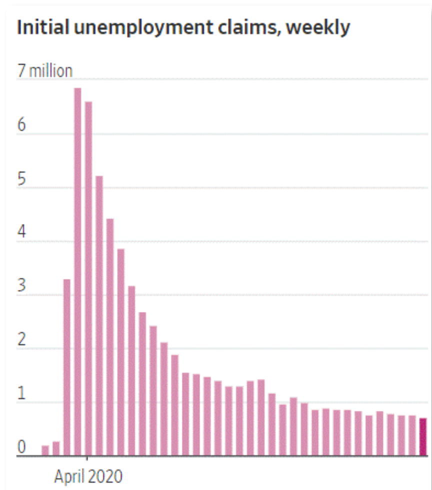
November 13, 2020

The Markets & the Economy - What We're Watching

Top Theme of the Week:

- Gauging the progress of the recovery

As we learned over last weekend, former Vice President Joe Biden is projected to be the 46th President of the United States. A contentious race with President Donald Trump is winding down with Biden winning 290 electoral votes, exceeding the 270 needed to win.[1] The S&P 500 rallied post election even amid uncertainty around the results and it continued this week as we saw it trading higher, increasing around 1% and also reaching its second highest close in history of 3,550 on Monday. The market traded higher on coronavirus vaccine optimism as investors believe this will allow the economy to fully open back up. Year to date, the S&P 500 stock index is up 11.25%. As the presidential election clears, investors attention now turns to economic and earnings data points which will help gauge the progress of the recovery. These data points include the labor market, core inflation, and corporate earnings.



New applications for unemployment benefits fell sharply last week. Initial jobless benefits claims declined to 709,000 last week from 757,000 a week earlier according to a release by the Labor Department on Thursday. The number of people collecting unemployment benefits dropped to 6.8 million for the week ending October 31st from 7.2 million. By October the labor market had recouped 12.1 million of the 22 million jobs lost in March and April of this year.[2]

On Thursday, the U.S. Bureau of Labor Statistics released October 2020 information for the Consumer Price Index (CPI), which is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It showed October was unchanged, on a seasonally adjusted basis, after rising 0.2% in September. This followed four straight months of gains for consumer prices. Over the last twelve months, CPI has increased 1.2% before seasonal adjustment. Core inflation, which excludes the often volatile food and energy categories was also unchanged for the month, but increased 1.6% over the last twelve months.[3]

In today's economic climate it is easy to overlook inflation when thinking about the future. Because inflation has been tame over the last 20 years it is a risk that is very often overlooked by investors. For example, if inflation were to continue at the recent rate of approximately 2% over the next 20 years the purchasing value of one dollar would decline to $0.67. If instead we used the long term historical inflation rate of 2.9%, the purchasing power of one dollar would decline to $0.56 over the same 20 year period. Inflation is one reason investors don't keep all of their funds in money market accounts since, over the long term, inflation can erode the purchasing power of those savings. The Fed intends to keep

[1] Source: The Associated Press

[2] Image Source: Labor Department. Note: Seasonally adjusted.

[3] Source: U.S. Bureau of Labor Statistics

inflation around 2% over the long-term because as they say "when households and businesses can reasonably expect inflation to remain low and stable, they are able to make sound decisions regarding saving, borrowing, and investment, which contributes to a well-functioning economy."[4]

The final data point is corporate earnings – an element of how well the economy is performing. As of last Friday 89% of the companies in the S&P 500 Index have reported third quarter earnings. The blended earnings decline was 7.5%, roughly in line with expectations. The expected earnings decline for the full year now stands at -15%. The good news is that for calendar year 2021 analysts are projecting earnings growth of 22.4% and revenue growth of 7.9% for the S&P 500.

Several key indicators will inform how well our economic recovery is progressing – in addition to the aforementioned, others include Gross Domestic Product, consumer confidence, and retail sales to name a few. Investors will continue to keep an eye specifically on economic news and earnings releases to determine the path to recovery. According to a recent research report from Goldman Sachs, as fiscal stimulus dries up and another wave of coronavirus cases is upon us, the pace of the recovery is likely to get worse before it gets better. However, they believe that that the economy will likely reaccelerate in 2021 as mass immunizations allow for high contact consumer services businesses to fully reopen.

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

Commentary is reflective as of the close Thursday, November 12, 2020.

[4] Source: Federalreserve.gov