

Weekly Market Commentary

October 26, 2020

The Markets

Stimulus talks led investors in a merry dance last week.

So far in 2020, stock markets have been sensitive to fiscal stimulus. Last week, there was optimism a new stimulus package could be negotiated before the election. There also was skepticism about whether it would happen. An expert cited by *CNBC* stated, “There’s a lot of back and forth on stimulus and every headline makes the market move a little bit, but there’s no follow-through because we don’t have a clear picture on that front.”

Economic data didn’t provide a clear picture either. Some data points suggested economic recovery was continuing, while other information indicated the pandemic was impeding economic growth. For instance:

- **Demand for services was up.** The IHS Markit Purchasing Manager’s Service Index, which measures the performance of healthcare, technology, and hospitality businesses, showed better-than-expected improvement. The index was at 56. Any reading above 50 indicates expansion, reported *Barron’s*.
- **It was a seller’s market for homes.** Low interest rates combined with the space requirements of remote work and online learning have led to high demand for homes. Typically, a balanced housing market has a 6-month supply of existing homes for sale. At the end of September, there was a 2.7-month supply, per *Barron’s*.
- **Corporate earnings were better than expected.** About one-fourth of the companies in the Standard & Poor’s (S&P) 500 Index have reported earnings so far. More than 80 percent have reported better-than-expected results. Stronger profits suggest companies are recovering; however, *FactSet* reported this is “the second largest year-over-year decline in earnings since Q2 2009.”
- **Unemployment claims slowed but remained higher than normal.** There were fewer new claims for unemployment benefits in last week’s report. However, the number of unadjusted initial claims is relatively high (756,617 in 2020 vs. 186,748 in 2019), reported the *Department of Labor*. Overall, more than 23 million Americans filed for unemployment benefits.
- **Consumers were discontent.** The *University of Michigan’s Consumer Sentiment Survey* showed consumers were concerned about current economic conditions. Sentiment was down 25 percent year-over-year. Richard Curtin, director of the survey, believes current discontent may continue into 2021.
- **COVID-19 cases spiked higher.** A significant obstacle to economic growth is the virus. Last week, the number of coronavirus cases spiked. There were more than 83,000 new cases in the United States on Friday and 914 deaths, reported *Johns Hopkins Coronavirus Resource Center*.

Major U.S. stock indices finished the week lower.

| Data as of 10/23/20 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | -0.5% | 7.3% | 15.3% | 10.6% | 10.8% | 11.3% |
| Dow Jones Global ex-U.S. | 0.4 | -4.0 | 2.0 | -0.7 | 2.9 | 1.6 |
| 10-year Treasury Note (Yield Only) | 0.8 | NA | 1.8 | 2.4 | 2.1 | 2.6 |
| Gold (per ounce) | -0.1 | 25.0 | 27.4 | 14.3 | 10.4 | 3.6 |
| Bloomberg Commodity Index | 0.3 | -9.1 | -6.9 | -4.9 | -3.4 | -6.7 |

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

THE ELECTION IS ALMOST HERE. Apprehension about the election has many people worrying about how financial markets may be affected by the outcome. Here are some thoughts to ponder:

“Election years are not often the best times for stock market investors. Over the past 90 years shares included in the S&P 500, an index of America’s biggest firms, have returned an average of about 8.5 percent a year. The 12 months leading up to each of the 22 presidential elections in that time have been leaner affairs, returning just 6 percent...The democratic cycle, for all its virtues, tends to bring with it a dose of uncertainty – first about who will win and then about what that victor will do. And uncertainty tends to make financiers nervous.”

--*The Economist, October 10, 2020*

“Many investors who ask questions about the election and its market impact seem to be looking for easy answers; or a clear and consistent relationship between variable X (in this case the election) and market performance. That does not happen with consistency when comparing economic variables, sentiment conditions, earnings growth rates, valuations, etc., to market performance...and it certainly doesn’t happen with politics and the market.”

--*Liz Ann Sonders, Chief Investment Strategist, Charles Schwab & Co., October 5, 2020*

“What seems reasonable is to expect some lift in bond yields from their historic low levels. Just a return to normalcy, once a vaccine is developed and widely available, ought to raise yields from their preternaturally depressed levels.”

--*Randall Forsyth, Columnist, Barron’s, October 23, 2020*

“Politics can bring out strong emotions, but an election has not significantly changed the direction of market movements, historically.”

--*Chao Ma, Global Portfolio and Investment Strategist, Wells Fargo, October 20, 2020*

Possibly the most important thing investors can do is stay focused on long-term financial goals and avoid making changes based on short-term fears.

Weekly Focus – Think About It

“The man who is a pessimist before 48 knows too much; if he is an optimist after it, he knows too little.”

--*Mark Twain, Author and Humorist*

Best regards,

Moshides Financial Group

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

* Consult your financial professional before making any investment decision.

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