Keeping focused on your long-term goals

Market Commentary | Week ending October 30, 2020

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Weekly Market Performance Snapshot (Week ending October 30, 2020 / Month of October 2020 / Year-to-Date)

- Dow Jones Industrial Average®: -6.5% / -4.6% / -6.9%
- S&P 500® Index: -5.6% / -2.8% / +1.2%
- NASDAQ Composite® Index: -5.5% / -2.3% / +21.6%
- Russell 2000® Index: -6.2% / +2.0% / -7.8%
- 10-year U.S. Treasury note yield on October 30, 2020: 0.875%
  - Up 3.4 basis points from 0.841% on October 23, 2020
  - Down 104.5 basis points from 1.92% on December 31, 2019
- Best-performing S&P 500 sector this week: Utilities, -3.7%
- Weakest-performing S&P 500 sector this week: Industrials, -6.5%
- Best-performing S&P 500 sector this month: Utilities, -3.7%
- Weakest-performing S&P 500 sector this month: Technology, -5.2%

Past performance is not a guarantee of future results.

Stocks fall on stimulus disappointment and renewed COVID-19 fears

Equities fell sharply over the course of the week as Thursday's strong report on third quarter GDP failed to erase concerns about the direction of the U.S. economy. Hopes for a pre-election stimulus agreement have faded and concerns about COVID-19 have grown. The major equity indices experienced their steepest weekly losses since March. They also suffered consecutive down months for the first time since March. Only the small-cap Russell 2000 Index managed a gain for the month of October. The yield on the 10-year Treasury rose more than 19 basis points in October, its largest monthly increase in more than two years.

- The first reading on third quarter (July-September) GDP showed the U.S. economy growing 33.1% on an annualized basis. This follows a 31.4% decline in the second quarter. Both figures were the largest in history. GDP remains about 3.5% lower than at the start of the year.
- The robust bounceback in Q3 was driven by consumer spending. However, personal income declined in the quarter as federal stimulus and enhanced unemployment payments came to an end. Consumers appear to have drawn down savings or borrowed to support spending.

Continued on back

- Given the correlation between federal stimulus and economic growth, the lack of additional stimulus since the summer has markets worried about the economy's strength in the fourth quarter. Economic uncertainty is preventing markets from generating lasting momentum. The S&P 500 is now trading at the same level it did in early August, and about 9% below its most recent peak on September 2.
- Economic and market uncertainty could extend into January, depending on how the election affects the dynamics around stimulus discussions, and on the status of COVID-19 outbreaks and vaccine development.
- The pandemic is showing renewed strength as we head deeper into autumn. Rising infections are fueling concern that localized U.S. lockdowns could return and dampen economic activity. France and Germany imposed month-long lockdowns to tamp down growing infections. The European Central Bank said it will assess the economic effects of the disease and lockdowns and could provide additional monetary stimulus at its December meeting.
- Several major tech companies – Amazon, Apple, Alphabet (Google's parent), Facebook, and Twitter – issued earnings reports that revealed continued growth in revenue and income. However, expectations were high ahead of the reports and the market was disappointed in some of the details. Apple reported weak iPhone sales. (New iPhones were unveiled after the quarter ended.) Facebook reported a decline in active users in the U.S. and Canada, and Twitter reported a smaller than expected increase in users. All five companies' stock prices ended the week down.

Election results could produce market ripples, but long-term effects will take time to sort out

Tuesday's elections will determine the balance of power in Washington. Elections are typically market-moving events, although the immediate market reaction may be short-lived.

- While the presidential race generates the most attention, the U.S. House and Senate are also up for grabs. The House is expected to remain under Democratic control, but the Senate could flip from the current 53-47 Republican majority.
- Full election results likely won't be known right away. More than 85 million ballots have already been cast, but different states and localities have different timelines for counting. In addition, some states will accept mail-in ballots that arrive after Election Day.
- Several Senate races could require recounts or additional voting. For example, Georgia requires the winner of statewide races to receive at least a 50%-plus-one share of the vote. If no candidate reaches that threshold, a runoff election will occur on January 5. The state could potentially have two runoff elections for the Senate. As a result, we may not know which party has a Senate majority until early January.
- Regardless of the outcome, two issues with potentially significant impacts on markets appear teed up for early 2021: additional pandemic response, including fiscal stimulus; and increased regulation for big tech companies, which is attracting growing bipartisan support.

Final thoughts for investors

Be patient as election results come in and analysts discuss the possible market implications of various political scenarios. Markets adapt and short-term reactions don't necessarily foreshadow longer-term results. Speak with a financial professional about how to avoid headline-driven investing and stay focused on your long-term goals.

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