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Looking Back at the Third Quarter and Ahead to the Fourth for 2020

Dear Investor,

Overall, it was a good quarter for investors with strong gains as a whole. As measured by S&P 500 the market was up 8.93% for the quarter. The first two months were strong, both here and abroad. September, however, was a difficult month, as expected, with markets down both here and abroad pretty much across the board. The reasons for both the good start, and the struggle of September, came from the same place – the pandemic.

The quarter started with the pandemic beginning a second wave. The daily spread rate and the daily case rate were both increasing, as the virus spread around the country. The testing situation was also deteriorating, with rate of positive tests increasing. During the quarter, though, the spread rate and the number of new cases steadily decreased, as control measures took effect again.

The decline in medical risks during the quarter helped push the economic recovery forward as well. States and businesses started to open again, and job growth came back in a big way. On top of that, Federal stimulus payments put money in the pockets of those most affected by layoffs. This helped consumer confidence start to recover, and brought business confidence back to pre-pandemic levels. The economy as a whole bounced during the third quarter, especially during July and August, and brought the markets back with it.

And then came September. During last month, the infection rates started to creep up again, in part due to the reopening of schools and universities, and people simply getting tired of social distancing. This reduced the effects of the medical improvements we had seen in the prior two months. Job growth slowed substantially, leaving roughly half of those who lost their jobs facing a much slower recovery, at the same time as the Federal stimulus payments stopped. With the rise in both medical and economic risks, markets dropped in the first half of the month, only to partially recover toward the end. While most of the third quarter was positive, those trends show signs of slowing, and even reversing, during the last month.

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Which brings us to the present. What can we foresee about the fourth quarter?

October could be difficult. While we enter the month with positive momentum, the same risks that hit markets in September are still there. Medical risks continue to rise, as outbreaks in many states continue to worsen and case growth continues to tick higher. The economic risks are also still very much in play, as job growth continues to slow and Federal stimulus remains stuck in negotiations. We could well see a market reaction to these risks like we saw in September. We also face risks from the pending election, in November. Beyond the current medical and economic risks, political disruption is very possible, and in fact markets are betting on a turbulent month that could well extend through the rest of the year. Looking at the fourth quarter as a whole, there are a lot of reasons to expect volatility. And, of course, there are risks outside the US, such as trade, China, and Europe. It could be a rocky ride.

While there are no signs the markets will turn immediately, the risks are rising and will likely take effect at some point. Looking back at the third quarter, we should be grateful for all the tailwinds, but looking forward to the end of the year we need to be aware that they won't last forever, and that the calendar is looking increasingly unfavorable.

That said, however, periods of volatility are normal in markets, and in fact are healthy as they allow adjustment to changing conditions. The risks we are now facing – medical, economic, and political – have waxed and waned over the year so far, so a difficult quarter will be nothing new. In fact, after the election, there is a good chance next year will look much better. We will have to wait and see, but for the moment be prepared for volatility – but also remember that it will pass.

Sincerely,

Mike

Mike Ovshak, CFP®
President/Owner

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