Weekly Market Review

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The Week Ending October 30, 2020

October ended with a trifecta of uncertainty: the rise of COVID-19 cases, additional fiscal stimulus unlikely until 2021, and the presidential election, all leading to over a 5% loss last week and another negative month for the stock market. Record-breaking third-quarter GDP was not enough to offset macroeconomic uncertainty or disappointing earnings from some of the big technology companies who have been leading the market higher this year.

Despite the S&P 500 Index falling over 5% on the week, some macro data was positive. After the largest decline in the second quarter, the third-quarter GDP showed that the U.S. economy grew at its fastest rate in history amid the economy rebounding from depressed levels. It is difficult to expect much momentum to come from this rebound. Additionally, growth may slow in the coming quarters as COVID-19 cases have been increasing, and a delay in fiscal stimulus could curb spending during the winter months. The strong rebound is great for making headlines, but the economy still has not made it back to where we began the year. While we are moving in the right direction, there is still more work to do in the recovery.

The big technology companies have led the market to rebound since the depths of the COVID-19 pandemic. Strong rallies will lead to elevated expectations heading into earnings announcements. Unfortunately, the stock market did not take a positive view of some company outlooks, resulting in a sell-off for many of these tech companies. While earnings were still strong, the market reaction could have been more of a profit-taking trade than a trend shift. It serves as a reminder to always be prepared for the downside. Even the best companies will have selloffs; being diversified can mitigate some of this risk when one sector is hit harder than others.

While GDP and corporate earnings are typically market-dominating news, no one is taking eyes off the presidential election. The election is bound to create volatility for the near term, and we have experienced some already. The one important thing to remember is that the stock market does not care who the president is; bull and bear markets have happened with either party in office over the long-term. The market does not like uncertainty, and until we know who won the election, we can expect volatility to continue, especially with COVID-19 being a factor. No matter who wins the election, we fully expect the market to return to its rational form and companies driving future returns. In the meantime, maintain your financial plan and avoid overreacting to short-term events.

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