CLIENT BRIEFING

QUARTERLY ECONOMIC COMMENTARY | Q3 | 2020

Although not as strong as the previous quarter, market gains for the 3rd quarter were still very good overall. The continued rally in stocks was driven by a huge government fiscal and monetary response, positive trends in new COVID cases, and hopeful news about the efficacy of vaccines and treatments. These factors allowed investors to look past the steep recession that began in March and envision a gradual economic and earnings recovery.

The best performing asset classes through this quarter were US large cap stocks, emerging market stocks and treasuries. Overall, bonds are still winning the race this year, with gains coming from the relaxed monetary policy of the Federal Reserve, which has pushed down yields. In general, large companies, like those found in the S&P 500 blended index, are up 5.6% for the year, while treasuries and investment grade corporate bonds increased 9% and 7% respectively. Among larger companies, growth continues to outpace value, fueled by leading technology companies like Apple, Microsoft, Netflix and Zoom. Surely, the shift to remote learning and virtual work has boosted demand for technology products and services worldwide. While it might surprise that the consumer discretionary sector also did well this quarter, it's really on account of Amazon, which now comprises 23% of this sector. The worst performing categories this quarter were small cap stocks, international real estate and natural resources.

The key market events shaping this quarter were the uncertainties surrounding the Presidential and Congressional election in November, the Federal Reserve's new mandate to keep rates low for longer, and whether the V-shaped recovery can continue into 2021. Historically, the best backdrop for stocks is a split government whereby the President's party does not have majorities in both the Senate and the House. Some analysts say a Biden presidency would be more stable and predictable, with a moderate trade policy and a huge stimulus in early 2021. But that seemingly overlooks the looming tax hikes that he has proposed, including taxing corporations at 28% and taxing capital gains as ordinary income for high earners. Under a new mandate announced by Fed Chair Jay Powell in August, interest rates are likely to remain low, even if inflation rises above the Fed's target of 2%. This easy monetary policy favors owning stocks over bonds. For now, the markets appear to be pricing in additional government stimulus, which will impact whether a V-shaped recovery can continue into next year. There is still much doubt about how certain hard-hit industries like travel and hospitality will emerge from the pandemic.

With so much uncertainty, investors may be tempted sell and hold cash for a while. However, we believe the stock market has already factored in many of these risks and is now looking forward to a time when an effective vaccine can lift us out of recession. If you have any questions, let's have a conversation. We'd love to hear from you.

Miller Wealth Advisors

Planning for life. Preparing for a lifetime.

Sources:
- Barron's Hedging Your Portfolio as Election Approaches, 9/7/20
- Wall Street Journals Bonds Beat Stocks in Topsy-Turvy, 9/29/20
- Valmark: TOPS Quarterly Forum, 10/8/20