

October 19, 2020

Weekly Viewpoint

Q3 Earnings Season Moves to the Front Burner

Performance for Week Ending 10.16.2020

The Dow Jones Industrial Average (Dow) finished up 0.07%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 0.22%, the Standard & Poor's 500 Index (S&P 500) gained 0.19% and the Nasdaq Composite Index (NASDAQ) tacked on 0.79%. Sector breadth was mixed with 5 of the S&P sector groups closing higher and 6 closing lower. The Industrials sector (+1.1%) was the best performer while Real Estate (-2.31%) was the worst.

Index*	Closing Price 10/16/2020	Percentage Change for Week Ending 10/16/2020	Year-to-Date Percentage Change Through 10/16/2020
Dow	28606.31	+0.07%	+0.24%
Wilshire 5000	35960.34	+0.22%	+9.35%
S&P 500	3483.81	+0.19%	+7.83%
Nasdaq	11671.56	+0.79%	+30.08%

Market Observations: 10/12/20–10/16/20

Stocks posted very thin gains on the week but enough to push the S&P 500 higher for a third consecutive week. Trading was very choppy as investors reacted to headlines surrounding the fiscal stimulus negotiations. During the week, President Trump's offered to raise the amount of fiscal stimulus above the current level of \$1.8 trillion, although Senate leader Mitch McConnell gave it a cool reception, saying that he wouldn't take it to the floor, citing concerns for both the level of spending and the policies it would support. McConnell's reluctance, as well as House Speaker Nancy Pelosi's hard-ball negotiating tactics, likely mean a deal isn't going to be reached ahead of the election. U.S. Treasury Secretary Steve Mnuchin said as much late last week, although he still expressed hope of getting a deal done. Speaking at the Milken Conference, Mnuchin said "getting something done before the election and executing on that would be difficult just given where we are and the level of detail, but we're going to try to continue to work through these issues."

Covid Cases on the Rise: Rising concern over the potential for more economic fallout from resurging global coronavirus infections also provided a headwind to the markets. Last week Germany posted its highest ever increase in confirmed COVID-19 cases forcing it to renew restrictions on some of the biggest coronavirus hotspots such as Berlin. The French government meanwhile declared a public health state of emergency and announced a curfew for Paris and eight other big cities. Italy has also surpassed its daily record for newly diagnosed coronavirus cases, while a debate is taking place in England over whether a country-wide "circuit breaker" lockdown is needed. Meanwhile, cases in the US continue to trend higher with midwestern states like Wisconsin, Minnesota and Indiana reporting record one day increases.

Vaccine News: The race to find a vaccine/treatment for COVID-19 hit some speed bumps last week after Eli Lilly was forced to pause a government-sponsored trial of its antibody therapy due to safety concerns. The announcement came shortly after Johnson & Johnson said research on its experimental vaccine was put on hold after a participant fell ill. Later in the week, Pfizer dashed hopes for a coronavirus vaccine being approved before the election with an open letter explaining the company would not apply for regulatory clearance for its vaccine candidate until the third week of November at the earliest. The company's CEO wrote in the letter that while the company projects it may have enough data to determine whether the vaccine is effective in October, there will not be sufficient safety follow-up to satisfy criteria laid out by the Food and Drug Administration until late November.

Economic Roundup: It was a mixed bag in terms of data reports last week with the Labor Department reporting that jobless claims in the week ended October 10 jumped 53K to 898K, moderately above the 825K forecast by economists. Claims have now been stock in the mid-to-upper 800K range for seven consecutive weeks. Meanwhile, the Philly Fed's General Business Activity Index jumped 17.3 points in October to 32.3, its highest level since February, and more than double the consensus forecast of 14.0. Separately, the Empire State General Business Activity Index inched down 6.5 points in October to 10.5 but still indicates continued expansion for the fourth consecutive month. Orders, shipments, and employment all ticked higher. Both the consumer and producer price indexes showed that price inflation remains subdued during the month of September, suggesting that the Federal Reserve should remain accommodative for the foreseeable future.

Market View: While volatility is likely to remain elevated in the weeks ahead, we maintain our positive view on the markets. 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 kick into high gear this week with 87 members of the S&P 500 scheduled to release results. Amongst this group are seven components of the Dow Jones Industrial

Average. On the data front, reports of interest include; September housing starts and building permits, initial jobless claims, the leading economic indicators index for September and September existing home sales, published by the Census Bureau. Also, noteworthy will be the release of the Federal Reserve's periodic Beige Book report on Wednesday. Thursday will bring the third and final Presidential debate between President Trump and former VP Joe Biden.

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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