

November 9, 2020

Weekly Viewpoint

Market Reaction Suggest ‘Gridlock’ is Good

Performance for Week Ending 11.6.2020

The Dow Jones Industrial Average (Dow) finished up 6.87%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 7.51%, the Standard & Poor’s 500 Index (S&P 500) gained 7.32% and the Nasdaq Composite Index (NASDAQ) tacked on 9.01%. Sector breadth was positive with all 11 of the S&P sector groups closing higher. The Technology sector (+9.70%) led the way higher followed by Healthcare (+8.25%) and Materials (+7.63%).

Index*	Closing Price 11/6/2020	Percentage Change for Week Ending 11/6/2020	Year-to-Date Percentage Change Through 11/6/2020
Dow	28323.40	+6.87%	-0.75%
Wilshire 5000	36256.93	+7.51%	+10.25%
S&P 500	3509.44	+7.32%	+8.63%
Nasdaq	11895.23	+9.01%	+32.57%

Market Observations: 11/2/20–11/6/20

The reaction to the news tends to be more important than the actual news. Stocks finished sharply higher with the S&P 500 posting its best weekly performance since early March. While still unsettled, it seems the makeup of Congress will be split, with the House being controlled by Democrats and the Republicans maintaining a very small majority in the Senate. The rally last week suggests that this “gridlock” scenario is being viewed as the “goldilocks” outcome. While the level of fiscal stimulus will likely be tempered under a split Congress, tax rates are expected to remain stable and any new regulatory oversight would be limited.

FOMC Meeting: As expected, the two-day FOMC meeting ended with Fed officials making no changes in policy. The committee noted that rates will be maintained at near zero levels and bond buying will continue at

the current pace. The Fed said it "is committed to using its full range of tools to support the U.S. economy in this challenging time," adding that "economic activity and employment have continued to recover but remain well below their levels at the beginning of the year" and "weaker demand and earlier declines in oil prices have been holding down consumer price inflation." According to the Fed statement, the pandemic will ultimately determine what happens with the economy.

Economy Has Good Momentum Going into Q4: U.S. manufacturing activity during October expanded at its fastest pace in more than 2 years. The Institute for Supply Management said its purchasing-managers index came in at 59.3, beating expectations for a rise to 56.0. The "guts" of the report were also encouraging with the forward-looking new orders component jumping to the highest level since 2004. The report suggests the economy had strong momentum heading into the fourth quarter and is moving beyond the initial recovery phase. On the jobs front, the Labor Department reported that nonfarm payrolls during the month of October expanded by 638K, solidly ahead of the forecasted gain of 580K. Meanwhile, the unemployment rate fell to 6.9% from 7.9% last month.

Q3 EPS Roundup: With just over 90% of the members of the S&P 500 already reporting Q3 earnings, overall results have been better than feared. Through Friday, 448 members of the S&P 500 have reported earnings with 83% surprising to the upside. Aggregate earnings are down 7.9%, but still solidly ahead of the forecasted 22% decline at the start of reporting season. Sectors showing the best aggregate growth are Healthcare (+14.95%) and Communication Services (+7.7%). The better than anticipated results have led to upward revisions to forward earnings expectations with estimates for both 2020 and 2021 solidly ahead of where they were just a couple months ago.

Market View: Despite the 'noise' surrounding the election outcome, we continue to maintain a favorable outlook for the markets. Through our lens, the economic recovery has solid momentum, earnings expectations are on the rise, and the Federal Reserve is expected to maintain its very accommodative monetary policy for the foreseeable future. In addition, it's highly likely that a Covid vaccine will be rolled out in the months ahead and policymakers will eventually roll out another fiscal stimulus package. While nothing moves in a straight line, we continue to believe the return profile over the next 12 – 24 months should remain asymmetrical, with an upward bias.

The Week Ahead: The week ahead will likely be a crucial one for investors as they monitor the election situation and try to work out the implications for the market. The global pandemic will also remain in focus as case numbers rise to record levels in numerous countries and governments move to impose restrictions, with the potential for significant knock-on effects on economic activity. Earnings season continues to wind down with only 16 members of the S&P 500 scheduled to release results, three of which are also components of the Dow Jones Industrial Average. Reports of interest on the data calendar include; the September JOLTS report, Initial jobless claims, the October consumer price index (CPI), the October producer price index (PPI) and the University of Michigan's November consumer sentiment survey. Fed Heads will be out and about during the week with upwards of ten meetings on the docket.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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