

October 16, 2020

## The Markets & the Economy - What We're Watching

### Top Themes of the Week:

- › Fiscal stimulus still stalled
- › Covid-19 uptick in cases and vaccine setbacks
- › Earnings season begins - banks providing a window into the economy and consumer

### Fiscal stimulus still stalled

Negotiations on another round of fiscal stimulus to support the economy remain stalled. House Democrats and the White House are close on the size of the suggested aid, but Senate Republicans said they are not supportive of a large additional package. Reaching a deal before the November elections appears unlikely according to US Treasury Secretary Mnuchin. Although monetary aid helps provide liquidity to the economy, fiscal stimulus is vital to getting aid to businesses and families that need it most. Unfortunately, fiscal responses can be hindered by politics, which is what we are seeing now. Should negotiations continue without a formal approval, JPMorgan estimates that an expiration of the coronavirus relief measures may turn into a 2.4 percentage-point drag on GDP growth in 2021.

### Covid-19 uptick in cases and vaccine setbacks

As the end of the summer neared and fall emerged, students started to return to school and shortly thereafter the CDC reported that during August 2–September 5, 2020, weekly COVID-19 cases among persons aged 18–22 years increased 55% nationally. Increases were greatest in the Northeast (144%) and Midwest (123%).<sup>1</sup> Other potential contributing factors to the rise in cases include the start of the flu season, as well as potential social distancing fatigue. While younger individuals are reported to experience less severe effects from the virus, anyone covid positive (even if asymptomatic) can transmit the infection to those around them. The uptick in cases nationally has sparked concern the next big wave has begun. The market has mostly ignored case counts recently, focusing instead on better treatments and expectations of a near-term vaccine breakthrough. Optimism remains fairly elevated despite recent setbacks.

Potential vaccine treatments also took a hit recently as several healthcare companies working on a solution experienced setbacks. Johnson & Johnson (JNJ) and Eli Lilly (LLY) paused trials recently, joining AstraZeneca (AZN) who met an initial snag a few weeks ago. A pause in vaccine development is not unusual, and is not the same as a clinical hold or cancellation. Optimism, however remains high as there are hundreds of companies, research institutions, and governmental agencies working on a solution so these setbacks have had little market impact.

Click [HERE](#) to read IMG's latest Q4 Investor Letter – a look back on our markets and the economy over the third quarter of this year.

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<sup>1</sup> CDC

## Earnings season begins - banks providing a window into the economy and consumer

Third quarter earnings season is officially underway and with analysts revising their earnings estimates to the upside, investors are cautiously optimistic. With the backdrop of better than expected economic data points ranging from an acceleration in manufacturing and non-manufacturing activity to strong consumption data and a weaker dollar, the earnings bar has been raised.<sup>2</sup>

A parade of big bank earnings kicked off the week with JPMorgan, Citigroup, Bank of America, and Wells Fargo – benefitting from diversified revenue streams, strong deposit growth, and greatly reduced allowances for credit losses. Challenges still remain however, as year-over-year loan growth and the low interest rates remain a pressure points for profitability.

Bank earnings are an important indicator for the market because they provide a real time economic litmus test as to the health of the consumer, the driver of our economy. J.P. Morgan's report indicated a relatively healthy consumer, one that continues to spend, albeit more conservatively. Consumers are spending less on credit cards than a year ago, opting to pay down debt, and still maintaining a healthy savings level.

Another important takeaway from this week's earnings reports was the reduced provision for credit losses perhaps signaling that while the economy has not fully recovered, perhaps the worst may be behind us now and we may be on a steady road to recovery.<sup>3</sup>

For questions or more information, please contact your local IMG professional. For additional insights from IMG experts, please visit our new website's [Stock Market Insights](#) page and follow us on [LinkedIn](#).

*Commentary is reflective as of the close Thursday, October 15, 2020.*

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<sup>2</sup> Axios

<sup>3</sup> WSJ