



## Capital Market Outlook

9/11/2020

### MARKETS THIS WEEK

- **Back to Volatility.** After weeks of relative calm, broad volatility in the U.S. technology sector sent markets roiling this week. Just before this Friday's closing bell, the NASDAQ composite index marked a drop of more than 10% for the month of September, erasing gains dating back to the beginning of August. During the same period, the S&P500 and Dow Jones Industrial Average both fared better than their peer index, however choppy trading and large-intraday price swings certainly gave concern to passive investors everywhere.

Several factors may be contributing to the recent rout, including:

- Concerns of overvaluation in software-focused companies
- Uncertainty in Federal monetary policy and the fear of hyperinflation
- The impending rotation from growth-focused investments to opportunities in companies yet to recover from economic shutdowns
- Nervous anticipation of the upcoming presidential election

- **September Woes.** While no factor can be isolated as the main driver behind recent market turmoil, history tells us that markedly higher volatility is not surprising at this point in the year. Empirically, September has been the worst performing month for equities since the creation of the S&P 500. Layer the psychology behind this phenomenon on top of a global pandemic, economic disarray and, arguably, the most divisive presidential election in modern history, and the volatility seems somewhat justified.

S&P 500 Monthly Returns: 1928-2018

	Total Return < 0%	Total Return > 0%	Percentage Positive
January	34	58	63%
February	43	49	53%
March	36	56	61%
April	31	61	66%
May	39	53	58%
June	41	51	55%
July	38	54	59%
August	39	53	58%
September	49	42	46%
October	37	55	60%
November	36	56	61%
December	24	68	74%

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- **Sustained Losses or a Return to Growth?** In the view of our investment committee, the recent pullback across broader financial markets is the healthy correction this market sorely needed. While sustained capital growth always sounds great, experienced investors remain aware of negative potential energy that quietly builds alongside sustained bull runs. Simply put, positive returns start feeling too good to be true. With a small release from the pressure valve, investors looking to profit from discounted stock prices typically pour capital into the markets and drive prices to newer heights. Of course, we have several confounding factors at play during this market cycle, but the prospect of a recovering economy should highlight the ample opportunity for real, long-term financial growth that is still available for the taking.

1. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy
2. The Dow Jones Industrial Average is a price weighted index comprised of 30 large-cap companies
3. The NASDAQ Composite is a market-cap weighted index comprised of 2500 information technology companies