CONWAY• JARVIS LLC
Investment Outlook

Volume 30 Issue 3.2 October 2, 2020

Update

A Busy Week Foretells of an Eventful Quarter Ahead

This week was newsworthy in that we saw the release of some critical economic data, the close of the third quarter, and two grumpy old men shouted at each other on television. First, the data: The final number for Q2 GDP came in at -31.4%. That came as no surprise, and therefore was seemingly not a concern for investors who instead focused on a rosy forecast of 30%+ GDP growth in Q3. As of this week, the US PMI (Purchasing Managers Index) and ISM Manufacturing Indexes remained solidly in expansion mode. Both are good signs. It was reported today that Unemployment dropped from 8.4% to 7.9%. At that level roughly half of those employed prior to the pandemic remain out of a job. That news was overshadowed by reports of positive COVID test results in the White House.

As for the stock market, the S&P 500 posted a third quarter return of 8.50% leaving it at +5.57% YTD. That's not bad, considering a September decline of almost 4%, the first since March of this year. Index returns for September evidence a rebalancing of market internals taking place as Value stocks out-performed Growth for the first time since the March 23 lows. This points to what could be the beginning of a defensive shift by investors to more rationally priced dividend-paying stocks as we enter the fourth quarter where there will be no shortage of headline risk.

So, while recent market and economic data in the rear view mirror gives us hope for full recovery, the view through the windshield reveals a vast landscape of uncertainty because of COVID and the election that looms. Sadly, Tuesday's televised "event" fell light years short of any standard of debate and offered no clarity as to ideas and objectives that are in play in this election. We were left with huge doses of "personality" rather than policy that was reminiscent of a high school election, though with less decorum.

Our best and worst-case outcomes for the economy and its markets are alarmingly different. The best case presumes we avoid a relatively sudden lurch in fiscal policy while gaining a modicum of control over the spread of the virus. Worst-case combines an epic fail in controlling COVID with a fiscal policy misstep that pushes us back into recession. Our hope is for an outcome somewhere in between that sees the virus *sufficiently* controlled while avoiding a dramatic departure from a fiscal and monetary policy stance that provides continuing stimulus and a pathway to recovering lost output.

Conway ● Jarvis LLC