



September 9, 2020

## MARKET PULSE

- Equities rose today, led by increases in the Information Technology and Materials sectors.
  - The S&P 500 rose by 67 points, or 2.01%, to close at 3,398.96.
  - The Dow Jones Industrial Average (Dow) was up 439.58 points, or 1.60%, to close at 27,940.47.
- Non-U.S. markets were mixed: The Nikkei 225 (Japan) was down 1.04%, and the DAX (Germany) was up 1.98%.
- Treasury rates rose with the U.S. 2-year Treasury settling at 0.14%, and the U.S. 10-year at 0.71%.

## CATALYSTS

- September has historically been one of the two most volatile months of the year, and the S&P 500 has averaged a decline of 0.5% in September since 1950. From September 2 through September 8 of this year, the S&P 500 declined 6.9%, and the technology-heavy Nasdaq 100 fell -10.9%, before recovering part of these losses today. Stock markets have staged a strong recovery from their lows in March, so in some ways, this move down can be interpreted as a natural “pause” in this positive momentum. Today’s advance was, in part, investors taking advantage of the recent weakness in equity markets to “buy the dip.” That said, several [topics](#) will continue to weigh on investors, and we expect market volatility to remain elevated in the run-up to the elections: (1) economic and personal recovery in the second half of 2020, (2) a COVID-19 vaccine, (3) the elections, and (4) a refocus on traditional drivers of growth.
- From its peak on February 19, the S&P 500 fell 33.9% to a recent low on March 23. Since then, it has returned 51.9%, just above the 51.1% needed to return to its peak.<sup>i</sup> The market recovery can be attributed to a number of factors. First, we’ve seen unprecedented monetary and fiscal stimulus measures to support the economy, along with a signal of continued support from both the Federal Reserve and federal government. While the reopening of businesses and other activity across the country has been sometimes sporadic, overall, the reopening is going well, with people and businesses learning how to engage while taking measures to stay safe from the coronavirus. Optimism for a vaccine has grown, with many expecting one to be available in late 2020 or early 2021.

## INVESTMENT STRATEGY OUTLOOK

- Our current base case outlook, to which we assign a 60% probability:
  - The coronavirus has severely impacted consumers, businesses, and trade, and the U.S. entered a severe recession in the first half of 2020.
  - The record stimulus and thoughtful reopening plans combine to support economic recovery going forward.
  - Earnings growth turned severely negative but has started to recover in the third quarter.
  - A vaccine may be approved later this year, driving increased confidence in a recovery back to normal.
  - We see stocks, while remaining volatile, supported at these levels and possibly higher, though modestly.

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<sup>i</sup> While sometimes confusing, it is helpful to understand the arithmetic of compounding returns. \$100 subject to a 33.8% loss is worth \$66.2. By earning back 51.1%, the \$66.2 is then again worth \$100.

# SIGHT | LINES

MARKET PULSE

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Past performance does not indicate future results. **The Standard & Poor's 500 Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. **The Dow Jones Industrial Average** is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The **Nikkei 225** consists of the shares of the 225 largest companies in Japan. **DAX Index** consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange.

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