September 7, 2020

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

You've heard it before: The stock market is not the economy. Rarely has that adage been more relevant than today. The country has been experiencing Great Depression-era levels of unemployment, businesses continue to close their doors, widespread civil unrest, and yet the stock market continues to reach new all-time highs. During the COVID-19 pandemic, the stock market could not be more disconnected from the United States' broader economic state. Although the S&P 500 Index fell sharply in March of 2020 as government-imposed shutdowns brought economic activity to a screeching halt, the index has rebounded over 50% from the March lows. There are several reasons as to why this prominent divergence has occurred.

The government's fiscal and monetary policy responses were quick and substantial. For instance, stocks surged immediately after the March 23rd bottom as the CARES Act made its way through Congress and signed into law on March 30th. The more than $2 trillion relief package included direct payments to individuals, enhanced unemployment benefits, and relief for small businesses. Additionally, shortly after the crisis began, the Federal Reserve lowered the federal funds rate to 0% and pledged to purchase more than $2 trillion in fixed income securities, in order to provide liquidity for financial markets. These massive policy actions eased investor fears and drove markets higher.

Another reason for the significant disconnect between weak broad economic conditions and the strong performance of equities is the historically narrow market breadth in 2020. Market breadth refers to how many stocks are participating in a given move in an index or exchange. Market breadth in the S&P 500 Index has become increasingly narrow—specifically, six massive firms make up over 25% of the capitalization-weighted S&P 500 and have been the primary driver of equity market returns in 2020: Facebook, Apple, Amazon, Alphabet, Netflix, and Microsoft. While the majority of US businesses are small, privately-owned, and mostly local, those that are large and publicly traded on exchanges make up the majority of stock indexes. In other words, the effect of thousands of small businesses having been shut down by the pandemic—is relatively immaterial to the publicly traded companies that comprise the S&P 500 Index.

Lastly, and perhaps most importantly, even in normal times, economic data looks backwards and the stock market looks forward. Stock market participants make investment decisions based on where they see prices and corporate profits heading in the future. And for many, the future looks brighter than the present, in large part due to hopes for a coronavirus vaccine breakthrough and the potential for further government stimulus. Although strong economic growth remains a key component for stock market performance, the relationship has become disjointed. In short, Wall Street is not Main Street.

We thank you for your continued trust and confidence in us as we continue to monitor these developments closely in the third quarter.

Sincerely,

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The stock indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.