

October 26, 2020

Weekly Viewpoint

Deal or No Deal?

Performance for Week Ending 10.23.2020

The Dow Jones Industrial Average (Dow) finished off 0.95%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) lost 0.46%, the Standard & Poor's 500 Index (S&P 500) dipped 0.53% and the Nasdaq Composite Index (NASDAQ) shed 1.06%. Sector breadth was mixed with 4 of the S&P sector groups closing higher and 7 closing lower. The Technology sector (-2.21%) was the worst performer while Communication Services (+2.13%) was the best.

Index*	Closing Price 10/23/2020	Percentage Change for Week Ending 10/23/2020	Year-to-Date Percentage Change Through 10/23/2020
Dow	28335.57	-0.95%	-0.71%
Wilshire 5000	35793.37	-0.46%	+8.84%
S&P 500	3465.39	-0.53%	+7.26%
Nasdaq	11548.28	-1.06%	+28.71%

Market Observations: 10/19/20–10/23/20

The major market averages finished the week lower on the dimming prospects that Washington lawmakers will deliver a financial stimulus package ahead of the November 3 election. While a near term deal seems unlikely, there remains optimism that a deal will still be reached by year-end. Adding to the negative tone was the continued global uptick in Covid cases, which in turn raised fears of a setback in the economic recovery. The aforementioned headwinds were tempered somewhat by solid economic data and the 'better than feared' start to the third quarter earnings season.

Economic Roundup: Highlights from last week's data calendar include a report from the Labor Department showing that initial jobless claims in the week ended October 17 fell 55K to 787K, were solidly below the consensus forecast of 875K. The reading was the lowest level since the pandemic and temporary lockdowns first hit the labor market in March. Continuing claims dropped 1.024 million to 8.373 million, also the lowest

level since March. Meanwhile the housing market continued to soar. According to the National Association of Realtors (NAR) existing home sales during jumped 9.4% to a 6.54-million-unit annual rate, the highest level since May 2006. The surge in housing continues to be fueled by record low mortgage rates and a massive exodus to the suburbs due to the need for more space to work, study, etc. from home. The existing home sales report followed a report from the Commerce Department showing housing starts rose 1.9% in September, the fourth gain in the past five months, to a 1.415-million-unit annual rate. Building permits, a harbinger of starts to come, rose 5.2% to a 1.553-million-unit rate, its highest level since March 2007. The jump in permits coupled with the surge in builder confidence in October to a record high level, suggests that housing starts should continue to trend higher in the months ahead.

Q3 EPS Weak but Not as Bad as Feared: While it is still too early to draw any final conclusions, so far, overall S&P 500 results are trending at a better than feared pace. Through Friday, 135 members of the S&P 500 have reported earnings with 84% surprising to the upside. Aggregate earnings growth is off 15.9%, but still better than the forecasted 22% decline at the start of reporting season. The Healthcare sector has posted the strongest quarterly growth (+10.4%) followed by Materials (+8.5%) and Utilities (+8.2%).

Market View: Unless there is a breakthrough on the stimulus front, stocks are likely to remain in a choppy sideways holding pattern in the weeks ahead as investors await the outcome to the presidential election. While the polls have been leaning in one direction for the past few months, investors are likely to take a cautious approach as the 2016 polls come to mind. With that said, we continue to maintain a favorable outlook for the markets and feel that any weakness following the election will likely prove to be short lived. Through our lens, the economic recovery remains intact, 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 find some middle ground in stimulus negotiations. 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: Third quarter earnings season will remain front and center with 177 members of the S&P 500 scheduled to release results. Amongst this group are ten components of the Dow Jones Industrial Average. On the data front, reports of interest include; September new home sales, September durable goods orders, the August Case-Shiller home price index, the Conference Board's October consumer confidence index, the first estimate of third-quarter GDP, September pending home sales, September personal income and spending, and the University of Michigan's October consumer sentiment survey. The Fed speaking calendar is relatively light with only one presentation 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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