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Wealth Partners, LLC

MARKET COMMENTARY – OCTOBER 1, 2020

Don't tell me of facts, I never believe facts…nothing [is] so fallacious as facts, except figures. ~ Sydney Smith

At the risk of disappointing the long-departed Mr. Smith, we aim to do just that – convey a host of facts and even a few figures. (By the way, Mr. Smith was an English minister and humorist – yes, it is possible to be both at the same time).

Clients and acquaintances have approached us on multiple occasions in the past months as they probe for explanations for the meteoric rise in U.S. stocks since the March lows. We have shared our thoughts with some of you on an individual basis, and we'll do so briefly here for the good of the group.

With 2020 hindsight, the run-up was inevitable. Within days of the lockdowns, the Federal Reserve drove rates to zero and began buying all sorts of Treasury and non-Treasury debt. So, from the start all monetary hurdles were flattened. And in a perverse bit of bi-partisan support, Congress passed multiple trillions of dollars of spending bills. Fiscal stimulus was in high gear. And finally, during the lockdowns citizens retained hope that a loosening of restrictions was on the near horizon. Money and hope drove stocks higher.

The preceding analysis roughly explains what has gone on and why. But investors have their money at risk today for the future. Our list of the most important factors that will determine volatility and market direction in the coming months looks like this:

- The Length of a Contested Election
- Additional Fiscal Stimulus
- 3Q Earnings and Corporate Outlooks
- Vaccines, Lockdowns
- The Direction of Tax Rates in 2021

Contested Election. Unfortunately, even without shenanigans from either side, we seem bent on setting ourselves up for greater discord this particular election season. Mail-in ballots are prone to human error when completed and take longer to count. According to the Volatility Index (VIX), more than 1/3 of option investors believe a decision won't be rendered until after November 18th. The market loathes uncertainty and indecision. Therefore, the longer the election drags on, the more unsettling days we can expect in the market. And while we don't anticipate a decision on election night, we remain hopeful that enough folks physically vote on November 3 that an honest result can be rendered then and there. For the good of the country and markets.

Fiscal Stimulus. As of this writing, the two sides in D.C. are still far apart on passing additional stimulus spending. A tiny minority of lawmakers don't see the need now that the worst is behind us. But the majority have publicly stated a willingness to pass *something*. The Devil remains in the details as one side wants to spend multiple trillions more and the other leans toward a "frugal" $1.5 trillion. Though greater debt is a long-term threat to our nation (spending, defense, inflation, etc.), additional stimulus would act as a short-term accelerant in economic activity.

Earnings and Outlooks. Compared to a year ago, 3Q earnings are expected to be down handily. However, the amount of the expected decrease has steadily improved (i.e. it won't be as bad as feared). In March, most companies pulled all their guidance with regard to earnings this year. There was just too much uncertainty for managements to hazard a guess. Slowly, but surely, though, the number of companies offering earnings guidance has resumed. And while it is not back to the long-run average, it is about 25% higher than in 2Q. Most of those offering guidance, are suggesting things aren't as bad as they feared. And each earnings season there are several companies that report at odd fiscal quarters, giving us a little glimpse into the future. Of the 12 S&P 500 companies that have already reported their fiscal 3Q earnings, 11 have beaten expectations. All-in-all, there are reasons to be optimistic about the coming month of earnings.

Vaccines/Lockdowns. This can be very brief. If more CA-style lockdowns occur, economic activity and the market will suffer. If a viable vaccine is approved, the market will rally and the real economy may slowly build from there.

Tax Rates. The already lofty deficits exploded with this year's multiple stimulus bills and lower tax receipts. To maintain a solid credit rating and remain credible on the world economic stage, one or two things must occur. At some stage, U.S. tax rates must increase and/or spending must decrease. We don't see any Congressional appetite for the latter, so that leaves only the former. The question comes down to timing. The Democratic nominee has stated that tax rates would go up immediately if he is elected.

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In light of the current economic climate, higher rates too soon just might crimp a nascent recovery. The Republican nominee would like to decrease taxes. Lower rates would spur activity, but potentially raise interest rates as investors might fear a full monetization of national debt. Name your poison.

In summary, there is a modestly wide path toward continued improvement. However, facts are stubborn things and risks abound. The ditches on either side of the road to recovery, like those on rural roads in Northwest Ohio, are deep. We see governmental policy mistakes at all levels as the chief hazards to avoid in the coming months as the economy heals. We continue to buy stocks and bonds with client cash. Opportunities remain, we simply need to be more selective than ever.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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