Market Commentary – October 2020

For the third quarter, we ended with a positive quarter despite a sell-off led by the technology stocks in September. This was the second consecutive quarter with strong market gains. The strongest was the NASDAQ posting over an 11% gain, the S & P 500 was up 8.5% followed by the DOW ending up 7.6%.

The employment numbers continue to improve, but recent spikes in positive COVID cases may impact the fourth quarter. As of mid-September, there were 11.8 million individuals claiming Pandemic Unemployment Assistance benefits and 1.8 million claiming Pandemic Emergency Unemployment Compensation benefits. The economy is expected to continue its slow, upward trend in October. The balance of the year is not clear at this point, depending on vaccine development and the election. Additional stimulus legislation is bogged down in congress and the prospects of getting anything to the public that needs it probably will not materialize until after the election. There are just too many unknowns at this point to make any prediction based on likely outcomes.

Of the many companies working on a vaccine, only two have any chance of filing the EUA of a coronavirus vaccine candidate in time for FDA authorization by the end of 2020. The first is a joint venture between Pfizer and BioNTech and the second is Moderna. Whether either of these candidates files in time is still unknown and the chance of us having a vaccine available to the public before year end is slim. Most agree that once a vaccine is available and in use, the economy will be able to see dramatic decreases in new cases and the economy will accelerate reopening. This is the pivot point most analysts agree on to see sustainable economic recovery.

I have observed different attitudes about the virus from so many different people. Some do not take it seriously because it is just another invisible threat like so many we have learned to live with. It reminds me of a story a client told me about a family Thanksgiving dinner. The family all sat down to eat, but the grandmother reminded her four-year-old granddaughter to wash her hands and then come back to the table to say thanks for the meal before they could start. The young girl responded by saying; “Germs and Jesus! That’s all I hear about and I can’t see either one of them!” So it is with the virus; it doesn’t seem as real to some until a friend, relative or someone they work with gets it. Then it is very real. I do not believe we should live in fear, but I do think we each need to think of others and practice those things we can do to protect ourselves and others.

I would like to look at the upcoming election and make some observations and then make a comment on our take of what would be a prudent course of action. The date November 3 will not be a date that marks a market event or a point in time that everything changes. This election has some unique characteristics and is in many ways like many before.

This election is going to be a mess. The polls are changing, the electorate is polarized more than I can remember, and the media is as political as any candidate. A mess because we probably will not know the results for days or even weeks. In addition, either candidate will likely protest and appeal the results. A smooth transition is something we cannot take for granted. Without going into a lot of detail about one platform vs the other and what the likely economic impact of either would be, it is safe to say that there are significant differences in the party platforms. The big question on everyone’s mind is “What do we need to do in order to prepare for election?” We have all heard the campaign proposals that have prompted this question. Campaign proposals are just that; statements or promises to the electorate to influence their vote. We do not recommend making changes to tax and financial plans based on campaign proposals. However, most advisors agree that we should be prepared to act once the election has concluded and those proposals become legislative proposals rather than campaign proposals. A lot of proposals will never become law, and the legislative process will provide adequate time to make changes to financial plans and tax planning.

A broad comparison of Trump and Biden proposals clearly indicate that if Biden were to win, and all his campaign proposals became law, significant planning would be required to minimize taxes. The road between proposal and law can be lengthy and they may never become law. The composition of the Congress is also a factor. With Republicans controlling the Senate and Democrats having the majority in the House of Representatives, this division will not facilitate speedy legislation. Even if Democrats were to win control of both chambers of Congress, the party is not uniformly in favor of all Biden's proposals. A win for Trump would probably not mean major changes to the tax law. Most of his proposals are not detailed and are a continuation of his first term's policies.

Campaign proposals land solidly in the "noise" category. Just like the "noise" of the marketplace, they can create hope, fear and even confusion. It can be difficult to ignore the noise because it is funneled every day through the media and anyone who claims to have information can influence us toward their objective. Real information should be the basis for significant changes. History supports that making short-term bets on an election outcome is very risky. There simply is no clear relationship between a variable, in this case the election, and financial market's performance. Of all the concerns out there, taxes, business regulation, health care, foreign policy, and the national debt, most of the noise and concern has centered around taxes. Any new tax legislation will take months and will probably not be retroactive to January 1, 2021. Other events, such as the virus, trade policy and geopolitical events pose just as real a risk to market volatility as the election. I remember when Mark Cuban, the famous investor on Shark Tank, publicly stated that if Trump won in 2016 it would crash the market and he shorted his equity positions. That prediction cost him millions. I know several people who took his actions to heart and followed his lead. His "noise" also cost them.

If we look at the historical record of how the market performed during Democratic and Republican President's time in the White House, it shows some interesting results. $10,000 invested in 1900 only when Republican presidents were in office would have grown to nearly $99,000. That same amount invested when Democratic presidents were in office would have grown to nearly $430,000. But the same amount invested the entire period regardless of who was president would have grown to more than $4.2 million.

It has been said that the economy impacts elections more than elections impact the economy. If we look at every election since 1900, and specifically those with a bear market or a recession (20% or greater decline), there were 14 elections that met those criteria. In nine of those cases, the incumbent president lost the election and five won the election. In all sixteen election years since 1952 during a bear market or a recession the incumbent lost the election. Of the 16 elections since 1952 when there was neither a recession or bear market, the incumbent won thirteen times and only lost three times. Using this record of past elections, we can see that presidents have less control of the markets than the markets have of who wins the election.

Yes, this election is going to be a mess. It will be creating more division and polarization in congress and among people we know. When the noise is over, the results are conclusive and any new legislation is likely to become law, then will be the time to adapt to the changes. However, if events leading up to the election cause unusual volatility and create panic that threatens long term goals and exceeds risk tolerances, then portfolio changes can be made quickly. The noise will increase and get louder. Even as the Presidential debate tonight is ending, I can hear the volume going up.

Thank you for the trust you have placed in us and allowing us to be a trusted advisor. As I have said many times, your trust is our most valuable asset. Please call with any questions you have concerning your portfolio or if you would like to change your risk tolerance. This has been a challenging year for all of us and we have learned a lot about ourselves as we have adapted to the events of the pandemic, the violence and how it has affected us. Please stay safe and healthy. We look forward to being able to visit with you and address any concerns you may have. Also, if you have not done so already, please contact our office to set-up your client portal.

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Schwab Alliance: 800-515-2157

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Please take note of our upcoming holiday office closures:

Wednesday, November 11, 2020 (Veteran's Day)

Thursday & Friday, November 26-27, 2020 (Thanksgiving)

Friday, December 25, 2020 (Christmas Day)

Friday, January 1, 2021 (New Year's Day)

Monday, January 18, 2021 (Martin Luther King Day)

Monday, February 15, 2021 (Presidents' Day)

OFFICE HOURS

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Monday – Friday

8:00 a.m. – 4:30 p.m.

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