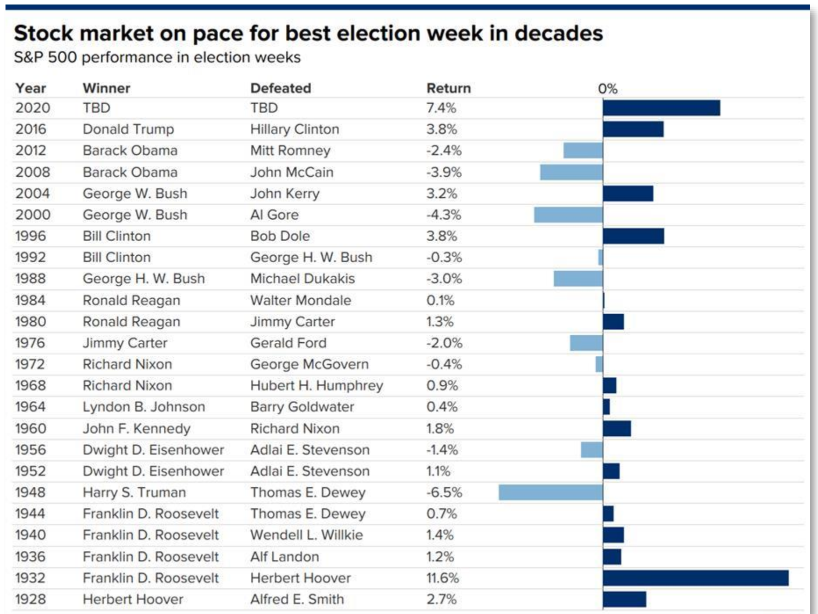
November 06, 2020

The Markets & the Economy - What We're Watching

Top Theme of the Week:

- A busy week: unclear Presidential election results, strong jobs report, positive stock market, and the Fed's message of continued support



Stock market on pace for best election week in decades
S&P 500 performance in election weeks

Year	Winner	Defeated	Return
2020	TBD	TBD	7.4%
2016	Donald Trump	Hillary Clinton	3.8%
2012	Barack Obama	Mitt Romney	-2.4%
2008	Barack Obama	John McCain	-3.9%
2004	George W. Bush	John Kerry	3.2%
2000	George W. Bush	Al Gore	-4.3%
1996	Bill Clinton	Bob Dole	3.8%
1992	Bill Clinton	George H. W. Bush	-0.3%
1988	George H. W. Bush	Michael Dukakis	-3.0%
1984	Ronald Reagan	Walter Mondale	0.1%
1980	Ronald Reagan	Jimmy Carter	1.3%
1976	Jimmy Carter	Gerald Ford	-2.0%
1972	Richard Nixon	George McGovern	-0.4%
1968	Richard Nixon	Hubert H. Humphrey	0.9%
1964	Lyndon B. Johnson	Barry Goldwater	0.4%
1960	John F. Kennedy	Richard Nixon	1.8%
1956	Dwight D. Eisenhower	Adlai E. Stevenson	-1.4%
1952	Dwight D. Eisenhower	Adlai E. Stevenson	1.1%
1948	Harry S. Truman	Thomas E. Dewey	-6.5%
1944	Franklin D. Roosevelt	Thomas E. Dewey	0.7%
1940	Franklin D. Roosevelt	Wendell L. Willkie	1.4%
1936	Franklin D. Roosevelt	Alf Landon	1.2%
1932	Franklin D. Roosevelt	Herbert Hoover	11.6%
1928	Herbert Hoover	Alfred E. Smith	2.7%

What a week it has been. We noted in last week's email that we expected the road to the next President was going to be a wild ride and it certainly has been! While election voting has finished, the tallying of votes is still in progress in some states, and legal battles are surfacing regarding the voting results. Uncertainty may still remain in our election results, but the stock market is already celebrating - reigning true the old saying "it's policy, not politics, that matters to Wall Street." Investors appear to be looking past the presidential race and rather on the liklihood of another divided Congress that would avoid any dramatic changes to the policies that created economic growth and low unemployment prior to the COVID-19 crisis.[1]

2020 has been a year of many stresses. During these moments of stress we have been asked by our clients how one should look at investing in advance of events that are unknown. As we have stated previously, the reality is investing in the equity markets can be a bumpy ride on occasion and it is important to keep in mind your long-term view. Those that are successful commit themselves to that ride and prepare for the ups and downs. There is no better example of said bumpy ride than 2020. After a tremendous year in 2019 in the markets with historically low volatility, we have been on one wild ride in 2020. We started out positive only to be hit with an exogenous shock, a global pandemic that created a dramatic and historically swift selloff in March. This was followed by an extremely powerful government fiscal and economic response that led to an equally historic snap back recovery through the summer. This decline and recovery was not only historic for the markets, but also for the economy. The markets then started to swoon a little in September as fears of the virus returning (as it has) set in. Unfortunately, and as predicted, a resurgence of the virus did return and new cases are at all-time highs. However, the market seems to be willing to live with the fact that better treatment options are reducing deaths and hospitalizations in the short term as it awaits more goods news on a vaccine and a stimulus bill, hopefully just around the corner.

[1] Image Source: CNBC analysis of data from FactSet (market data), Encyclopedia Britannica (election dates and candidates). Data through market close on Nov. 5, 2020

Click HERE to read IMG's latest Monthly Market Watch.

Speaking of another round of stimulus, the Federal Reserve met and released a statement this week stating that they will keep rates where they are and continue to use their full range of tools to support the economy on its path to recovery. Furthermore, they will in the future allow inflation to run above its target for some time to help ensure a full recovery. In an effort to assist in creating stability in the markets and the economy, they will continue to purchase $120 billion a month in bonds, including $40 billion a month in mortgages, to keep rates low and stable. Chairman Powell in his remarks after the meeting referenced the importance of the fiscal stimulus measures enacted earlier this year, and indicated it would be very welcomed and helpful if Congress could pass additional fiscal stimulus to take some of the stress off of monetary policy. His comments steamed clear of political elements of the current bill being negotiated.

Our path to recovery continues, and we saw some promising results in the monthly Jobs Report released today. The economy added 638,000 jobs vs the 530,000 expected. The bigger surprise was that unemployment went from 7.9% down to 6.9% vs the 7.7% expectation. In addition, the labor force also expanded as participation ticked up 0.3% and part time workers seeking full time work also declined. The prior two months were also revised slightly up, but the rate of job growth has declined every month since June. This week of economic numbers appears to be a reflection of what we are seeing in the economy and what Chairman Powell was saying in his press conference this week. As stimulus has worn off and the service sector tries to continue to recover in the face of the virus resurging, we have risks that must be navigated at least for a little while longer.

A year like 2020 and all it has thrown our way is breeding ground for questioning ones approach to investing amid the emotional roller coaster it has caused. It is important to remember that investing is a long-term endeavor. Therefore, it is often wise to fight your instincts to trade in the course of current events because doing so would more often than not be a detriment and negative impact to your long-term plan. Stay the course – we are with you on this ride and always working to protect your long-term plan.

For questions or more information, please contact your local IMG professional. For additional insights from IMG experts, please visit our new website's Insights page and follow us on LinkedIn.

Commentary is reflective as of the close Thursday, November 05, 2020.