



Private Capital Group Q3 2020 Newsletter

The third quarter has continued to mark 2020 as one of the most trying and extraordinary years in recent memory. Over the past three months, the markets have experienced highs and downside volatility. In July and August, the markets achieved multiple record highs, a strong rally from March lows, better-than-expected employment results, continued strength from Big Tech and home-based companies, monetary support from central banks, higher-than-anticipated corporate earnings and prospects for effective vaccines and therapeutics, possibly by the end of this year. On the contrary, the final month of the quarter saw increasingly unlikely fiscal stimulus prior to the election, overvalued stock valuations in some cases, concerns about increasing fiscal deficits, volatility spikes and possible continuation of elevated levels of unemployment as many small businesses remain less than fully operational. Historically, September is typically one of the poorest performing months for the markets. This year, the combination of the pandemic, election-generated uncertainty, the aforementioned economic and market struggles and historical context may all contribute to the bumpier-than-normal end to the third quarter.

There is light on the horizon however, and there are indications that we may be in the early recovery phase of the cycle following a recession. Low inflation and low interest rate growth provides a favorable environment for continued economic recovery. Economic recovery is the business cycle state following a recession that is characterized by a continual period of improving business activity. Normally, during this period and as the economy rebounds, gross domestic product grows, income rises, and the unemployment rate falls. Although this recovery may be different than most recoveries on record, we must recognize the similarities and provide hopefulness that we may be on to better times ahead.

<u>Financial Market</u>	Q3 2020	YTD 2020
S&P 500 (Domestic Stocks)	8.93%	9.87%
EAFE (International Stocks)	4.88%	-2.76%
U.S. Government/Credit Intermediate Bonds	0.61%	5.82%

What “shaped” recovery will we see?



Overall, the first half of 2020 has been nothing short of a deep plunge for the markets. Economic lockdowns in April grouped industries into three major categories: industries that can operate easily in a pandemic, industries that *cannot* operate easily in a pandemic, and industries that could potentially operate in a pandemic, only if following CDC and government health protocols. Fortunately, many industries did see a return to work over the third quarter. Revivals and acceleration in homebuilding and homebuying, manufacturing and auto sales helped account for much of the rebound in economic activity over the last few months. Other industries, however, still struggle to survive and reopen efficiently and effectively; including airlines, hotels, many restaurants, and in-person sporting events. Industries that struggle to provide means of social distancing may continue to struggle, especially until a vaccine has been approved and widely distributed.

As investors and experts continue to debate what kind of recovery the U.S. economy will look like - V-shaped, U-shaped, or L-shaped - we should continue to monitor the many factors that could ultimately decide the “shape” of the recovery. Many believe that vaccine progress, potential additional fiscal stimulus assistance, and reducing infection levels will ultimately lead to what type of recovery we will see. In the coming months, we should get a clearer picture of not only the pandemic, but the full scope of the economic recovery.

Ongoing Uncertainty

Over the course of the last few months, much uncertainty persists. The Fed has repeatedly stated that it will do everything in its power to help the U.S. economy, although it also has warned that the economy may need supplementary fiscal assistance from Congress and the White House. Many failed proposals of a new stimulus bill by both political parties and the White House have left investors and the markets with a great sense of doubt that such a bill will be passed before the election or by the end of the year. After negotiations originally had stalled between both political parties and the White House, the past few weeks have shown some promise that negotiating a deal could happen.

Historically, dating back to the 1930s, a review of the S&P 500 reveals certain patterns of equity markets underperforming in election years. Many events in 2020 have exacerbated historical election year uncertainty and volatility.

Although much COVID-19 uncertainty may lie ahead, promising treatments, vaccines, and understanding of the virus has given many investors more optimism. Death rates have significantly lowered globally, and science is now understanding the virus more and more every day.

Trust the Long-Term Process



A diversified portfolio typically has protected investors in times of both economic uncertainty and volatility and market prosperity. This is truer now more than ever before. A combination of the pandemic and an election year has created much unpredictability for Q3. While the political drama and pandemic wariness may continue to be ever present, staying invested and making sure your portfolio is rebalanced remains paramount. Over the past few months, the patient investor has been rewarded for weathering the COVID-19 storm. With 2020 being one of the most volatile years on record, it is important to remain focused on your long-term investing strategies. Although many investors attempt to make short-term scores during this time, long-term investors can build wealth, meet their financial goals and increase their financial security. Diversifying your investments can help lead you on a path of financial security and mitigate risk in most investment environments.

Private Capital Group would like to take this moment to thank you for continuing to put your trust and confidence in us. PCG remains committed to you and your family's financial well-being during this tumultuous time. Our entire team is devoted to providing the best possible service and care for you, our valued clients. We are all in this together.

Please contact anyone at PCG with any questions about your specific needs. Stay safe and healthy.

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