

# Quarterly Economic Update

Third Quarter 2020

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Nearly six months after the large waterfall drop of equity prices in March, most broad indexes have found their way to a better place. For the third quarter, the Dow Jones Industrial Average (DJIA) advanced over 7% and the S&P 500 index (S&P 500) rose over 8%. Although the quarter was strong, the month of September brought these two major indexes their first negative returns since March. For September, the DJIA moved over 2% lower, while the S&P 500 was down almost 4%. Many media outlets reported that the late September decline was because developments on Capitol Hill overshadowed the positive data on housing and jobs that had been a focus for much of the quarter. (Source: MarketWatch 9/30/2020)

Positive signs for the quarter included the fact that home-contract signings were at a record high in August, according to the National Association of Realtors. Also, Automatic Data Processing said 749,000 private-sector jobs had been created in September, ahead of estimates for a gain of 650,000, and the strongest reading in three months. (Source: MarketWatch 9/30/2020)

Not all the statistics released this quarter were healthy. For example, the Commerce Department revealed on September 29<sup>th</sup> that personal income—a measure of what Americans received from salaries, investments, and government assistance programs—fell 2.7% in August from a month earlier. The data showed that this decline was due entirely to a drop in unemployment benefits. While the quarter included many inconsistent data points, the overriding theme for many investors is that there is still a high degree for concern as we await more positive data on potential coronavirus treatments. (Source: Wall Street Journal 10/1/2020)

The Federal Reserve has pledged to keep interest rates low for years and so the days of relying on strong returns from money market accounts and certificates of deposit may be in the rear-view mirror. While many investors this quarter enjoyed an increase in equity prices, some analysts caution that based on historical numbers, like price earnings, the case can be made that equities are highly overvalued and overpriced. Others debate that with ultra-low interest rates and high levels of liquidity, equities are still attractive.

**This quarterly update's goal is to focus on a few of the central themes for investors. With markets entering Fall, a time period that has historically been associated with heavy volatility, investors should consider focusing on their personal objectives and timeframes.**



MONEY RATES		
(as posted in Barron's 10/5/2020)		
	LATEST WEEK	YR AGO
<b>Fed Funds Rate</b> (Avg. weekly auction -c)	<b>0.09%</b>	<b>1.88%</b>
<b>Bank Money Market -z</b>	<b>0.10%</b>	<b>0.22%</b>
<b>12-month Cert -z</b>	<b>0.27%</b>	<b>0.82%</b>

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z - Bankrate.com (Source: Barron's; bankrate.com)

## Key Points

1. **Equity markets had strong results for the third quarter.**
2. **Interest rates are still in the spotlight as the Fed says they will keep rates near 0% till 2023.**
3. **Unemployment strengthened, but the economy is still challenging.**
4. **The U.S. political situation adds to the current environment of uncertainty.**
5. **Investors should fully commit to realistic time horizons.**
6. **Now is the ideal time to revisit your personal objectives and the strategies to achieve them.**
7. **Call us with any questions.**

## Interest Rates to Remain Low for Years

At the Federal Reserve's September session, Chairman Jerome Powell said that interest rates are likely to stay low for years as the economy continues to fight its way back from the coronavirus pandemic. Powell said, "We think that the economy's going to need low interest rates, which support economic activity, for an extended period of time." He shared that the movement of this recovery, "will be measured in years." Powell acknowledged that the pace of jobs growth is rising faster than many people expected, but still held to his statement that it may take years before the economy has fully recovered. "However long it takes, we're going to be there. We're not going to prematurely withdraw the support that we think the economy needs," he added.

*(Source: Bloomberg 9/17/2020)*

Federal Reserve officials holding interest rates near zero and signaling that they would stay there for at least three years effectively means that the Fed will keep their key rate at or near 0% till 2023. With interest rates at record lows, income-seeking investors looking for decent yields could be disappointed. The low interest rate environment has been described as a bonus for borrowers and a nightmare for income-oriented investors. **Interest rates will continue to stay near the top of our watchlist, but for now, the consensus appears to be that rates are going to be low for a long time.**

## Economic and Political Concerns

The U.S. economy is the largest in the world and nearly 70% of it is driven by consumer spending. Analysts feel that until employment and wages increase, the U.S. economy will remain at best bogged down and at worst digging a deeper hole. The U.S. Commerce Department reported on September 29<sup>th</sup> that the U.S. economy shrank by 31.4% in the second quarter. The decline was more than three times as bad as the previous worst quarter in history, a 10% drop in the first quarter of 1958. The record second-quarter contraction follows a 5% drop in the first quarter. *(Source: USA Today 8/8/2020)*

Many economists are already shifting their attention to the third quarter final results where they are anticipating 30% Gross Domestic Product (GDP) growth, which would nearly double the previous record of 16.7% growth in the first quarter of 1950. *(Source: USA Today 8/8/2020)*

Unlike during the Great Depression, the economic damage today is mostly the result of strict nationwide lockdowns. In response, the Federal Reserve has stepped in aggressively to counter the damage effectively leaving interest rates at zero and injecting vast amounts of cash into the banking system, while the stock market has remained relatively strong amid the pandemic.

Markets do not like uncertainty and today's political environment is certainly uncertain! The Presidential election and important Congressional races remain as one of the more talked about subjects in the world today. Our goal is to focus on facts and be watchful of how the political landscape could affect your investments. **Clearly, the economic and political results of the fourth quarter could affect an investors outlook, therefore, these are two more topics for us to monitor.**

## Strategies for Investors During Market Volatility

While the reality of key economic indicators has been more negative than positive, the level of federal stimulus has already surpassed what was done during the last decades financial crisis. September included a downward market challenge that concerned many bullish investors, but by quarter's end the "new" bull market remained intact. Uncertainties around a contentious political environment and the fact that October is historically the stock market's most volatile month require long-term investors to prepare for the potential of increased market volatility.

Market downturns can be confusing and painful for investors. Many times, when investors suffer a sharp decline, it could feel like it is never going to end. Making emotional decisions during turbulent times can prove to be costly and problematic. A better strategy is usually to prepare and understand your time frames and risk tolerance.

# Interest rates are projected to stay near zero for years.

## *What does this mean for investors?*

The Federal Reserve moved their benchmark Federal Funds rate to near zero and in September confirmed that it is likely to stay there until 2023. This means that borrowing becomes cheaper for those who take out loans, but for savers, it's not such good news.



Here are four ways the Fed's efforts to keep interest rates low could impact you.

### 1. Home Mortgages and Personal Loans

Fixed-rate mortgages have an interest rate locked in, but anyone looking to buy or refinance can benefit from lower rates. This is true for all fixed-rate financial products, including car and personal loans. Those who are locked into a loan and are not able to refinance, will not benefit from lower interest rates.

Homeowners with an adjustable-rate mortgage could have already seen their monthly payments decrease. **This could be a good time to consider the benefits of changing to a fixed-rate loan if possible.**

### 2. Credit Card Debt

Many credit card issuers base their variable interest rates off of the prime rate. This rate is directly influenced by the Fed's rates and has been low since March. **This might be a good time to look at ways to reduce any credit card debt you have.**

### 3. Savings Account

If you have a high-yield savings account, the Fed's announcement means you could see ultra-low rates for a long time. **Since March, interest rates on even the highest-yielding savings accounts have been less than 1% and many times closer to 0%.**

### 4. Income Investors

Income investors also see lower rates when Federal Funds rates are near 0%. The idea that this rate will be low for a long period of time requires income-oriented investors to carefully think through their personal strategies. **This is an area where we can help you review your choices to hopefully meet your specific needs.**

**If you need to revisit your income needs and objectives and the strategies you can use to pursue them, please call us.**

**One strategy for volatile times is to always understand your personal situation.** You should consider planning your equity investments to maintain a long-term horizon. It could be best if you make your investment decisions on a non-emotional basis. If the daily swings in the stock market seem too chaotic, remember these movements are near impossible to fully predict. For many investors there is no reason to even subject yourself to daily market headlines. If you have long-term investment outlook of at least five years, then any short-term volatility could pass before your time horizon.

**Corrections are a part of the investing experience, so try to keep things in perspective.** Market pullbacks (defined typically as between 5 and 10%), corrections (defined as 10 to 20%) and even bear markets (defined as 20% or more) are a normal part of the stock market cycle. Since 1950, the S&P 500 has undergone 37 separate stock market corrections of at least 10%, not including rounding (i.e., declines of 9.5% to 9.9%). Considering that there have been over 69 years since the beginning of 1950, this works out to a correction, on average, every 1.87 years. (Source: *The Motley Fool 5/2020*)

**Please remember that volatility and risk are not the same thing.** When a stock is volatile, it means that it tends to make big moves (up or down). When a stock is risky, it typically means that it can lose money (go down). In financial terms, risk is the potential permanent loss of money whereas volatility is how rapidly an investment tends to change in price. Equity investments as a category are much more volatile than a bank deposit, but that does not mean that an investor should avoid investments in equities. Just because an investment is more "volatile" does not necessarily mean it is "riskier" in the long term. Investors should always discuss with their financial professional the potential of short-term volatility affecting the daily value of their investments and plan their investments accordingly.

**Investors should always put their primary focus on their own personal goals and objectives.** It is very important that you understand your situation and your financial plan. A wise strategy is to continue to proceed with caution while allocating your investments to match your risk tolerance.

**Short-term movements of the market are unpredictable and do not abide by any average therefore it is always helpful to revisit and understand your financial goals and objectives.**

## Investor Outlook

Predicting short term changes in the equity markets is near impossible. Equities are primarily for long term investors. With interest rates near zero, investors who need returns should consider equities. With 5- and 10-year Treasury Notes yielding less than 1%, equities become even more noticeable on an investor's choice list.

Jeremy Siegel, the Wharton professor, who is credited for predicting that the Dow would cross 20,000 in 2015, explained to CNBC in an interview on September 28<sup>th</sup> why he believes that the stock market, "is looking forward to a really good" run next year, regardless of who takes the White House. Siegel explained that the, "tremendous burst of liquidity" from the Federal Reserve and Congress will continue to provide a huge tailwind for stocks. Siegel also added, "I think that uncertainty is going to continue to weigh onto the markets." (Source: *Barron's* 9/30/2020)

Equity investors need to have realistic time horizons and return expectations. Markets could go down before up, or up then down. Equity investors need patience. It is always best to identify your goals and plan based on your situation and time frames. Remember, we always like to say that panic is not a plan! If you have carefully created a strategy with realistic financial goals, then try to not allow emotions or media magnification influence you to shift your approach.

This is a good time to listen to the words of legendary investor money manager Peter Lynch. He said, **"People who succeed in the stock market also accept periodic losses, setbacks, and unexpected occurrences. Calamitous drops do not scare them out of the game."**

## We are here for you!

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please call our office, or bring it up at our next scheduled meeting. If you ever have any concerns or questions, please contact us!

### We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for every member of our team on the issues that affect our clients.

**A skilled financial professional can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs.**

## Complimentary Financial Check Up

Although you may be a client of Davidov Law Group you may not be aware that we offer comprehensive Wealth Management Services. We would like to offer you a **complimentary, one-hour, private consultation** with Michael Davidov a Certified Financial Planner and estate planning attorney at absolutely no cost or obligation to you.

To schedule your financial check-up please call Brian at (516) 587-5550

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Sources: All sources used were considered to be reliable. They include: CNBC.com, marketwatch.com, Bloomberg.com, Wall Street Journal, USA Today, Barron's, BigCharts.com.