Market Review
Investment Insights into Current Events

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Fiscal Stimulus Tricks, No Treat for Markets

COVID Rising, Jobs: On Watch, GDP

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Key Observations

- *Rising COVID-19 cases and a failure from policy makers to pass further fiscal stimulus weighed on equity markets.*
- *Third quarter GDP indicated a sharp recovery in economic growth, yet activity remains well-below pre-pandemic levels.*
- *We encourage investors to keep their investment horizon in focus and not allow emotions to influence portfolio positioning amidst a likely rise in volatility around the U.S. presidential election.*

Market Recap

On again, off again fiscal stimulus talks, rising equity volatility and the risk of a contested U.S. election weighed on global financial assets in October. Although market participants may have to wait for clarity on the political front before households and business activity get another boost from fiscal stimulus, all eyes will be on the Federal Reserve in the interim. The possibility of heightened uncertainty in the political sphere increases the probably that the Fed will increase asset purchases or encourage greater utilization of its various lending facilities.

U.S. Treasury yields across the intermediate and longer-term maturities moved modestly higher in October, while corporate spreads were nearly unchanged pulling the Bloomberg Barclays U.S. Aggregate Bond Index down 0.4 percent. Persistent demand for spread lifted U.S. High Yield 0.5 percent, while Foreign Bonds and Emerging Market Debt each returned 0.4 percent[1].

[1]Foreign bonds returns were 0.4 percent and reflect the equal weight return on the Bloomberg Barclays Global Aggregate ex-U.S. Hedged and Bloomberg Barclays Global Aggregate ex-U.S. Unhedged.

Following a pullback in September, headwinds for U.S. Technology stocks continued last month. The House antitrust subcommittee released its report on "Big Tech" and concluded that Amazon, Apple, Facebook and Google enjoy "monopoly power." Changes to antitrust laws could break the behemoths into separate businesses. Inclusive of the 2.7 percent pullback during October, the S&P 500 Index returned 2.8 percent year-to-date.

U.S. Small Cap stocks outperformed their larger counterparts and gained 2.1 percent during the month but remain in negative territory year-to-date (-6.8 percent). International Equities were mixed. Elevated economic uncertainty amid a resurgence of positive COVID cases in Europe pulled the MSCI EAFE Index down 4 percent while continued growth in China led the MSCI EM higher by 2.1 percent.

Real assets were mixed on the month. REITs fell 2.6 percent after a dizzying month of stimulus negotiations failed to produce accommodation to businesses and higher COVID case counts pushed out expectations for more normal economic activity. On the other hand, a positive recovery in company fundamentals lifted Midstream Energy 4.4 percent.

Economic Update

While election predictions garnered substantial interest over the last several weeks, the economic gravity underpinning a policy response has been steadfast and signaling that increased accommodation is warranted. The end of October marked the 32nd week since the onset of the pandemic and commensurate mitigation measures to slow the spread of the virus. Since traditional state unemployment benefits expired after 26 weeks, the fall in continuing claims over the last six weeks (-4.2 million) may largely be explained by individuals exhausting eligibility. Some may qualify for Pandemic Emergency Unemployment Compensation (PEUC) or extended state benefits, but the next few employment reports should provide clues into how much of the decline can be explained by individuals getting re-hired or simply rolling off.

Third quarter GDP rebounded sharply (+33.1 percent) over the second quarter but does not appropriately contextualize the economic damage caused by the ongoing pandemic. To fully offset the 31.4 percent GDP decline in the second quarter, third quarter GDP had to increase nearly 46 percent. For example, if one had $100 and lost 31.4 percent, that person would have $68.60. To get back to $100, one needs a 45.8 percent return. Although economic sectors are progressing in the right direction, financial conditions for business, and by extension households, remain tight. Either economic growth accelerates, or companies will be forced to reduce expenses to match lower demand for products and services

Market Outlook

Investors will have a lot to digest in the days and weeks that follow. With an abundance of macroeconomic and political risks fraying investor resolve, we advocate for maintaining the established strategic asset allocation rooted in long-term fundamentals. We encourage investors to keep their investment horizon in focus and to not allow emotions to influence portfolio positioning amidst a likely rise in volatility around the U.S. presidential election.

For more information, please contact any of the professionals at Fiducient Advisors.

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Steve provides investment consulting services to institutional clients and nonprofit organizations. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process, fiduciary stewardship, and overall investment management. Steve also produces financial market commentary and supports capital market research at the firm. Prior to joining the firm in 2017, Steve was an Associate Client Investment Officer with Northern Trust Asset Management where he provided comprehensive investment management services to discretionary institutional client portfolios. Steve earned a BA in Economics and Finance from the University of Illinois Urbana-Champaign and a Masters of Analytics from the University of Chicago. He is a CFA® Charterholder and a member of the CFA Institute, CFA Society of Chicago, and The Chicago Council on Global Affairs. Additionally, he serves on the investment committee of Special Kids Foundation, a nonprofit that makes a positive impact in the lives of children with developmental disabilities through education, treatment and/or inclusion. Steve enjoys outdoor activities and spending time with family.

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Michael researches and performs operational due diligence on core investment managers and is a member of the firm's Core Investment Research Group. Prior to joining the firm, Michael was the Director of Research at ORION Investment Advisors and worked with the investment management group of Clark Enterprises Inc., a private investment firm. He received a BA in Finance from the University of Maryland and is a CFA® Charterholder and member of the CFA Society of Washington and CFA Institute. In his free time, Michael enjoys spending time with his sixteen nieces and nephews and rooting on University of Maryland and DC sports teams.