November 2, 2020

Weekly Viewpoint

It's Showtime - the Election is Finally Upon Us

Performance for Week Ending 10.30.2020

The Dow Jones Industrial Average (Dow) finished off 6.47%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) lost 5.78%, the Standard & Poor's 500 Index (S&P 500) dipped 5.64% and the Nasdaq Composite Index (NASDAQ) shed 5.51%. Sector breadth was negative with all 11 of the S&P sector groups closing lower. The Industrial sector (-6.52%) led the way lower followed by Technology (-6.47%) and Consumer Discretionary (-6.23%).

Index*	Closing Price 10/30/2020	Percentage Change for Week Ending 10/30/2020	Year-to-Date Percentage Change Through 10/30/2020
Dow	26501.60	-6.47%	-7.14%
Wilshire 5000	33724.82	-5.78%	+2.55%
S&P 500	3269.96	-5.64%	+1.21%
Nasdaq	10911.59	-5.51%	+21.61%

Market Observations: 10/26/20–10/30/20

Stocks finished lower for a second straight week reflecting a global surge in Covid cases, election uncertainty and the stalemate in fiscal stimulus talks. The selling pressure also left the major indices in negative territory for the month of October, the second consecutive monthly decline. Last week's losses were broad-based with all 11 of the S&P 500 sector groups falling by at least 3 percent. Investors shrugged off a favorable batch of earnings reports from mega-cap Tech stocks and instead were more focused on de-risking portfolios ahead of the election. Even safe-haven investments like Treasury bonds came under pressure with the yield on the bellwether 10-year note rising to the highest level since early June (note: bond prices and yields move in opposite directions).

After posting sharp gains off the March lows, the markets appear to be caught in a period of price discovery, with investors trying to gauge what has already been discounted in stock prices and what is likely to come to fruition in the months/quarters ahead. There are many know unknows that investors are grappling with right now, including: the economic toll of the recent surge in Covid cases; the outcome to the presidential election; and, the timing of a vaccine. The good news is that the election will be behind us in the weeks ahead and according to Dr. Anthony Fauci, a vaccine could emerge before the end of the year. While portfolio de-risking could continue in the near-term, its important to remember that markets look ahead. In other words, we should look beyond the next 3 to 4 weeks to how things are likely to look three to four quarters from now. At that point a vaccine should be readily available, and the political uncertainty should be well behind us. In addition, regardless of the election outcome, a new fiscal stimulus package is highly likely in the months ahead.

Technical Support Levels for the S&P 500: In effort to gauge further downside risk in the market I like to turn to the Technicals (the study of price patterns). While Technical Analysis should be viewed more as a "windsock" than a crystal ball, trading professionals on the front lines tend to use Technicals to help shape and define risk. Remember if enough eyeballs are focused on something then that something becomes important. In this exercise we try to identify past levels of support or areas that selling pressure dry up. For the S&P 500, the most immediate level is 3233 (Friday's intraday low); that's followed by 3220 (marks a 10% correction level from 9/2/20 all-time high); next is 3200 (the September low where selling pressure dried up); and lastly, 3129 (the 200-day moving average) - stay tuned.

Q3 EPS Roundup: With over 60% of the members of the S&P 500 already reporting Q3 earnings, overall results have been better than feared. Through Friday, 320 members of the S&P 500 have reported earnings with 85% surprising to the upside. Aggregate earnings growth is off 8.2%, but solidly ahead of the forecasted 22% decline at the start of reporting season. The better than anticipated results have led to upward revisions to forward earnings expectations with both 2020 and 2021estimates solidly ahead of where they were just a couple months ago.

Market View: Stocks are likely to remain choppy until we get clarity on the outcome of the election and make up of Congress. While the polls have been shifting, the majority of them continue to indicate that a "blue wave" is the most likely outcome. However, uncertainty remains elevated and 2016 polling data ahead of the election remains fresh on investors' minds. With that said, we continue to maintain a favorable outlook for the markets and feel that any election related weakness 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 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 sees another busy calendar for markets, with the US election as the main event. The two-day FOMC meeting will also be watched closely, although expectations are for the meeting to be uneventful as the Fed has already committed to keep rates lower for longer. In terms of the election, it seems doubtful that a winner will be named by Tuesday night, although it is possible, we may know composition of the Senate. On the data front, the focal point will be the October payroll report on Friday. According to Bloomberg, nonfarm payrolls are expected to expand by 600K, and the unemployment rate is forecast to fall to 7.6% from 7.9% during the prior month. Other reports of interest include; the Institute for Supply Management's (ISM) October manufacturing index, September construction spending, October motor vehicle sales, the ISM October services index, and third-quarter productivity. Third quarter earnings season will remain front and center with 125 members of the S&P 500 scheduled to release results.

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.