PASSAGE WEALTH™

September 2020 Market Commentary

At **Passage Wealth** it is important to us that you are well informed about what's happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

The first half of September has shown an increased level of equity market volatility as technology stocks pulled back. In the Nasdaq Composite Index, an official correction (-10% off the high) was reached in just four trading days – the fastest ever on record (1). Most experts agree equity markets have largely risen based on speculation and the expectation of further government stimulus. We believe that markets have a substantial chance to continue declining in the short-term as economic data has shown to be stubbornly weak from pre-COVID pandemic levels.

In a statement released on 9/16, the Fed said it decided to keep its policy interest rate at near-zero through at least 2023. They expect their approach will be appropriate until two things happen: labor market conditions return to the "maximum employment" and inflation has risen to 2% and "is on track to moderately exceed 2% for some time." The Fed also said it would continue to purchase at least $120 billion per month of Treasuries and agency mortgage-backed securities to help smooth fixed income markets and help "foster accommodative financial conditions." Markets initially reacted positively to the news of "low rates for a long time," then quickly turned south as investors saw such heavy-handed measures as a sign of strong economic headwinds.

Some economic data continues to recover, albeit at a lower rate. For example, U.S. consumers increased retail spending in August for the fourth straight month but at a slower pace than earlier in the summer. We expect consumer spending to remain slow due to the extreme level of purchasing in the early stages of the pandemic, especially those related to physical technology.

Unemployment continues to decline but is still at historically high levels (8.4% in August). However, many experts dispute the accuracy of that reading because of the millions of people that have decided to "leave" the workforce to stay at home with their school-aged children. Accounting for that anomaly (and others), some analysts report actual unemployment to be upwards of 11%(2).

Getting closer to the Presidential election, all eyes are on the economy as voters are most eager to hear from each candidate on how they plan to guide our country back to its previous condition. Beyond that, countless studies and analyses have shown(3) there is no benefit to basing your investment philosophy around which political party is in power. Current analytics have Joe Biden with a polling edge over President Trump, especially in the all-important swing states(4).

Bottom line: Our expectation is for economic data to gradually improve off the April lows and for market levels to gradually decrease from the September highs until an “equilibrium” balance between the equity market and the economy is reached. This process is generally slow-moving, and there is a chance that we may not reach a balance until mid to late 2021. In the short-term, we expect continued volatility through the election and maintain a defensive approach to investment allocations due to the high level of unknowns.

(1) DeCambre, M. (2020, September 8). The Nasdaq just marked the fastest 10% plunge in history--again. MarketWatch. https://www.marketwatch.com/story/the-nasdaq-just-marked-the-fastest-10-plunge-in-historyagain-11599597345

(2) Lacurci, G. (2020, September 8). Why the real unemployment rate is likely over 11%. CNBC. https://www.cnbc.com/2020/09/08/why-the-real-unemployment-rate-is-likely-over-11percent.html

(3) French, B. C. (2020, July 10). Are Republicans or Democrats Better for the Stock Market? McLean Asset Management. https://www.mcleanam.com/are-republicans-or-democrats-better-for-the-stock-market/

(4) Breuninger, K. (2020, September 18). Biden’s national polling lead shrinks slightly, but swing states show signs of trouble for Trump. CNBC. https://www.cnbc.com/2020/09/17/biden-polling-lead-shrinks-slightly-but-swing-states-show-signs-of-trouble-for-trump.html

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