



Friday, October 2, 2020

October Surprise

After a five-month rally, U.S. stocks have entered a new period of heightened volatility over the past several weeks. In this edition of Market Thoughts, we give readers our perspective on the latest developments for a second stimulus bill, the potential implications of President Trump's positive COVID-19 diagnosis, and the stagnation of coronavirus case improvement in the U.S. and Europe.

After a five-month rally from March's market lows, U.S. stocks have entered a new period of heightened volatility over the past several weeks. The historic rally of the S&P 500—representing its fastest-ever recovery to a new all-time high—was fueled by a combination of powerful fiscal and monetary stimulus programs and hopes for rapid progress toward effective treatments and vaccines. But with no medical solution in place, virus cases on the rise, and continuing uncertainty around prospects for the next round of fiscal support, investors are on edge.

October is historically the most volatile month of the year for stocks. While some of that can surely be attributed to the fact that October precedes elections in the U.S. every other year, the laundry list of contributing causes feels much longer this year. Here are a few recent developments on investors' minds:

- **Stimulus expectations.** Coming into September, investors expected a second round of stimulus along the lines of the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law earlier this year. Two weeks ago, the passing of Supreme Court Justice Ruth Bader Ginsburg sparked a debate in Congress about filling her seat on the Court that has no doubt distracted lawmakers from stimulus negotiations. While some form of stimulus may still happen, the White House, Senate, and House of Representatives are still miles apart.
- **President tests positive for COVID-19.** Early this morning, we learned that President Trump and First Lady Melania have both tested positive for COVID-19. The president's age and health status place him at elevated risk for serious complications from the virus. House Speaker Pelosi suggested that the president's illness highlights the seriousness of the pandemic and may

accelerate stimulus talks. This new development is another dimension to the already contentious election cycle.

- **Increased COVID-19 cases.** After more than 200,000 deaths from COVID-19 to date, healthcare professionals are concerned about the possibility of a second wave of infections and deaths this fall. A recent uptick in cases—even as state and local economies open up—raises concerns about the economic impact should full or partial lockdowns become necessary again.

This is certainly not an exhaustive list of the uncertainties weighing on investors' minds. It does not, for example, address topics such as the current presidential polls, the likelihood (or not) of a change in control of the Senate, or the timing of the election's outcome, to name a few. It does, however, offer a few new factors that the capital markets must absorb.

As discussed in past Market Thoughts, new uncertainties often require a period of recalibration, during which investors will reassess their expectations. During that recalibration period, markets can become volatile as they seek new levels.

As always, a well-diversified portfolio tailored to your appetite for risk and personal financial goals and objectives is the best long-term strategy and can provide the peace of mind necessary to stay the course through volatile markets. Periods of heightened anxiety and volatility are causes of concern, but they often also create opportunity for long-term investors.

Market pullbacks should prompt investors to consider their asset allocations and ensure that they are taking an appropriate level of risk. They also provide opportunities to rebalance—by buying the weaker asset class with proceeds harvested from the stronger—to keep portfolio risk levels in check.

We will be tracking these developments and the resulting market and economic impacts actively, and we will keep you apprised of what we learn. In the meantime, please reach out to your CAPTRUST financial advisor if you have questions or concerns.

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