Despite COVID-19 Uncertainty, Good News for Earnings and GDP

The market through October continued to make the case for a steady approach to investing, especially as we find ourselves in a historically volatile time – the months surrounding a U.S. presidential election – amid a historic, complicated year.

In general, we remain optimistic, even as the market has experienced mixed news dominated by the pandemic and the responses to it.

Improving economic activity and promising corporate earnings helped the S&P 500 start to climb out of its September gloom. However, those gains were met with increasingly concerning reports of a third wave of COVID-19 outbreaks across the U.S., with a record rate of new cases reported, and a resurgence of the virus in Europe. It all feels a little one step forward, two steps back – but that has been the case for most of 2020.

As a result, the S&P 500 has closed lower for the second consecutive month. But, "despite the decline in equity prices, the credit market has shown little sign of stress," Raymond James Chief Investment Officer Larry Adam said, a sign of underlying confidence.

Fiscal stimulus remained a hope, but as the month continued, investors' expectations seemed to cool, adding to government-related uncertainty as the election drew closer.

If President Donald Trump is reelected, we could see a package before the December 11 government funding expiration date, Washington Policy Analyst Ed Mills said. A Democratic sweep would likely result in a larger package, he added, but it may come in stages through the early part of 2021. [I/We] believe the biggest market risk is a prolonged, uncertain or contested election.

Though October ended with broad reductions across the mainstream market indices, it's important to remember that even with the uncertainty and volatility of the year, investors have managed to hold the line, showing an optimistic, if cautious, view of the future. Here are the numbers:

	12/31/19 Close	10/30/20 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	28,538.44	26,501.60	-2,036.84	-7.14%
NASDAQ	8,972.61	10,911.59	+1,938.98	+21.61%
S&P 500	3,230.78	3,269.96	+39.18	+1.21%
MSCI EAFE	2,036.96	1,780.08	-256.88	-12.61%
Russell 2000	1,668.47	1,538.48	-129.99	-7.79%
Bloomberg Barclays Aggregate Bond	2,225.00	2,367.17	+142.17	+6.39%

Performance reflects price returns as of market close on Oct. 30, 2020. MSCI EAFE and Bloomberg Barclays Aggregate Bond values represent Oct. 29 closing price.

And here's a brief look at some other points of interest across the economy and the world:

Gross domestic product rebounded in third quarter

The gross domestic product saw a record increase from July through September, reversing about two-thirds of the plunge it took in the second quarter. Housing and durable consumer goods made up the bulk of the gain, with the service economy continuing to struggle.

Corporate earnings above expectations

There are good reasons to see the recent pullback as an opportunity to buy while keeping in mind that volatility could remain high in the near term, said Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy. With about one-third of earnings season to go, third quarter earnings results have come in well above expectations, leading to a 13.4% increase in full-quarter estimates so far.

Fixed-income investments snap back to safety

The election, the pandemic and their economic consequences have spurred uncertainty among fixed-income investments, as well. Yield curves steepened through the month as investors seemed to get comfortable with the idea of forthcoming stimulus and reacted rapidly when those expectations diminished, said Doug Drabik, managing director, fixed income research. The 30-year versus 1-year Treasury retracted swiftly as we saw a return to safe-haven investments.

European and Asian markets show different virus impacts

European market indices have taken a hit as new restrictions are implemented and fears about the economy have risen, said European Strategist Chris Bailey. In Asia, led by China, markets are trading flat-to-upward as pandemic concerns abate.

"As international equity markets typically remain more lowly valued than their American equivalents, this highlights a potential diversification role they can play in investors' portfolios," Bailey added.

European Union carbon law moves forward

Pending European Union legislation that would set a net-zero carbon dioxide emissions target of 2050 was approved by environment ministers this month. The law would also expand the current decarbonization requirements for 2030. A final decision will be made December 10 and 11.

The bottom line

In a normal year, it's not uncommon to see the S&P 500 experience three or four pullbacks of 5% or more. As fatigue about COVID-19 and the election diminish, we expect to see the market focus more closely on fundamentals, which we believe will improve as we move into 2021.

We hope this message finds you well. Thank you, again, for the trust you have placed in us. If you have any questions or concerns, please do not hesitate to reach out.

index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The Russell 2000 is an unmanaged index of small-cap securities. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. An investment cannot be made in these indexes. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss.

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