



MARKET INSIGHTS ... for the week ending September 18, 2020

Dear

The Masked Economy



Today, consideration of the economy and markets is done through the filter of the ongoing COVID-19 pandemic. Like many of you, I'm growing tired of wearing a face mask and frustrated that I keep misplacing them.

Even Ruby, my home office assistant, is starting to grumble.

Because of this, we shouldn't be surprised that last week the US stock markets struggled to find direction with all three of the major equity indices (the Dow, S&P 500 and Nasdaq) posted modest declines.

However, the volatility – the "up-and-down-movement of the market" – remained low, despite the uncertainties facing the US economy.

Consider the following:

- Congress still refuses to (seriously) discuss another stimulus package;
- Fed Chairman Powell emphasized an uncertain path to economic recovery;
- Wildfires in the west;
- Hurricane hitting the gulf coast;
- Europe facing a second wave of COVID-19;
- Schools are closed;
- Crime is up;
- A tightly contested election.

So on Friday stocks closed lower for the third week in a row with the Dow and S&P 500 pulling back from their previous high and the Nasdaq fell into correction territory.

Is this a big deal? Not really.

Say after me: "Market pullbacks are common." Especially when they follow the record growth we've seen over the past several weeks and months.

I said, "common." Not "fun."

On average, stocks pull back about 3 to 4 times each year (Pullbacks range from -5% to -9.99%) and go into correction (a pullback of -10% to -19.99%) about once a year.

So ... while we still don't like it, we've been through it before and will likely go through it again.

And given the market's run-up since it hit bottom in March, a pullback or correction was bound to happen eventually. And that's what we're seeing.

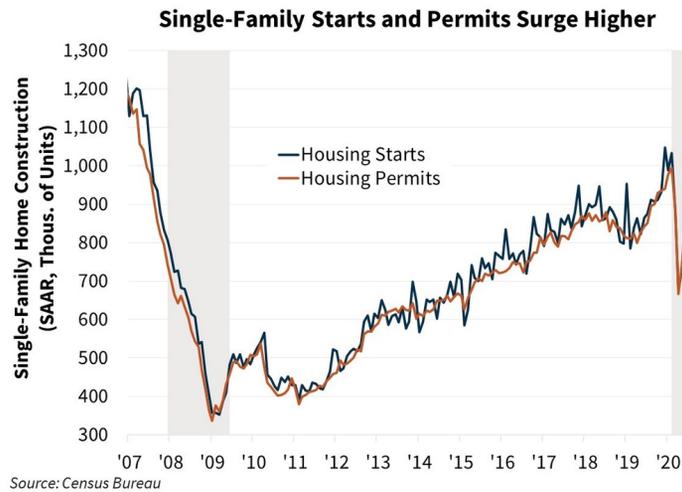
What About the Economy?

While the major stock market indexes were moving down, the economy is showing signs of moving up. Again, this shouldn't be too surprising, since the economy and market frequently move in different directions (read about this in the article, [THE STOCK MARKET IS NOT THE ECONOMY](#)).

Last week the following reports were released.

- **Sentiment:** The University of Michigan's September read for consumer sentiment rose to 78.9, a six-month-high (+4.8pt). This means, consumers – representing roughly 70% of the US economy – are becoming increasingly more optimistic and, as a result, are expected to spend more;
- **Jobs:** Last week first-time unemployment claims fell slightly, indicating the US labor market is continuing its slow march to recovery;
- **Single-Family Housing:** New construction of single-family homes rose 4.1 percent to 1.02 million, which represents a nearly full recovery to February's 1.03 million annualized pace. Single-family permits rose to 1.04 million, breaking past a million

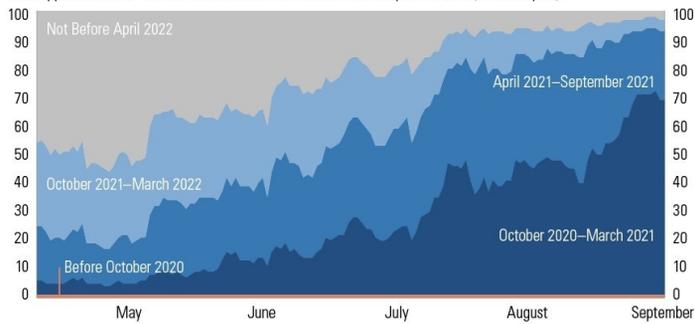
units for the first time since 2007. On a year-to-date basis, total starts were 5.2 percent above the same period a year ago.



A CLOSER LOOK: VACCINE DISTRIBUTION

Investors have been focused on the global race to produce a COVID-19 vaccine, which may help end the outbreak and fuel subsequent economic recovery. Superforecasters at the Good Judgement Project see a 68% probability of mass-distributing an FDA-approved vaccine by Q1 2021, up from 40% just three weeks ago. While the risk of delays and challenges exist, we believe the prospect of US vaccine deployment by early 2021 appears promising.

FDA-Approved COVID-19 Vaccines for Distribution to 25 Million People in the US (Probability, %)



AND FINALLY ...

Despite all that has taken place this year, the market has proven to be much stronger than most would have predicted. Still, like many of you, I'm not a big fan of 2020. It's sort of like this:

If 2020 was a
pizza



No ... you won't find this at Dominos ...

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