CAPSTONE
WEALTH ADVISORS

# Outlook on the Markets

**MID-YEAR** WINTER 2020-2021 ISSUE

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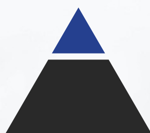

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Capstone Wealth Advisors is pleased to release our Mid-Year Outlook on the Markets written entirely by our advisory team. Our outlook is based on our views and philosophies as we see them impacting financial markets, and your money. Current trends, economic indicators and in-depth analysis is at the core of what we do. We monitor and analyze economic trends to help our clients have a clear understanding of the direction the economy is headed and how that impacts your portfolio strategies.

We have six offices throughout the Pacific Northwest, utilizing a team approach to provide continuity for your asset planning needs. Our investment committee meets weekly to discuss current economic events, market trends, asset allocations and more. By using a disciplined and methodical approach to investing, we remove the noise and emotion from your investment portfolio and allow you to focus on the things you love and enjoy most.

**Is the tsunami of social, political, and financial market unrest over?** Probably not, at least for now. 2020 has been a year to remember, that much we can all agree on. As we move into 2021, we will likely continue to see a wide disparity between the economy and financial markets. The strict lockdowns and regulations imposed this spring on businesses were financially catastrophic. Although some of the restrictions have been lifted, many segments of our economy are still suffering. This disconnect leads many to question if we are experiencing another "irrational exuberance" situation as described by then Federal Reserve Chairman Alan Greenspan, regarding the late 90's tech bubble. We believe it is not, and here is why:

After experiencing the historic -31.4% drop in US Gross Domestic Product (GDP) during the second quarter of 2020, we subsequently saw an increase of 33.1% in GDP for the third quarter. These two figures essentially cancelled each other out over a very short period and moving forward, most economic forecasts call for a slight increase in GDP for 2021. The big question is once the vaccines are released, will consumers revert to their pre-COVID spending behaviors? Most data suggest people will return to some degree of "normal", but it is likely that how people choose to make purchases has been forever altered. The clear winners from this are Technology based companies as people have become more accustom to working and shopping from home.

Government stimulus efforts earlier this year were largely successful but as we enter another round of imposed lockdowns across the country there are significant concerns surrounding what remedy will be offered, if any, to offset mandated closures of businesses and the ensuing layoffs associated with it. Currently talks between House Democrats and Senate Republicans have not yielded a definitive outcome, but we anticipate some form of additional stimulus is likely. Whether that will happen before or after January 20th remains to be seen.

The US unemployment rate shows a similar pattern to GDP. Peaking at 14.7% in April, it has since fallen to 6.7% nationally and is trending in-line with GDP. Currently the unemployment rate remains elevated versus its pre-pandemic level, but it is a far cry from where it once stood earlier this year. Due to the impacts from the "second wave" of COVID cases, it is likely that the unemployment rate will show a temporary increase as the state lockdown orders are reinstated. We believe any increase in unemployment will likely be short-lived as vaccines are distributed, and administered to the general public, and the country begins to lift restrictions on businesses and individuals' liberties.

# Facts to Consider

- **The S&P/Case-Shiller Index** reports that national home prices have moved sharply higher since June of this year and have continued to steadily increase. The index currently sits at 231.21, representing an annually adjusted increase of 13.66% nationally.

- **The Conference Board Consumer Confidence Index** ® declined in November, after remaining relatively flat in October. The Index now stands at 96.1, down from 101.4 in October.

- **The Institute for Supply Management's Manufacturing PMI ® Index** reported manufacturing grew in November however at a slower pace versus October. The Manufacturing PMI® registered 57.5 percent, 1.8 percentage points lower than the October reading of 59.3 percent. The Manufacturing PMI® signaled a continued rebuilding of economic activity in November, with four of five contributing subindexes in moderate to strong growth territory.

- **The National Federation of Independent Business** reported small businesses are showing a historically high level of job openings in November. Overall, 53% reported hiring or trying to hire in November, down 2 points from the previous month. A seasonally adjusted net 21% of owners are planning to create new jobs in the next three months, , up 3 points from October. Finding qualified employees remains a problem for small businesses with 87% of those trying to hire reporting few or no "qualified" applicants for the positions they were trying to fill.

- The October estimate for personal income and outlays was impacted by the response to the spread of COVID-19. **The Commerce Department** reported personal income decreased $130.1 billion (0.7 percent) in October. Disposable personal income also decreased $134.8 billion (0.8 percent) and personal consumption expenditures increased $70.9 billion (0.5 percent). The decrease in personal income in October was led by a decrease government social benefits. Within government social benefits, "other' social benefits decreased which primarily reflected a decrease in Loss Wages Supplemental Payments, a Federal Emergency Management Agency program that provides wage assistance to individuals impacted by the pandemic.

- **The Bureau of Labor Statistics** reports that the official unemployment rate (U-3) seasonally adjusted in November was 6.7 percent. The U-6 unemployment rate, a more comprehensive measure of unemployment, was at 12.0 percent in November which has improved from the July 2020 rate of 16.5 percent but significantly higher from a year prior when it stood at 6.8 percent.

- **The U.S. Census Bureau and the U.S. Bureau of Economic Analysis** announced that the International Trade in Goods and Services deficit was $63.1 billion in October, up $1.0 billion from $62.1 billion in September's revised numbers.

- **CBOE Volatility Index (VIX)** has declined significantly from its peak of 82.69 – its highest closing level ever recorded – reached on March 16th, 2020 during the peak of COVID-19 concerns. The index sits at 20.57 as of the end of November.

International and Emerging Markets appear to have turned a corner and are showing strength versus US Equities. This strength has so far been magnified by the US Dollar decreasing relative to many other currencies. Currency movements like this enhance (or reduce) overall returns in these areas. It is always important to remember that whenever you buy foreign investments you are making two investment decisions. You are investing in both the investment itself as well as the valuation of its local currency rate versus the US Dollar. When putting money into an international fund, investors need to be familiar with certain risks that they do not typically encounter with US based investments.

**What does all this mean to you and your portfolio?** Our team sees a continued long-term economic recovery as the most likely scenario post COVID. While market volatility is always a threat, we should also remind ourselves that we have just been through a highly volatile market and it is not typical for high volatility to remain constant for extended periods of time – meaning we anticipate a return to a more traditional market environment in the near future. For investors with a moderate to moderately high risk tolerance, increasing your exposure to International, Emerging Markets and Small-Cap stocks is appropriate. We still believe holding the largest portion of portfolios in Large, US based companies, should be at the core of your holdings. For investors who have a more conservative risk tolerance, minimizing your exposure to highly volatile stocks is important. It can be very easy to get lured into taking additional risk in portfolios when markets move higher, but one must remember why they are more conservative to begin with. For these investors, bond holdings should be approached cautiously. Interest rates for longer term bonds will likely rise as positive economic activity continues – this will cause those bonds to lose value. Therefore, focusing on bonds with shorter maturities offers more stability.

In our last Outlook on the Markets, we noted that the pandemic should be viewed as a "passing hurricane" and we believe that perspective holds true today. As with any hurricane, the damage left in its wake does not magically disappear the minute the hurricane goes away, it requires substantial effort and time to fully rebuild. America is a country that has shown unprecedented perseverance through times of enhanced distress, this situation is no different.

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