



September 21, 2020

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

Everyone loves a party, but, inevitably, after an epic party there's a hangover. After equities plunged in February and March of this year due to the abrupt shutdown of the global economy caused by the COVID-19 pandemic, major stock indexes quickly recovered and hit new highs over the summer. On the back of aggressive fiscal and monetary stimulus, equities screamed higher with technology stocks leading the way as their already dominant influence over the S&P 500 Index only grew stronger. Since the March bottom, the S&P 500 Index rose over 50% to reach new highs in August, while the tech-heavy Nasdaq experienced more than a 70% rise. The extraordinary recovery we saw in equities since March marked the fastest exit from a bear market in history, resulting in the shortest bear market in history. However, stocks fell sharply during the first week of September, clawing back some of the extraordinary gains major indexes made over the summer.

Stocks turned lower to begin September, with the Nasdaq composite dropping more than 10%, into correction territory, in just three trading sessions. Most market participants attribute the quick drop in equities to the “too far, too fast” line of thinking. That is, we had just experienced a ferocious and unprecedented rise in equity levels as several major technology companies exhibited nearly parabolic behavior. Equity valuations became stretched in several sectors and investors began taking some profits off the table. Additionally, traders also observed that some of the recent volatility may have come from increased leverage entering the market through the use of options contracts by mostly retail investors. With narrow market leadership from just a few companies, comes the potential for higher near-term volatility, as we saw a few weeks ago. These conditions help us reiterate our firm commitment to broad portfolio diversification across companies, sectors, and geographies within the equity universe.

It's easy for market sentiment to become euphoric with investors exhibiting “irrational exuberance”—a term popularized by former Federal Reserve Chair

Alan Greenspan in 1996—when equities seemingly rise every day without pause. However, we must remind ourselves that, logically, asset prices should not go up indefinitely and uninterrupted. This undue investor optimism can cause a feedback loop of ever-higher stock prices, ultimately giving rise to bubbles in asset prices. Rather, market corrections are indeed healthy for the long-term viability of the market cycle, regardless of how painful they may feel at the time. Market corrections allow valuations to fall to more reasonable levels based on forward-looking earnings and economic growth, giving way for investors to once again find attractive opportunities. As always, during times of volatility, we emphasize diversification across asset classes and maintaining a long-term investment mindset.

We thank you for your continued trust and confidence in us as we wish you a healthy and prosperous close to the summer season.

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.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system.

The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

Diversification and asset allocation do not ensure a profit or protect against a loss.