Is this the point of maximum uncertainty?

There has been a series of negative events since last week's newsletter that have spooked the markets and come just in time for Halloween. Consequently, I thought it would a good idea to offer a quick follow up.

Here are four of the top newsworthy items that have been getting a lot of attention these last few days:

(1) COVID cases have spiked up. We are testing a lot more than we did during the spring + the death rate is apparently significantly lower. But there is nevertheless no doubt we are still facing a very severe and dangerous problem.
(2) A US stimulus bill has not been agreed upon. Last week, the markets were hoping for an agreement, but not necessarily expecting quick approval by Congress.
(3) There is an increase in lockdowns in Europe, and greater restrictions here in North America compared to this summer. All of this is happening while most of us are experiencing COVID fatigue.
(4) We still have the uncertainty of the US election.

I should also add that the Seasonal Affective Disorder (abbreviated as SAD!!!) many begin to experience at this time of the year is most probably even more severe this time around.
A CNN article recently (Oct. 25, 2020) pointed out the obvious in saying: *"With the coronavirus pandemic still raging across Europe and lockdown measures preventing people from socializing, this winter will feel particularly tough for some."*

<u>None of the above changes my positive outlook for the markets when looking one year out from today.</u>

Furthermore, I would not be surprised at all (this is not a prediction though!) if some important positive catalysts helped the markets over the next few months. For instance,

(1) Medical science is progressing at a very rapid pace so vaccines, treatments, superior and quick testing, etc… should hopefully be not too far around the corner.
(2) The markets will soon begin to concentrate on what should be much improved corporate earnings in 2021.
(3) A large US stimulus bill will be passed, hopefully sooner rather than later.
(4) The US election results will be known and resolved, again hopefully sooner rather than later.

As always, we remain vigilant as to what is happening in the markets, and we greatly appreciate your support.

Should you have any questions or concerns, please feel free to reach out.

Wade Brown, MA, MBA
Portfolio Manager and Wealth Advisor
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In this section, as I often do, I would now like to offer a few very recent quotes/insights/observations from respected market experts that hopefully provide useful perspective during these very uncertain times.

"To me there is a lot of fear priced in already."
Source: Karen Finerman, CEO & Co-founder, Metropolitan Capital Advisors, CNBC, Oct 28, 2020

"If I look out 12 months to this time next year, I find it almost impossible not to imagine a scenario where economic growth has improved from where it is today regardless of what happens with the stimulus or the fed."
Source: Jenny Harrington, Gilman Hill Asset Management, CNBC, Oct 28, 2020

"I am simply asking you not to panic. Because nobody ever made a dime panicking…Every time I panicked, it cost me money…This is not a sell everything moment."
Source: Jim Cramer, CNBC, Oct 28, 2020

"Opinion: What should a smart investor do now?
Here's the slightly longer answer …..which could be regarded as sarcastic….Come back one year from today, and I'll tell you what you should have done this week. (My comment: I thought that was funny!)
I've known for decades that Wall Street (this also goes for the financial media) always has an 'A List' of reasons to be an optimist and an equally plausible 'B List' of reasons for pessimism.
These lists allow pundits and commentators to sound pretty smart no matter what they are being asked to explain.
Investors have a hard time dealing with the fact that both those lists are ALWAYS there, ALWAYS up-to-date, and ALWAYS sound wise.
Right now there's undoubtedly an 'A List' and a 'B List' associated with each possible outcome of the presidential election."
Source: Paul A. Merriman, CBS MarketWatch, Oct 28, 2020

"Between now and election day the market is in tough spot since it can't look beyond that event but (1) the virus is spreading in the US but that outbreak is primarily in 30% of the country in states that did not have an outbreak previously (2) due to operating leverage... the 2021 earnings outlook is going to look very strong for cyclical stocks ….once you get to November, people should be looking at 2021.
Because of the cooler weather, our systems are not as strong….we think the scariest case is if the US has to pursue a lockdown, but I just think we are not going to see that…primarily because (in New York) mask compliance is in the 90s. People understand the need to manage this risk. …we don't have to worry about what is happening in Europe…. For 40% or 50% of the S&P 500 stocks to take an earnings hit (as a result of the second wave), I think that is an overreaction.
If we have a contested election ….that is the time I think the US Fed will step up again ….the Fed is still going to provide some sort of backstop role to protect markets and the economy.
We are going to lose restaurant spending but the effect on GDP is not that big. …..the economy has organically been recovering. ….if you went to New York today it's not like it was in April. The number of cases is down ….from its highs and hospitalizations are down 95%.
We still have a public perception gap …you have a lower probability of catching COVID on a plane than walking the streets of New York City.

The reality is that there is a lot of good things that can happen. We are just forgetting that there is better therapeutics. There is the vaccine.
The way this wave in the US is unfolding is that it is primarily happening in 30% of the US where there has not been a lot of previous experience with the COVID so I think we are waiting for policy makers in those states to panic and make people take mitigation steps such as wearing masks.
The good news story is that in many other big states…we are not seeing the same resurgence."
Source: Tom Lee, Head of Research at Fund Strat Global Advisors, former J.P. Morgan's Chief Equity Strategist from 2007 to 2014, CNBC, Oct 28, 2020
My comment: I have taken the liberty of quoting Tom at length since I always appreciate his calm, relatively dispassionate take after market downturns.

"I think there is an underlying resilience to this economy where people are learning to live with this virus. We are watching the count go up, but we now have a lot of therapeutics that increase the chance of surviving this thing.…
I think you will see the economy weather this latest wave."
Source: Dr. Ed Yardeni, President of Yardeni Research, CNBC, Oct 28, 2020

"Economists expect GDP increased by 32% in the third quarter, after a stunning contraction of 31.4% in the second quarter, when the economy shutdown, according to Dow Jones."
Source: CNBC, Oct 29, 2020

"We're probably in the 7th inning of the acute phase of this pandemic right now…."
Source: Dr. Scott Gottlieb, former commissioner of the Food and Drug Administration (FDA), CNBC, Oct 19 2020