October 5, 2020

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

The US economy appears to be taking on a “square root” shape recovery rather than a “V” shape as the overall the macroeconomic environment continues to be mixed after a sharp improvement from the bottom earlier in the year. Recent employment reports have shown that the US has now recovered about half of the jobs that were lost due to the coronavirus pandemic. During the late spring and early summer, nationwide reopening efforts helped produce record jobs numbers but we are still left with an uphill climb to return to pre-pandemic employment levels. As we’ve seen in recent months, the second half of the recovery stands to be a much slower grind than the first. Most of these jobs are in the restaurant, retail, hospitality and transportation industries. With the pandemic still raging on, recovery in these industries will prove to be a difficult challenge. Consequently, the labor market is likely to see much slower improvement in the months ahead following the strong initial bounce earlier in the year.

We believe a similar trend will be seen for the recovery in Gross Domestic Product. Following annualized declines of 5% and 32% in the first two quarters of the year, we should see a significant rise in GDP in the 3rd quarter. However, much like the unemployment figures, the rate of recovery in GDP after the 3rd quarter should become more stubborn. The expected sharp slowdown in GDP reflects the hangover from a stimulus-fueled surge in consumer spending during the 3rd quarter, in combination with a lack of further government stimulus. With much of the initial boost from business re-openings fading and with government support already expired or running dry, America’s economic recovery has mostly settled into a trend of gradual improvement.

Turning to the issue of further government stimulus, back in July and August, it was almost a foregone conclusion that we would see another stimulus package passed by Congress. However, at this stage, we see the passage of a stimulus bill before the November presidential election as unlikely due to political positioning.

In short, many Republicans seem unwilling to support a big stimulus package because it may be seen as contradictory to their stance that the recovery is strong and the economy is on stable footing. Whereas, Democrats appear unwilling to compromise on a smaller stimulus package as it may boost economic data just prior to the election, making it seem that the efforts of the current administration in Washington are working. This risk of fiscal fatigue raises concerns about the recovery running out of steam.

Throughout the month of September, historically the worst-performing month for the S&P 500 Index, we witnessed equities fall from record highs and into correction territory as investor sentiment weakened. It was clear that investor optimism over the recovery, virus containment, and potential for further government stimulus all waned.

Sadly, the US has surpassed 200,000 coronavirus-related deaths eight months after the pathogen was first confirmed on American soil. While masks and social-distancing measures have been proven to help slow the spread of the virus, an effective, trusted and widely-available vaccine will be needed to drastically reduce the number of infections moving forward. Although we have only recovered approximately half of the jobs lost due to the pandemic, we must recognize that we will eventually get past this pandemic. The second half of the recovery will undoubtedly be longer and more grueling than the first, which means investors have to be disciplined in their decision-making and stay committed to their long-term objectives.

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

Sincerely,

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