



*Timely Insights into Markets and the Economy*

# I nvestors Q uarterly

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## **Third Quarter, 2020**

### **Equities**

- October brings us *the season of the witch*. Truth be told the entire year thus far has contained more tricks than treats, although we have seen some successes. We hope that we can get out of this chaotic year and move into a brighter (or at least less gloomy) 2021.
- *Investors continue to tiptoe past the graveyard*, hoping to get on the other side of the virus and attendant recession. The official start of the current recession goes back to early February. *According to the National Bureau of Economic Research (NBER), the average recession in the U.S. runs about 11 months*; and so we should be closer to the end than the beginning.
- This may help explain the strength in the current market action. Although September's performance was a definite drag on the recovery rally, *stocks are resuming their upward climb towards new all-time highs*.
- The *big clues* as to whether or not prices continue higher include *3Q20 earnings and 3Q20 GDP*. As regular readers know, I track earnings closely because they inform me about things like [Relative Value](#) (click the link to see the latest chart). Unlike six months ago, *this chart suggests that the market is approaching hypothetical fair value*. Earlier this year, it was grossly undervalued.
- *We will have to wait to see where GDP ends up for the third quarter*. Estimates from numerous private and public forecasters expect to see healthy growth in this closely watched indicator. I share that optimism. That said, we still have to contend with the ongoing virus, civil unrest (blocks from my house!) and lest we forget, the election. *I am still confident that the business cycle will resume* and things will settle down in the months ahead. However, I could be wrong!

## Fixed Income

- *We will have to wait until the preliminary GDP report comes out on October 29<sup>th</sup>* to get a feel for what the Fed might have in mind relating to interest rates. The Fed has sent out signals that they will stay the current course for as long as two more years.
- That is likely to benefit consumers and by default, equity investors, but it will offer little comfort to investors crying in the wilderness of miserable bond and CD rates.
- I mentioned inflation in a recent letter. *CPI remains contained which is a mixed blessing*. On the one hand, like low interest rates, it benefits consumers. On the other hand, it baffles many economist that inflation remains subdued in the face of runaway debt and deficits. One cannot ignore these twin dangers indefinitely.

## Conclusions

- For the immediate future, *most eyes will be on November 3<sup>rd</sup>*, except for mine. *I am waiting to see if October 29<sup>th</sup> will be a surprise*. People tend to obsess over elections. Many investors try to make short-term plays over which side might or might not win. Very dangerous business if you ask me.
- Conventional wisdom says that a healthy market favors the incumbent (it's the economy, stupid). However, it is more than that. *Independent research suggests that people vote on how they feel about their personal finances and situations* and very few people express those feelings. So hold onto your hats and see how things turn out. At least it is over November 4<sup>th</sup> (I hope!).
- Another thing to consider moving forward is that we are nearing the end of the least profitable season of the year (May-October). It does not always happen that way, especially during plague years! Still, we can take some heart from the historical averages that reflect that the November-April period tends to be good for equities.
- Revisiting the recession and recovery scenario for a minute, *it is worth noting that in a normal business cycle, small companies tend to lead the way back*, which I find encouraging for iCore investors *since that is where our model has us*. It has been a bit of a pain, but I note that we are getting more days where the Russell 2000 is dominating relative performance. *We are often early to the party, but seldom wrong using this process*.
- *We remain optimistic*. There are still numerous challenges out there and many people are struggling health wise and financially, but as I like to say you cannot keep a good country down. Hang in there and *stay away from graveyards on Halloween!*

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