November 16, 2020

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

Surprising to no one, the Federal Reserve held interest rates near zero after the Federal Open Market Committee meeting in early November, once again reflecting the economic toll that the COVID-19 pandemic has taken on the economy. Economic activity and employment have continued to recover but still remain well below their pre-pandemic levels at the beginning of the year. As noted in previous commentaries, the recovery has been slowing in the face of rising coronavirus cases both domestically and abroad, and while the Fed has sought to use accommodative monetary policy to stimulate growth, Fed officials are adamant that more needs to be done on the fiscal side. In recent months, Fed Chairman Jay Powell has sent a glaringly clear message to Congress that more fiscal support will be required to help the millions of people still out of work, a rash of drowning small businesses, and struggling state and local revenue streams.

In the third quarter, US gross domestic product posted its fastest increase ever, rising at a 33.1% pace after contracting 31.4% in the previous period. The economy has recovered about 12 million of the 22 million jobs lost in March and April, but payroll growth has slowed in recent months following payroll gains from 4.8 million in June to 683,000 in October. The Fed has been very transparent with its intentions to keep its policy rate near zero until inflation rises and/or the unemployment rate returns to pre-pandemic levels. Additionally, the Fed has put in place programs and facilities to help support markets and is planning to continue its bond-buying program. With the central bank committing to keeping the federal funds rate near zero until it achieves its dual mandate while expanding its balance sheet, our view is that interest rates are likely to remain lower for longer.

Given the historically-low interest rate environment, there is a lively debate about whether bonds can continue to provide diversification benefits within portfolios. Obviously, the right mix of asset types in a portfolio depends on the individual's specific investment goals and tolerance for risk. However, despite concerns, highquality bonds have demonstrated consistent levels of inverse correlation with stocks over the long-run. Though it is worth noting that with bond yields so low, finding the right balance between risk and reward within fixed income markets is more challenging. Thus, we favor diversification across different fixed income sectors, maturities, and qualities in an attempt to provide portfolio stability while simultaneously generating consistent income.

Although we do experience short periods of high correlations between stocks and bonds, much like in March of this year, these events are quite rare and very short-lived. Therefore, we continue to emphasize the importance of fixed income assets within the portfolio structure as long as it aligns with the long-term objectives and risk tolerance of the investor.

We thank you for your continued trust and confidence in us as we wish you a healthy and prosperous holiday season.

Sincerely,

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