



MARKET MATTERS

MONTHLY INVESTOR UPDATE

November 9, 2020

Executive Summary

- News outlets declared Joe Biden as the next U.S. president. Republicans are poised to retain control of the Senate, pending Georgia runoff elections on January 5. Democrats will keep control of the House (albeit with a smaller margin).
- The final counts will take days or weeks to know. Recounts and lawsuits are expected, but the result of the presidential race is unlikely to change.
- COVID-19 continued to spread across the U.S. and Europe.
- Vaccine development continued, with availability expected between January and spring 2021.
- U.S. GDP saw a major increase in the third quarter after a major decline in the second quarter.
- The unemployment rate fell to 6.9% and job gains improved in October.
- U.S. equities saw significant declines at the end of October but recovered leading up the election as the prospects of a split Congress increased and a “blue wave” failed to materialize.

Election Update: Potential Gridlock

On Saturday, November 7, the Associated Press and several TV networks (ABC, CBS, CNN, Fox News, NBC) declared Joe Biden the winner of the U.S. presidential election after calling Pennsylvania in his favor, which pushed him over the threshold of 270 electoral votes.¹ The Associated Press and Fox News have also called Arizona for Biden, while the other networks have not. States that were still too close to call as of Sunday, November 8, were Georgia and Nevada, where Biden was leading; North Carolina, where President Donald Trump was leading; and Alaska, where only 50% of votes had been counted and which Trump carried by a wide margin in 2016.^{2,3,4}

Many states, including the ones mentioned above, are still counting votes, so the final count for the presidential race may not be known for several days, if not several weeks. A recount is planned in Georgia and possibly other states. Additionally, the Trump administration has filed or plans to file lawsuits in several states. Some of the lawsuits have been dismissed and the

¹ “After waiting game, media moves swiftly to call Biden winner,” *The Associated Press*. November 7, 2020.

² “Presidential Results,” *NPR*. Accessed November 8, 2020.

³ “Road to 270,” *NBC News*. Accessed November 8, 2020.

⁴ “Explaining Race Calls: How AP called the race for Biden,” *The Associated Press*. November 7, 2020.

remaining ones are not expected to change the election result, according to the *Wall Street Journal*.⁵

Control of the Senate will come down to two seats in Georgia that will have runoff elections on January 5. As of Sunday, November 8, the Associated Press counted 48 seats each for Democrats and Republicans, with Alaska and North Carolina still too close to call. Republicans are favored to win in Alaska and North Carolina, but will need 51 seats to keep control of the Senate since the vice president serves as the tie breaker.⁶ Based on this month's election results, it is possible that Republicans retain the two Georgia seats as well.

Meanwhile, Democrats are expected to keep control of the House of Representatives, but with a smaller margin as Republicans outperformed the pre-election polls.

The upshot is that the newly elected government could face gridlock with a Democratic-controlled presidency and House, and a Republican-controlled Senate.

As we have mentioned before, long-term market returns are not driven by election results, so we encourage investors to maintain a long-term investment approach.

COVID-19 Update: Spreading

Confirmed cumulative COVID-19 cases reached 48.46 million globally as of November 5, 2020. Case counts were reaching new daily records throughout the month of October in both the U.S. and Europe. The U.S. still leads the global tally with over 19.6% of all confirmed cases.⁷ On November 4, the U.S. reached a new milestone, surpassing 100,000 new cases reported in a single day. The most recent surge appears to be impacting nearly every corner of the country, and experts are urging people to continue wearing face masks and social distance as we head into the colder months where outdoor activities are less feasible.⁸

With death tolls increasing as well, many European countries have reinstated measures designed to limit the spread, including new lockdowns and curfews.

As of November 5, there were 11 vaccines in phase 3 trials.⁹ In recent headlines, AstraZeneca suggested their vaccine could be ready by January. Moderna was more cautious, saying their vaccine would not be ready for widespread use until spring 2021. Pfizer said it could apply for emergency use of its vaccine as soon as later this month.¹⁰

⁵ "Election 2020: What Are the Trump Legal Claims?" *Wall Street Journal*. November 8, 2020.

⁶ "Fight for Senate control awaits in Georgia after Biden's win," *The Associated Press*. November 8, 2020.

⁷ "COVID-19 Dashboard," Johns Hopkins University & Medicine. Accessed November 5, 2020.

⁸ "Covid cases in the U.S. are 'extremely high and quite unacceptable' ahead of the winter, Fauci says," *CNBC*. October 30, 2020.

⁹ "Coronavirus Vaccine Tracker", *The New York Times*. Accessed November 5, 2020.

¹⁰ "AstraZeneca says COVID-19 vaccine could arrive by year-end," *CBS News*. November 5, 2020.

Economic Update: Jobs Improvement

On November 5, the Federal Reserve held the short-term rates near zero (range between 0%-0.25%). Fed Chairman Jerome Powell stated that the U.S. economy is showing signs of recovery but is nowhere near its pre-pandemic strength.¹¹ U.S. GDP experienced an annualized growth of 33.1% in the third quarter after a second quarter annualized contraction of 31.4%. Compared to the fourth quarter of 2019, U.S. GDP has contracted only 2.7% (not annualized).

University of Michigan's consumer sentiment survey improved slightly in October, but consumer spending did not change much. Consumer spending accounts for approximately 65-70% of U.S. GDP. The personal savings rate, according to the U.S. Bureau of Economic Analysis, declined from a high of 33.6% in April to about 14.3% in September. The April savings rate was the highest since 1970.

In a bit of positive news, the jobless rate fell a percentage point to 6.9% as of October and the U.S. economy has recovered 12.1 of the 22 million jobs lost this past March and April. While the jobless rate remains high relative to pre-pandemic levels, this is the sixth straight month of job gains.¹²

Market Index Trailing Total Returns				
as of 10/31/2020	MTD	YTD	1 Year	3 Year
S&P 500	-2.66%	2.77%	9.71%	10.42%
Russell 2000	2.09%	-6.77%	-0.14%	2.19%
MSCI EAFE USD	-3.99%	-10.80%	-6.86%	-1.24%
MSCI Emerging Markets USD	2.06%	0.87%	8.25%	1.94%
Bloomberg Barclays U.S. Agg Bond	-0.45%	6.32%	6.19%	5.06%
Bloomberg Barclays U.S. Corp High Yield	0.51%	1.13%	3.49%	4.24%
Bloomberg Barclays Global Agg Bond USD	0.46%	5.26%	4.96%	3.49%

Periods longer than a year are annualized. Returns include dividends or interest. Source: Morningstar.

Market Update: Up on Split Congress

Daily volatility continued throughout the month of October, although U.S. equities (as measured by the S&P 500) spent much of the first half of the month shrugging off negative news. Toward the end of the month, increasing COVID-19 cases (in the U.S. and globally), the continued lack of agreement on a new stimulus package, and nearing election jitters took their toll.

The S&P 500 had its largest weekly decline since March during the last week of October, falling 5.6%. Big tech led the decline on the last trading day of the month, despite many firms

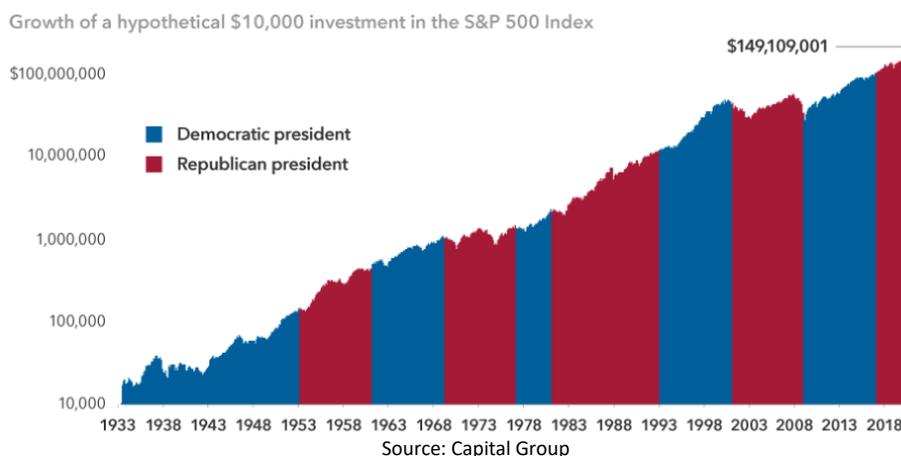
¹¹ "Fed Holds Interest Rates Steady Near Zero, Says Economy is Still Well Below Pre-Pandemic Level," [CNBC](#), November 6, 2020.

¹² "Drop in Jobless Rates Show Healing U.S. Labor Market," [The Wall Street Journal](#), November 6, 2020.

reporting increased profits.¹³ The index ultimately ended October with a loss of 2.77% (2.66% with dividends) for the month.

Interestingly, while the week before the election saw a broad decline, stocks rallied during post-election day uncertainty. The market was encouraged by the increasing likelihood of a Democratic President, Republican Senate, and Democratic House in the days immediately following election day. Even though this could mean further difficulty passing a new stimulus measure, there is less chance of significant new regulation and tax increases that markets are fearful of with a Democratic sweep. Tech and healthcare were driving returns on November 5.¹⁴ Stocks took a breather on November 6 as the ballot counts continued.

Regardless of the outcome, long-term investors should remember that stocks tend to be resilient despite election outcomes. The chart below, sourced from Capital Group, illustrates this point.¹⁵



In the global markets, European stocks also suffered during the month of October in reaction to new lockdowns. The MSCI Europe ex-UK index fell 5.4%, and the UK FTSE fell 3.8%. Chinese economic data helped emerging markets and the MSCI EM index gained 2.1%.¹⁶

We are here to support you and navigate these times of uncertainty together. Knowledge is power, and we're committed to equipping you and your financial professional with the tools and information you need to weather this storm. We are continuing to watch market developments and are here to assist you with evaluating and understanding these economic changes. Please contact your financial professional to discuss your portfolio or should you have any questions or concerns.

¹³ "Wall St. Suffers Worst Week Since March," *The New York Times*. November 2, 2020.

¹⁴ "Dow climbs 560 points as likelihood of divided government extends healthcare and tech rallies," *Business Insider*. November 5, 2020.

¹⁵ "What the U.S. election means for investors," Capital Group. November 5, 2020.

¹⁶ "Monthly Market Review," JP Morgan Asset Management. November 2, 2020.

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