

QUARTERLY Market TALK

3RD QUARTER - 2020

The momentum generated at the end of Q2 pushed markets to new highs in Q3. As we enter the last quarter of 2020, look for continued improvement in the economy and ongoing volatility-related politics, civil unrest and lingering questions about the coronavirus.

UPWARD TRAJECTORY

The third quarter of 2020 continued building on the momentum from Q2, which began back in May as the country began slowly reopening and the federal government stimulus took hold. Despite the initial progress in early summer, the second quarter still went down as one of the worst quarterly GDP readings in history, down a whopping 31.4%.¹

Even with that dismal beginning, Q3 was nowhere near as depressing economically as the preceding four months. In May, we received official confirmation that we were in a recession — not a surprise to anyone, given the events of the first half of 2020. As we headed into June, however, it became clear that the recession would be short-lived; Q3 GDP estimates currently range from a positive 21% to 35%.²

Growth over the third quarter can partly be attributed to positive jobs numbers. As the shutdown ended, Americans began returning to work and new unemployment claims slowly dropped. Monthly job creation (or re-creation) was robust over the summer, with 10.6 million jobs added back to payrolls from May through August.³ With enhanced federal unemployment benefits running out, job seekers returned to work and our economy got the boost it desperately needed.

We experienced a slight scare around the Fourth of July holiday as a second wave of COVID-19 infections threatened to derail the recovery. Thankfully, the second wave wasn't as bad as experts feared: States administered more widespread testing and people followed the basics for staying safe by wearing masks, following social-distancing guidelines and self-quarantining if they had COVID-19 symptoms.

Overall, we have moved in the right direction during the third quarter. Unemployment continues to tick down; many economists thought unemployment would remain above 10% until 2021, but it dropped to 8.4% in August⁴ and is expected to come in lower for September. The numbers have fallen even though the largest metropolitan areas — New York, Chicago and Los Angeles — have remained mostly closed and are still dealing with riots, violence and civil unrest.

The U.S. stock market was the other major story for Q3. After so many doom-and-gloom predictions, by August the three major stock indices were positive for the year. The Nasdaq and S&P 500 even posted new records⁵ and the Dow broke 29,000 in September for the first time since February.⁶ The run-up was fueled by technology stocks, which benefited greatly from people working, shopping and entertaining themselves at home. As people ventured out, the broader market took flight and quashed the dire predictions of a prolonged bear market.



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Equity Performance as of Oct. 1, 2020					
Equity Index	3-Month	YTD	1YR	3YR	5YRS
S&P 500:	8.47%	4.09%	12.98%	10.11%	11.86%
Nasdaq:	11.02%	24.46%	39.61%	19.79%	19.31%
DJIA:	7.63%	-2.65%	3.21%	7.43%	11.27%

Source: Morningstar. Index Performance: Return (%). <http://news.morningstar.com/index/indexReturn.html>. Accessed Oct. 1, 2020.

LOOKING AHEAD

As we enter the final quarter of the year, will we continue the trajectory of Q3? The economy and the unemployment picture should continue to improve in response to cities reopening and more people getting back to work. There is also talk of a potential vaccine to be available by the end of October, which would help reopening plans.

However, volatility will most likely persist in Q4, and “caution” is the keyword for the remainder of 2020. Factors that could roil markets include Congress’ success or failure in agreeing on additional stimulus funds, continued shutdowns in some states and ongoing protests and violence across the country.

Elections and the actions of our political leaders will also have a heavy impact on the markets over the next few months. Much has been made of the security of mail-in voting and other electoral matters, issues that could lead to messy election results and cast doubt on who will be leading our country.

If you are a long-term investor and are comfortable with your plan, the best course of action is to stay the course. If the past nine months have been too tempestuous for your liking, or if you felt anxious or stressed regarding the markets, talk with your financial professional immediately. If your outlook and risk profile have changed, consider allocating to a more conservative strategy. Your portfolio might lag behind the markets, but you will experience less personal volatility no matter which way the markets move.

Fortunately, we have made it through the bulk of 2020, and 2021 is just around the corner. We are optimistic that markets will move higher as we finish out the year, but volatility will continue testing investor resolve. Your financial professional can provide you with perspective and remind you that better things always lie ahead.



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¹ Bureau of Economic Analysis. July 30, 2020. "Gross Domestic Product, Second Quarter 2020 (Advance Estimate) and Annual Update." https://www.bea.gov/sites/default/files/2020-07/gdp2q20_adv_0.pdf#:~:text=Gross%20Domestic%20Product%2C%20Second%20Quarter%202020%20%28Advance%20Estimate%29,the%20first%20quarter%2C%20real%20GDP%20decreased%205.0%20percent. Accessed Sept. 21, 2020.

² Saloni Sardana. Business Insider. Sept. 11, 2020. "Goldman Sachs upgrades third-quarter US GDP forecast to 35% after stronger-than-expected August jobs report." <https://markets.businessinsider.com/news/stocks/us-gdp-q3-forecast-goldman-sachs-outlook-august-jobs-35-2020-9-1029581263>. Accessed Sept. 21, 2020.

³ U.S. Bureau of Labor Statistics. "Databases, Tables & Calculators by Subject." https://data.bls.gov/timeseries/CES0000000001&output_view=net_1mth. Accessed Sept. 1, 2020.

⁴ Megan Cassella. Politico. Sept. 4, 2020. "U.S. unemployment rate fell to 8.4 percent in August." <https://www.politico.com/news/2020/09/04/august-unemployment-numbers-jobs-report-408825>. Accessed Sept. 21, 2020.

⁵ Andrea Riquier. MarketWatch. Aug. 25, 2020. "Stocks finish higher; S&P 500, Nasdaq sweep to new records." <https://www.marketwatch.com/story/stocks-finish-higher-sp-500-nasdaq-sweep-to-new-records-2020-08-25>. Accessed Sept. 21, 2020.

⁶ Nicolas Vega and Thornton McEnery. New York Post. Sept. 2, 2020. "Dow Jones closes above 29,000 for the first time since February." <https://nypost.com/2020/09/02/dow-jones-closes-above-29000-for-the-first-time-in-months/>. Accessed Sept. 21, 2020.

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