

October 5, 2020

Weekly Viewpoint

Political Uncertainty Suggests Elevated Volatility in the Weeks Ahead

Performance for Week Ending 10.2.2020

The Dow Jones Industrial Average (Dow) finished up 1.87%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 1.94%, the Standard & Poor's 500 Index (S&P 500) gained 1.52% and the Nasdaq Composite Index (NASDAQ) tacked on 1.48%. Sector breadth was positive with 10 of the 11 S&P sector groups closing higher. Real Estate (+4.87%) was the best performing sector followed by Utilities (+3.31%) and Financials (+3.30%). On the downside, Energy (-2.85%) was the sole loser reflecting the nearly 8% plunge in oil prices.

Index*	Closing Price 10/2/2020	Percentage Change for Week Ending 10/2/2020	Year-to-Date Percentage Change Through 10/2/2020
Dow	27682.81	+1.87%	-3.00%
Wilshire 5000	34470.87	+1.94%	+4.82%
S&P 500	3348.44	+1.52%	+3.64%
Nasdaq	11075.02	+1.48%	+23.43%

Market Observations: 9/28/20–10/2/20

After four consecutive weekly declines, the S&P 500 finished the week solidly higher. Gains early in the week outweighed a sell-off on Friday after president Trump and the first lady tested positive for Covid-19, adding to the political uncertainty in the final weeks before the election. Last Wednesday marked the end of the third quarter, and despite posting negative returns during the month of September, the S&P gained 8.47% during the July through September period, marking the second consecutive quarterly gain and the best third quarter performance since 2010. From the closing high on September 2 through the trough reached on September 23, the S&P 500 retreated by 9.6%. The sharp drawdown seemed to help blow some of the “froth” off of stock prices and was apparently enough to lure the “buy the dip” crowd back into the fray.

Investors also continue to bet that policymakers will find some middle ground in favor of more fiscal stimulus

after recent data showed the pace of the domestic economic recovery was starting to lose steam. While a no deal was reached last week, House Speaker Pelosi and Treasury Secretary Mnuchin agreed to continue talks. Last week, the House of Representatives passed a slimmed down \$2.2 trillion stimulus package although that remains above the \$1.5 trillion that White House Chief of Staff Mark Meadows said Republicans are willing to put on the table which includes around \$20 billion in stand-alone support for the struggling airline industry. On Friday, House Speaker Pelosi issued a statement asking airlines to hold off on furloughs and firings as Congress works on an aid package for the industry.

Economic Roundup: The Conference Board's consumer confidence index jumped to 101.8 during September from 86.3 last month, well above the consensus forecast of 90.0, and the biggest one-month jump in 17 years. With consumer spending accounting for approximately two-thirds of domestic economic growth, the jump in consumer confidence should bode well for consumption in the months ahead. On the jobs front, the Labor Department reported that nonfarm payrolls during the month of September expanded by 661K, below the 850K expected by economists. On a positive note, net revisions to nonfarm payrolls over the past two-months added an additional 145K jobs. During September the unemployment rate dropped to 7.9% from 8.4% in August. Meanwhile, the Institute for Supply Management (ISM) reported that their manufacturing gauge expanded at a slower pace during the month of September. The ISM Manufacturing Index came in at 55.4, down from 56.0 last month and below economists forecast for a mild uptick to 56.5 (Note: readings above 50 signal expansion). The forward-looking new orders component dipped to 60.2 from 67.6 last month. Despite the month over month declines, both the headline and new orders readings suggest the manufacturing rebound continues, although it no longer seems to be accelerating.

Market View: While the volatility is likely to remain elevated in the weeks ahead, we believe the market's poor performance during the month of September was a consolidation phase following the very strong performance off the March lows and not a broader reversal of the market's uptrend. We remain upbeat on the economic recovery and earnings expectations continue to be revised to the upside. The healthcare system seems to be better prepared for any new flare up in COVID cases and paradoxically, the market knows that the worst things get, the more likely the Federal Reserve and policymakers will inject additional stimulus into the economy. 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: It will be a relatively light week in terms of economic data, however, it will be another jammed packed week for Fed speak, with over a dozen presentations scheduled including Fed Chair Powell's NABE address on Tuesday. The Fed will also release of the minutes to the September FOMC meeting minutes on Wednesday. With respect economic data, reports on interest include the ISM services index and initial jobless claims. Also of note this week will be Wednesday's debate in Salt Lake City between Vice President Mike Pence and California Senator Kamala Harris.

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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