Sierra Ridge Wealth Management

1435 River Park Drive, Suite 504
Sacramento, CA 95815
Office: 916-891-2557
Fax: 916-891-5907
sierraridgewealth.com

Capital Market Outlook

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MARKETS THIS WEEK

- **We are on the eve** of an expectedly contentious ending to the 2020 United States Presidential election cycle. Never before have presidential campaigns had such direct and wide-reaching access to American voters, and growing distrust in media reporting has coincided with extreme political and social divisiveness across much of the country. As various news outlets and special interest groups plead their case for a stronger economy under each potential Presidential candidate, we at Sierra Ridge Wealth Management have narrowed our short-term focus to one, presidential election-related market catalysts to monitor through the end of the cycle: margin of victory.[1]

  We view uncertainty in leadership over the next four years as a major driver of short-term volatility. A narrow win for either candidate will extend the period in which bulls and bears will spar in the open markets, swinging equity prices until a clear outcome is reached. Further, the possibility of a disputed election scenario, or an unpeaceful transition of power, will extend this variability as the winner is decided in the high courts.

  Looking past the election, regardless of outcome, we expect that the strength of a recovering economy will support financial markets well after a winner is decided. Differences in each candidate's tax policy, foreign relations, and government spending lend to longer term economic prospects, but volatility will likely be driven by more immediate variables. After all is said and done, our primary goal is to ensure all of our clients maintain a long-term view through 2021 and beyond.

- **Despite several proposals and heated rebukes on both sides of the aisle,** congress and Treasury Secretary Steven Mnuchin have yet to agree on the next federal stimulus package to support American households and small businesses. This recent push for government aid arose following Reserve Chairman Jerome Powell's pleas for additional stimulus during his October address to *The National Association for Businesses*. Powell said that delaying more rescue funds could "lead to a weak recovery, creating unnecessary hardship for households and businesses."[2]

  While stimulus hopes have objectively been linked to positive momentum in financial markets, the decision to incur greater national debt has been viewed with varied sentiment. It is clear that many American citizens need support through this difficult time, however the prospect of an additional $1-3 trillion in transfer payments raises concerns around national debt reaching insurmountable heights. While the Presidential election will certainly play into the outcome on this front, even more important will be key Senate and Representative elections on November 3rd.[3] Keep a close eye on these races to better anticipate how economic turmoil will be addressed and how markets will perform through the remainder of 2020.

- **Following economic reopening** in the third quarter, U.S. real GDP sharply rebounded at an annualized rate of 33.1%.[4] While the national production metric is now down only 2.9% from a year ago, concerns remain around the stability of vulnerable households and businesses while virus cases continue to spike around the world. Last week, France, Germany and England announced the scaling-back of economic activity after reports surfaced of significant increases in coronavirus infections across each country.

While the U.S. is looking firmly forward toward the outcome of their Presidential election, it is important to consider the trend in virus surges we observed several times throughout 2020; spikes in U.S. infections trailed similar surges across Western Europe, often by several weeks.

Understanding that further domestic shutdowns would severely impact the ability of the U.S. to continue its strong recovery, we anticipate a heightened probability of added national restrictions, as well as broad market volatility, in the U.S. in the coming weeks. Of course, progress on vaccines and therapeutics is being made at a staggering rate, and the emergence of a viable COVID treatment will reset all expectations for the path of our global economic recovery. Until that time, remember that uncertainty drives volatility, and be prepared for more ups and downs on our way to calmer shores in Q1 and Q2 of 2021.

1. https://www.cnn.com/2020/11/02/business/wall-street-contested-election-trump-biden/index.html
2. https://www.nytimes.com/2020/10/06/business/economy/jerome-powell-economic-recovery-coronavirus.html
3. https://www.cnet.com/personal-finance/election-season-covid-19-bitter-spats-whip-up-perfect-storm-for-stimulus-negotiations/
4. https://www.ftportfolios.com//blogs/EconBlog/2020/11/2/no-more-lockdowns
5. 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
6. The Dow Jones Industrial Average is a price weighted index comprised of 30 large-cap companies
7. The NASDAQ Composite is a market-cap weighted index comprised of 2500 information technology companies