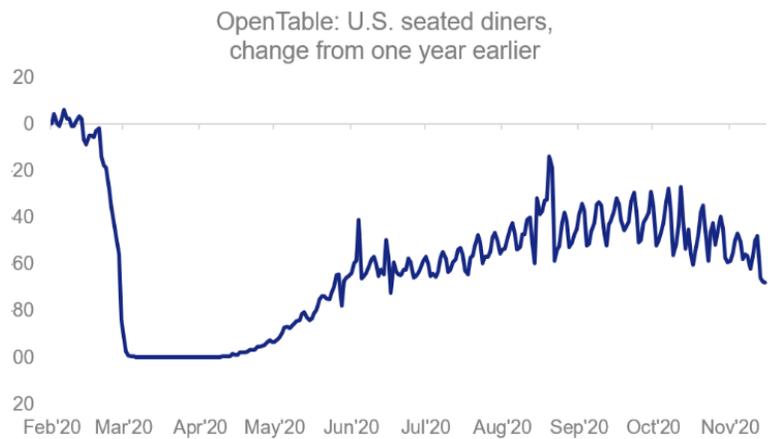
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RESILIENT RECOVERY | AVERAGE STOCK IMPROVING | MOBILITY FALLING

As we look ahead toward the fast-approaching year-end holidays, we remain impressed by both the resiliency of the economic recovery, particularly given the lack of fiscal stimulus, and the strength of the underlying fundamentals (namely, corporate profits and consumer spending). For investors, an improving economy and higher profits coupled with broadly accommodative monetary policy (e.g. low interest rates) provide the bedrock for strong equity returns heading into next year. That's great news in our book.

Also, for all the focus on "Big Tech" stocks in the headlines, the continued strength of the *average* stock has perhaps gone underappreciated. We like to look at the relationship between the ValueLine Arithmetic Index (an equal-weighted construction of roughly 1700 stocks) and the S&P 500. While the ValueLine index spent the summer grinding sideways, it has again begun to outperform in recent weeks, reflecting the increasing participation of the average stock. This breadth improvement is a great sign of a healthy market.

Of course, there is also room for some concern in the near-term as the sharp rise in COVID-19 cases has been met with a modest slowdown in activity. The data to the right from OpenTable—yes, the app on your phone where you book dining reservations—shows a notable decline in seated diners over recent weeks. We'll want to keep track to see if this trend intensifies as we move into the winter months. It's also worth noting that the good news on the vaccine front has compelled some states and municipalities to increase mobility restrictions and targeted lockdowns. On the plus side, however, these developments may have spurred Congress into gear on a much-needed stimulus bill in the \$900B range.



So what's the insight for your portfolio? While you should always consult with your Baird Advisor for the impact on your plan, we've become much more optimistic on the road ahead. Now that's not a green light to rush right in, but we're positioning to take advantage of the building blocks that have been laid in the recovery and the anticipation that a broad reopening of the economy will provide a material boost in activity, demand, output, revenue, and profitability. That is a cocktail that should provide the synchronized global expansion that we missed out on following the Great Financial Crisis.

We'll see some down days along the way, but the Baird team stands ready to help you through it. Stay focused and stay healthy. We'll see you again next week.

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