

Will the Market Continue to Climb the Wall of Worry?

Cerity Partners Market & Economic Update

September 29, 2020

Presented by

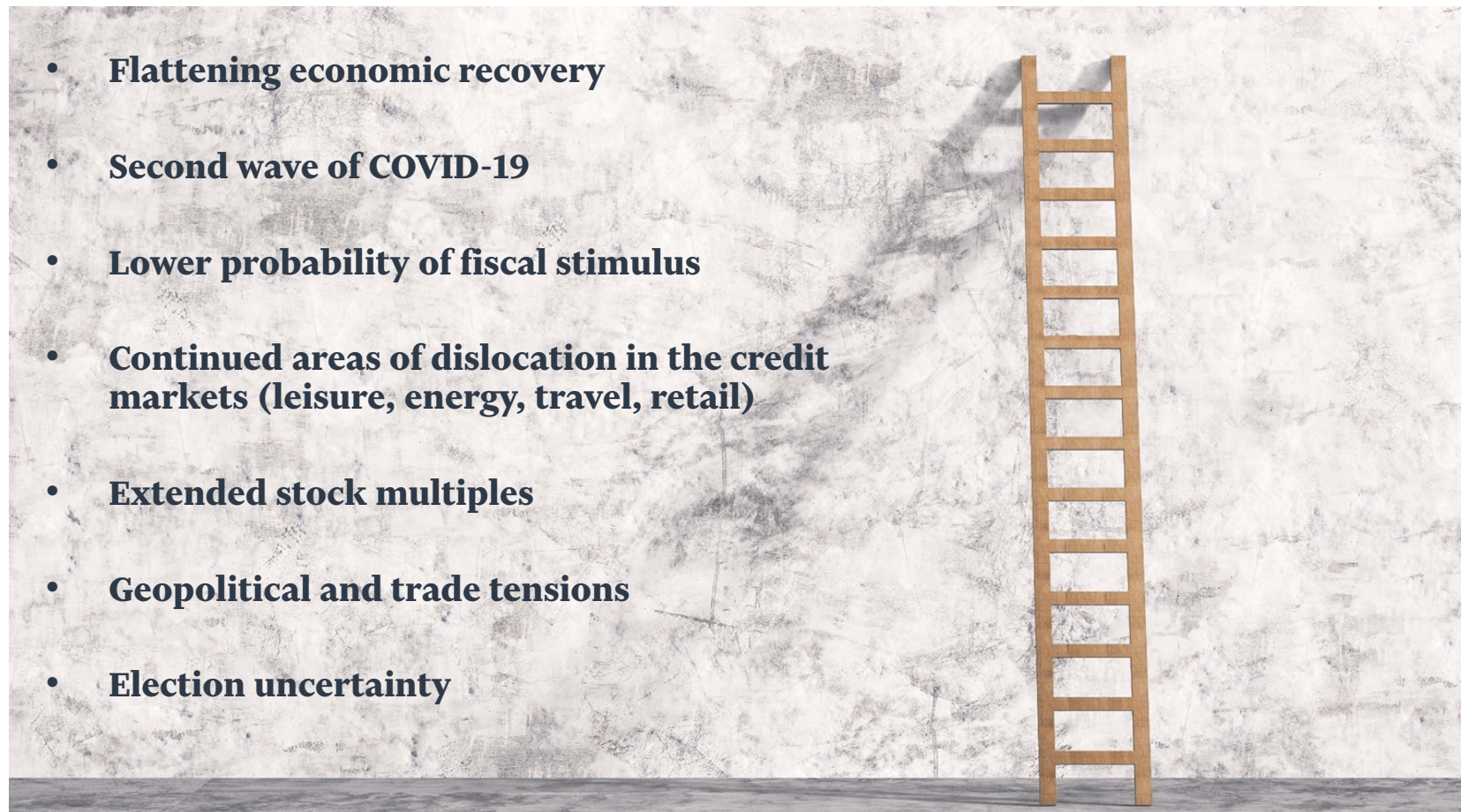
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The Wall of Worries

Factors with the potential to impact market performance in the coming months



The Market and the Economy—Conflicting Signals

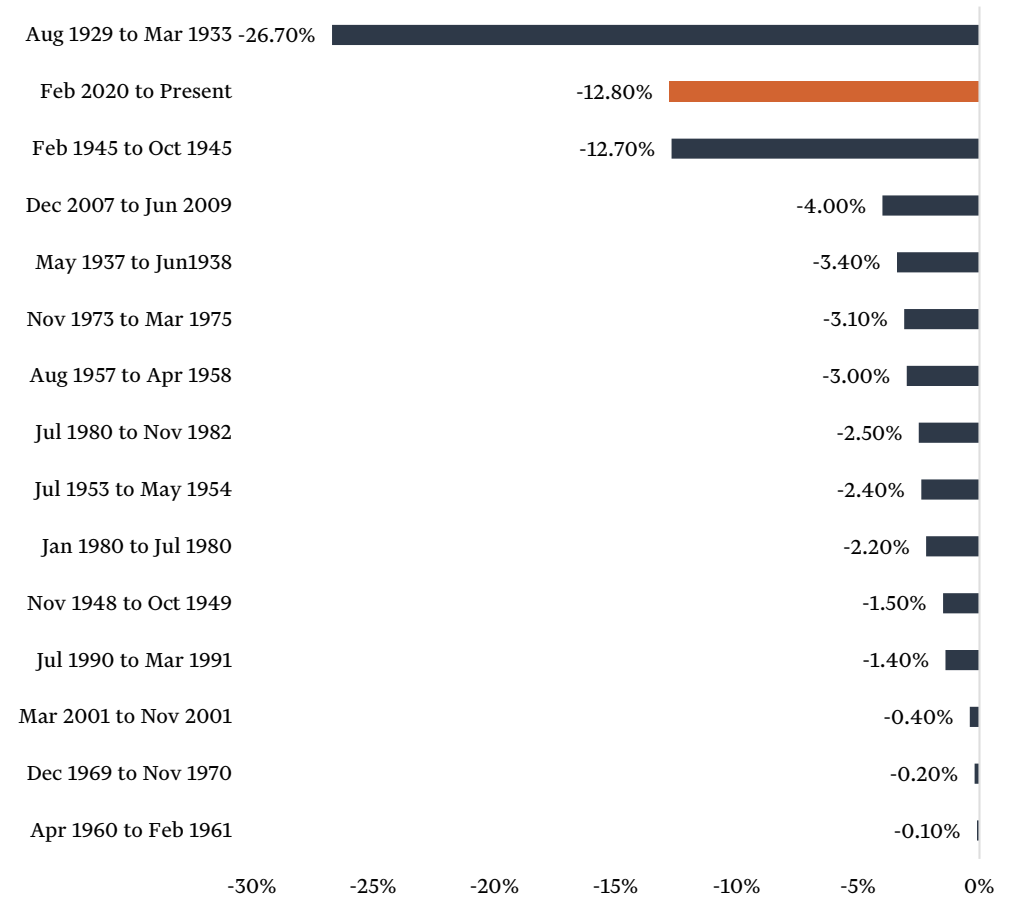
The market has surged off its March low while the economy is still recovering.

S&P 500



Data as of 9/24/2020

Declines in GDP

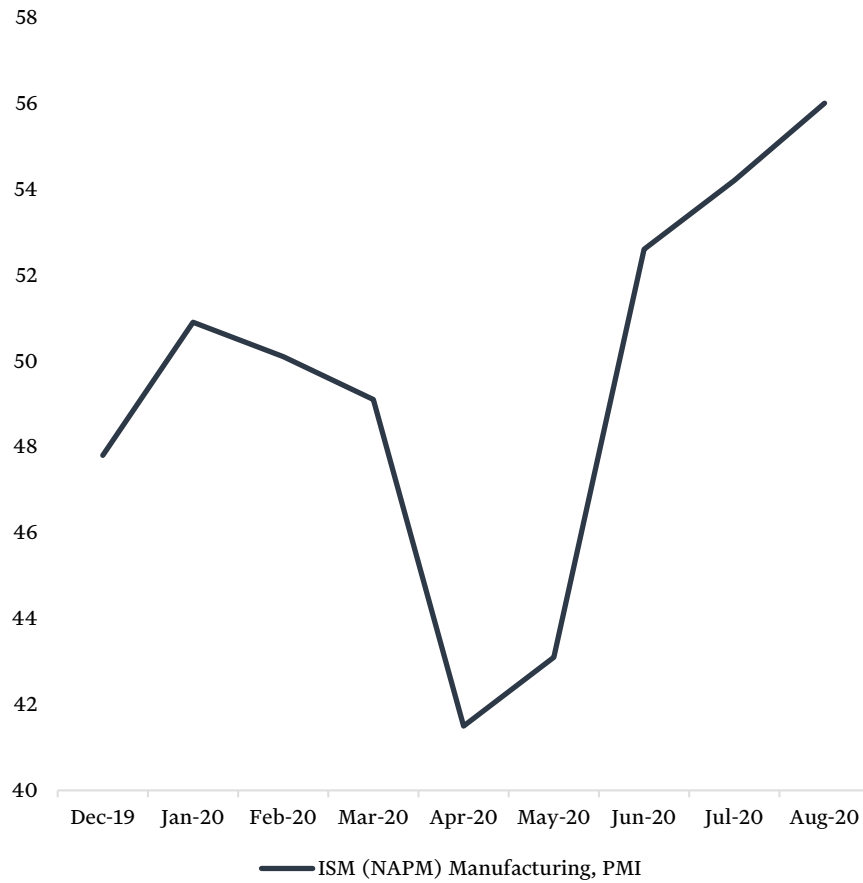


Peak to Trough Decline in Quarterly GDP Except for August 1929 to March 1933 (using annual real GDP from 1929 to 1933)

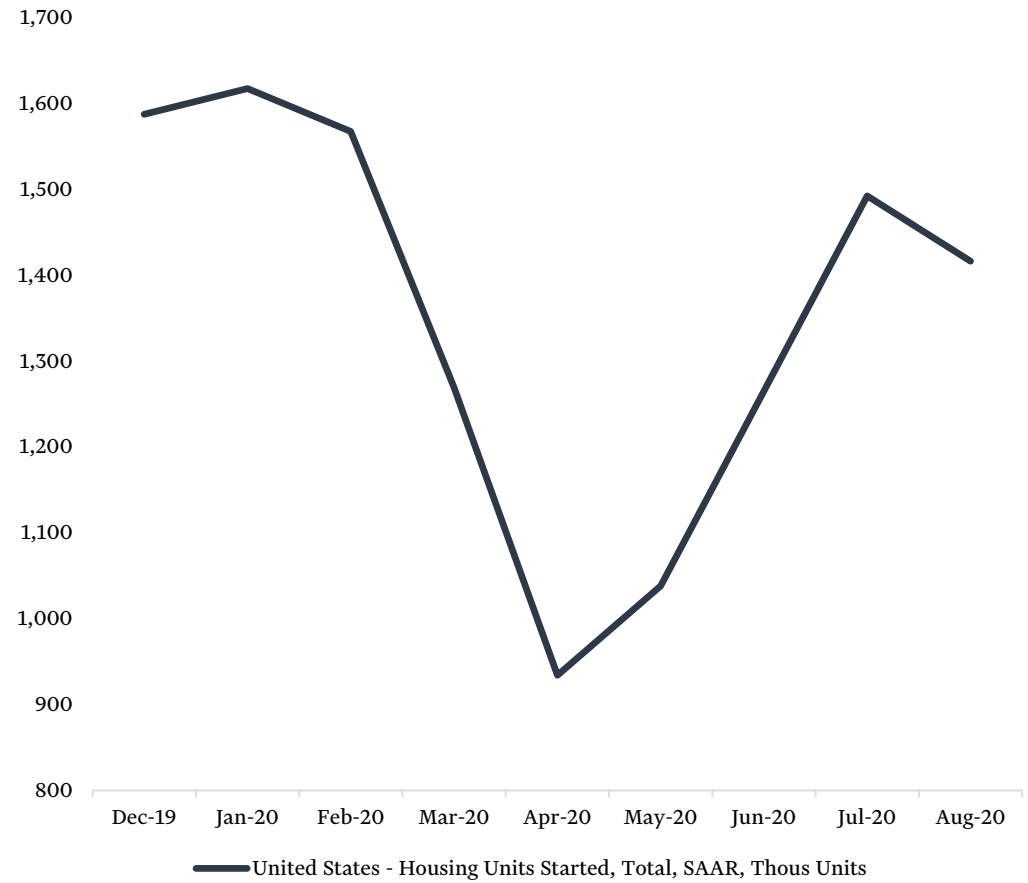
The State of the Economy

Certain sectors have staged a V-shaped recovery.

Manufacturing Survey



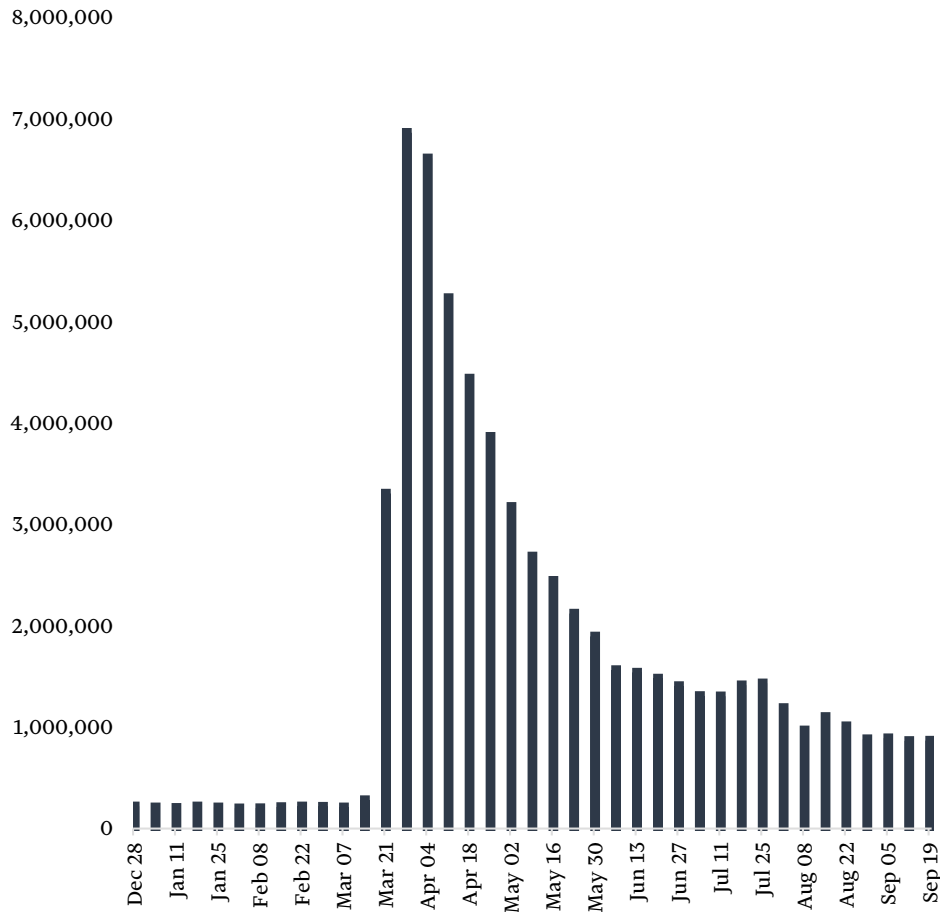
Housing Starts



Fiscal Support Still Needed

Additional fiscal stimulus will be required to boost consumer spending.

Initial Jobless Claims



U.S. Fed Officials Step Up Calls for More Government Spending to Speed Economic Recovery

Powell says economy would revive more quickly with support from both Fed and Congress

APAC SEPTEMBER 24, 2020 / 8:37 AM / UPDATED 7 HOURS AGO

U.S. labor market slowing as fiscal stimulus fades

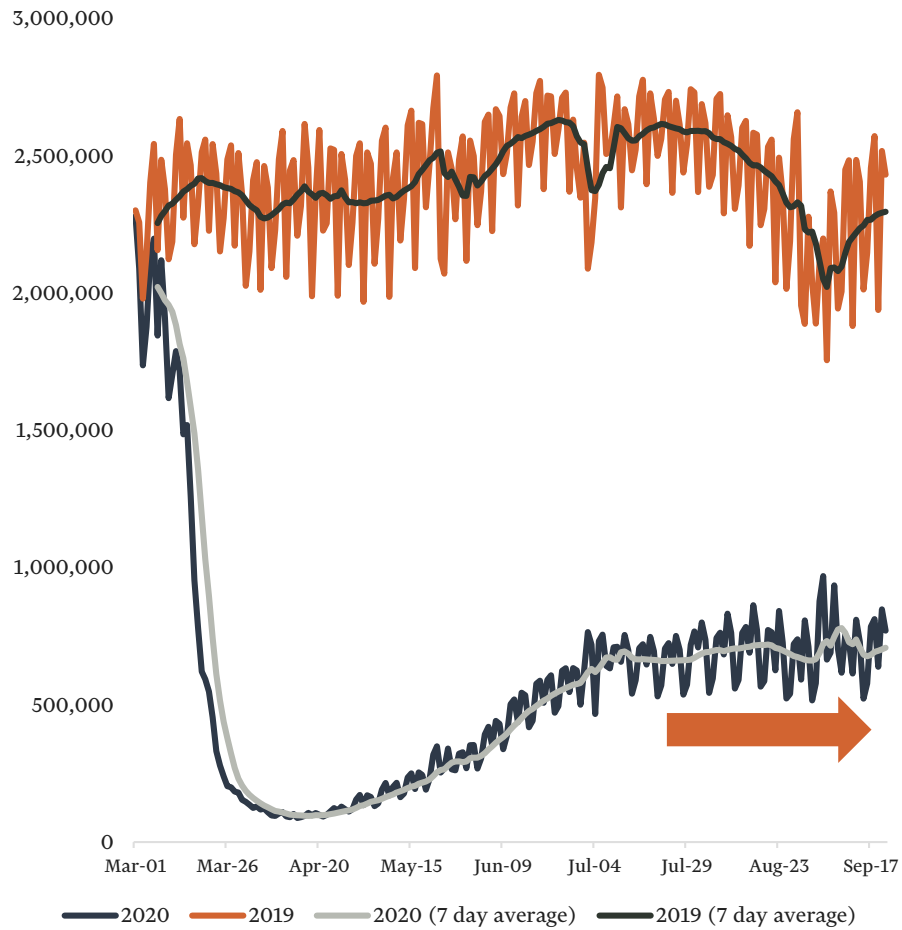
BUSINESS NEWS SEPTEMBER 25, 2020 / 7:04 AM / UPDATED 2 HOURS AGO

Futures retreat on doubts over more fiscal stimulus

Slowing Momentum

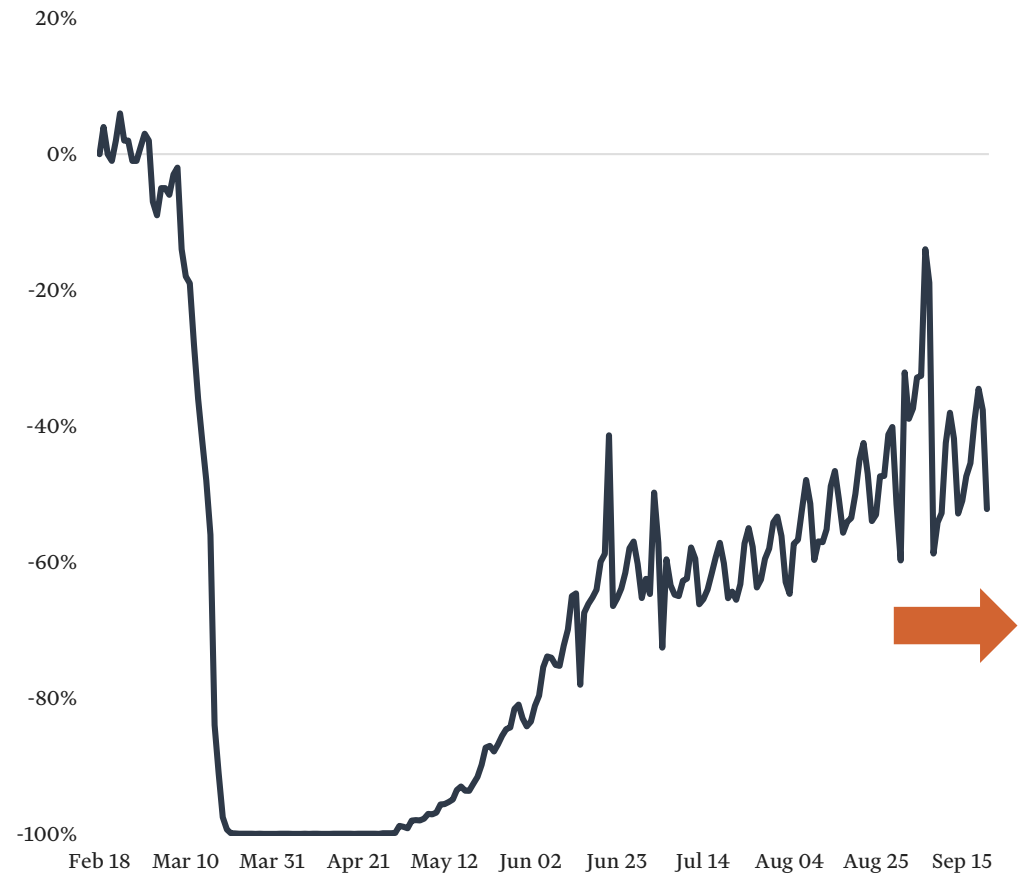
According to high-frequency data, the rise in consumer activities is tapering off.

TSA Checkpoint Travel Numbers



Data as of 9/21/2020

**Seated Diners on the OpenTable Network
(Year-Over-Year %)**

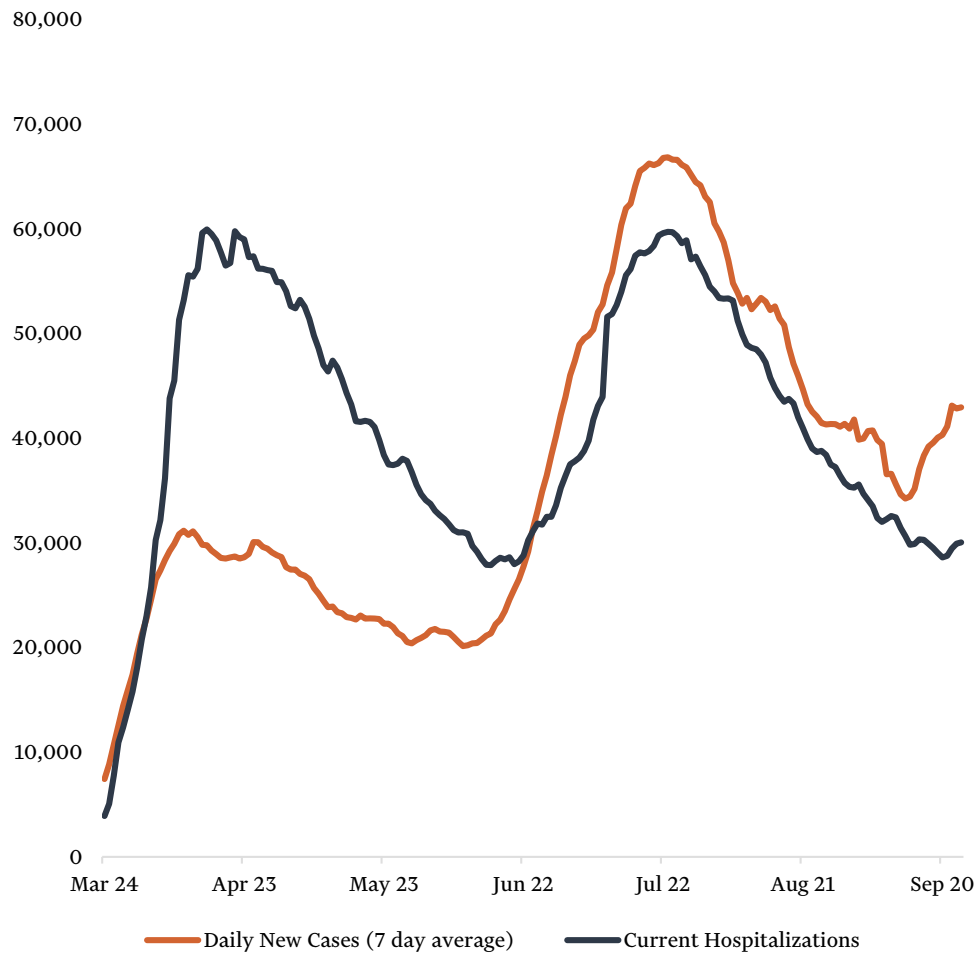


Data as of 9/21/2020

U.S. COVID-19 Cases are Rising But...

...the positive test rate is approximately 5%.

U.S. Daily Cases & Hospitalizations



Data as of 9/24/2020

U.S. Positive Test Rate

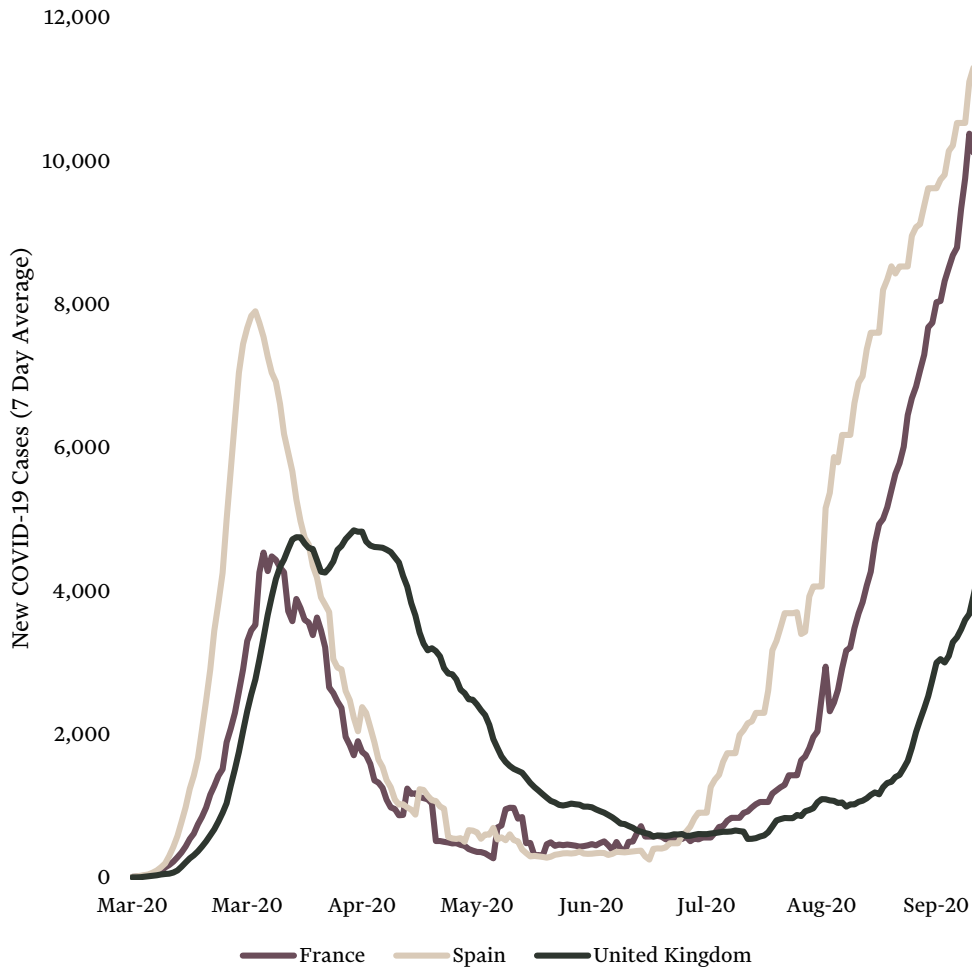


Data as of 9/24/2020

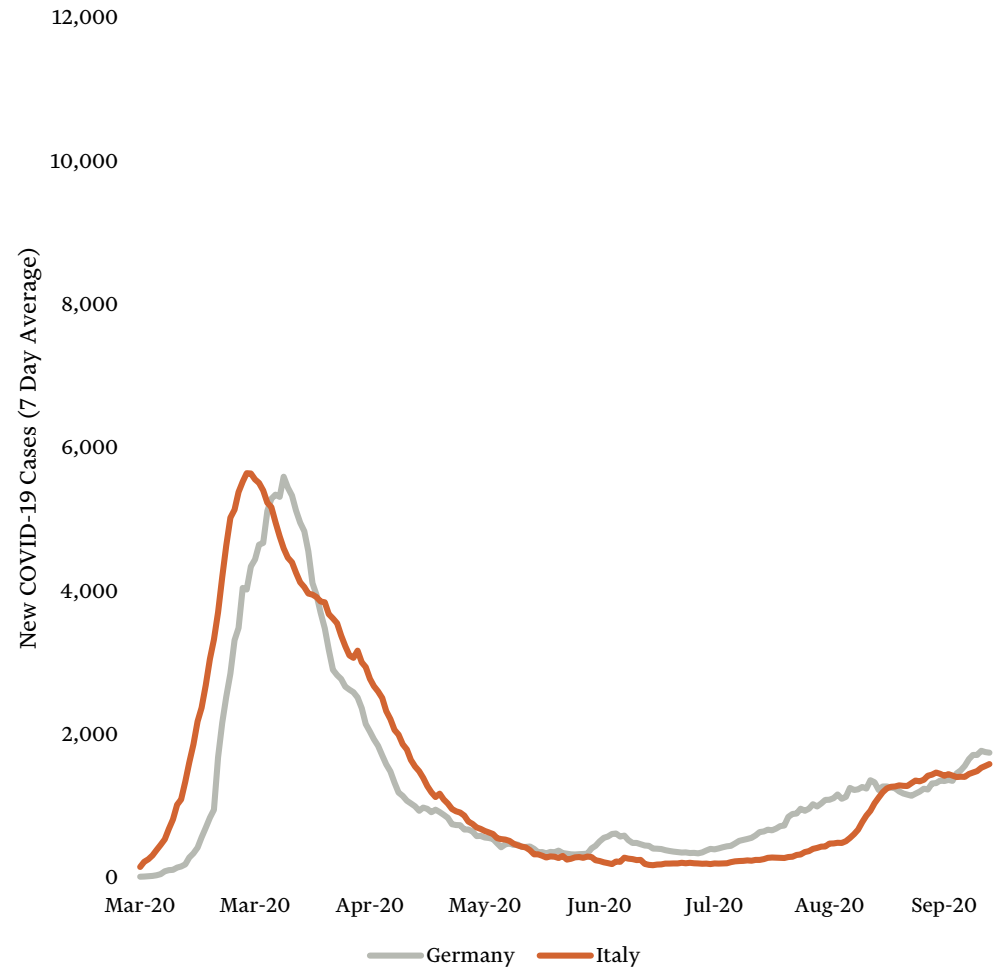
COVID-19 Cases in Europe

The second wave looks very different from the first wave.

Rising Sharply



Rising Gradually



Signs of Normalization in Fixed Income

High-yields spreads have yet to fully retrace back to their early 2020 lows.

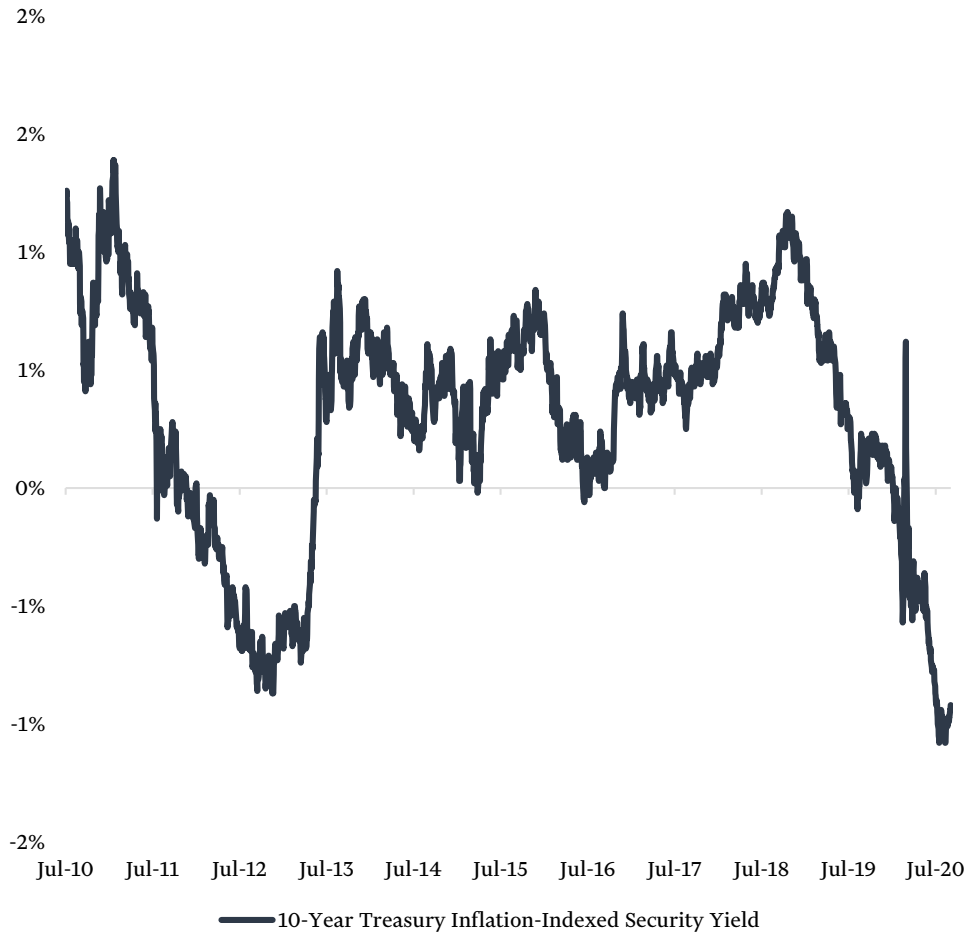
U.S. High-Yield Spreads



The Market Multiple

Lower interest rates support the market multiple.

Implied U.S. Interest Real Rate



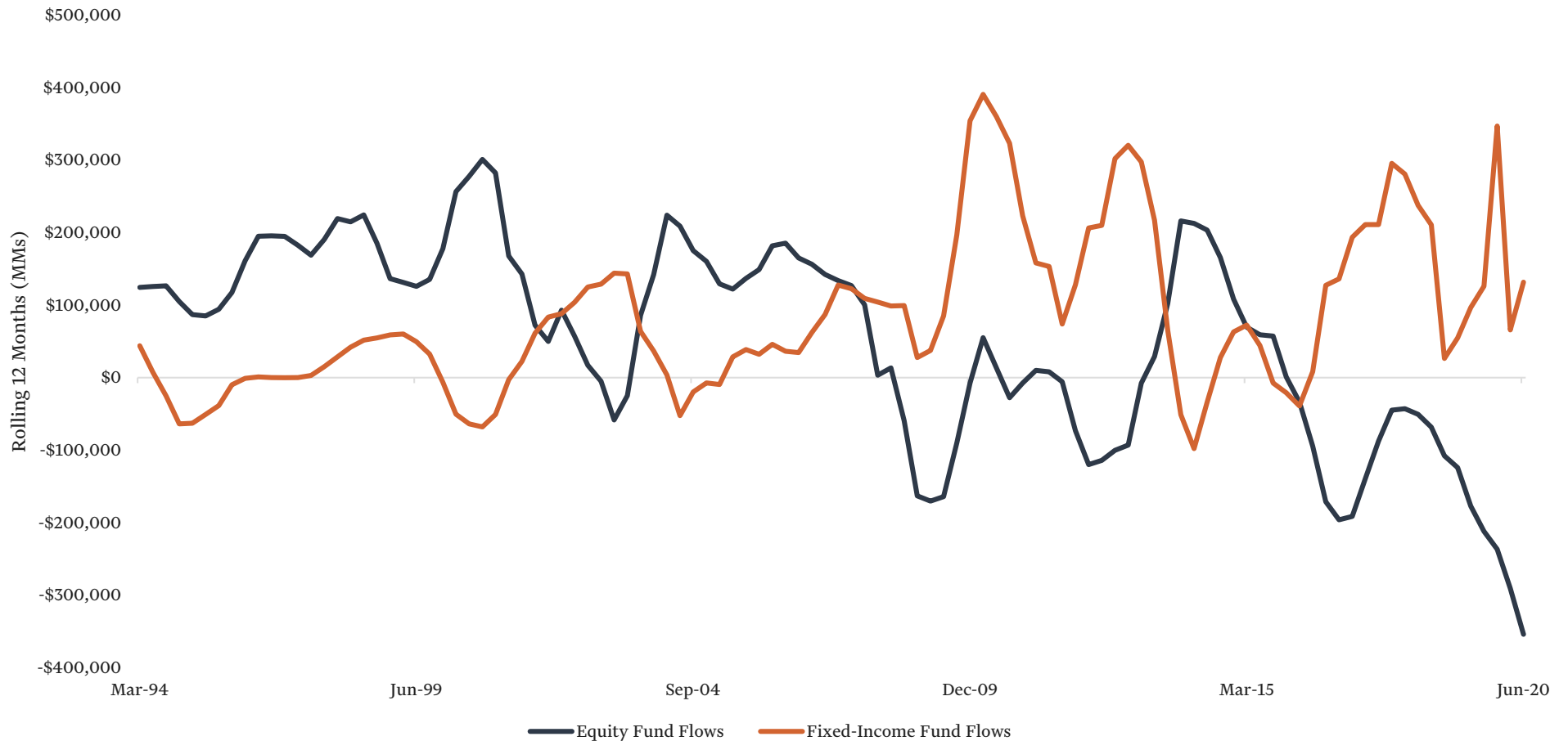
S&P 500 Forward PE Ratio



Equity and Fixed-Income Fund Flows

Money flows do not suggest a market top.

Net Mutual Fund & Exchange-Traded Fund (ETF) Flows



Does not include fund of funds or money market funds; Equity fund flows include sector, U.S. and international categories; Fixed-income fund flows include taxable bond and municipal bond categories

Concentration Risk in the U.S. Stock Market

The big keep getting bigger.

Combined Weight of Five Largest S&P 500 Weights



The Recent Correction

A pause from a burst of exuberance in August

Tectonic shifts

Beware the power of retail investors

Armed with derivatives, they are raising the volatility of tech stocks

MARKETS

SoftBank Shares Drop on Concerns About Massive Options Bet

Investors worry that a large bet on tech stocks changes the risk profile of the Japanese tech conglomerate

MARKETS

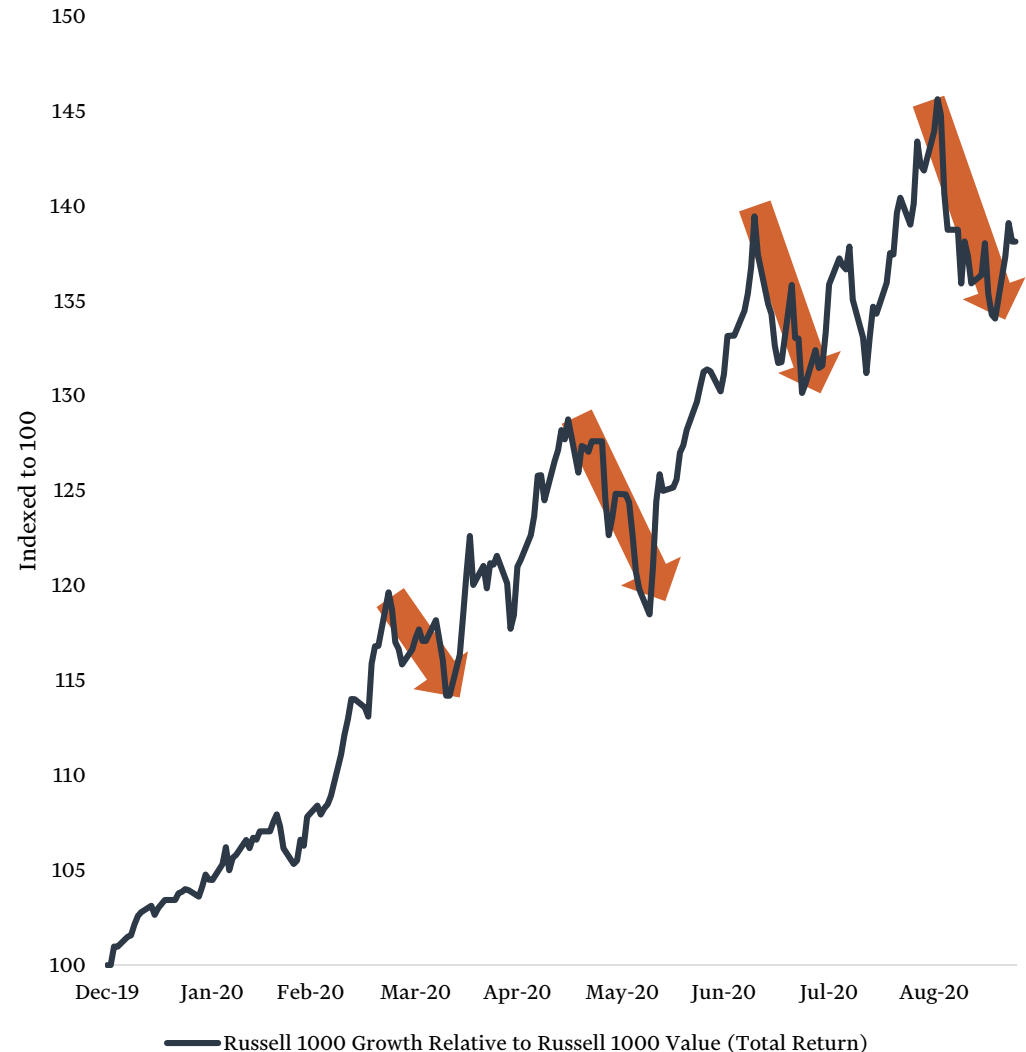
Tesla jumps 12% as stock split takes effect, Apple gains 3%

PUBLISHED MON, AUG 31 2020-11:20 AM EDT | UPDATED MON, AUG 31 2020-4:26 PM EDT

S&P 500 adds three companies not named Tesla — ‘a bit of a shocker,’ analyst says

Published: Sept. 8, 2020 at 8:51 a.m. ET

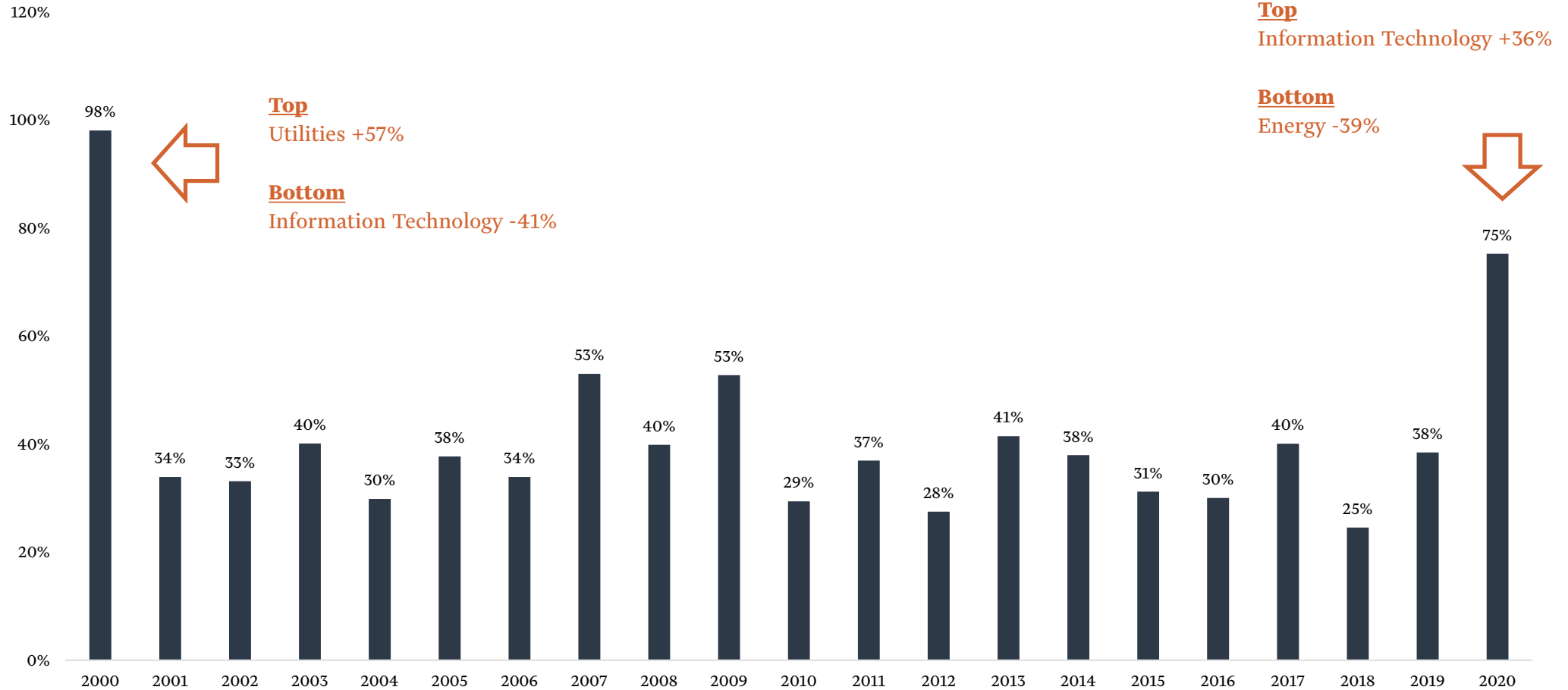
Growth Relative to Value



A Tale of Two Markets

Like in the economy, the recovery has winners and losers.

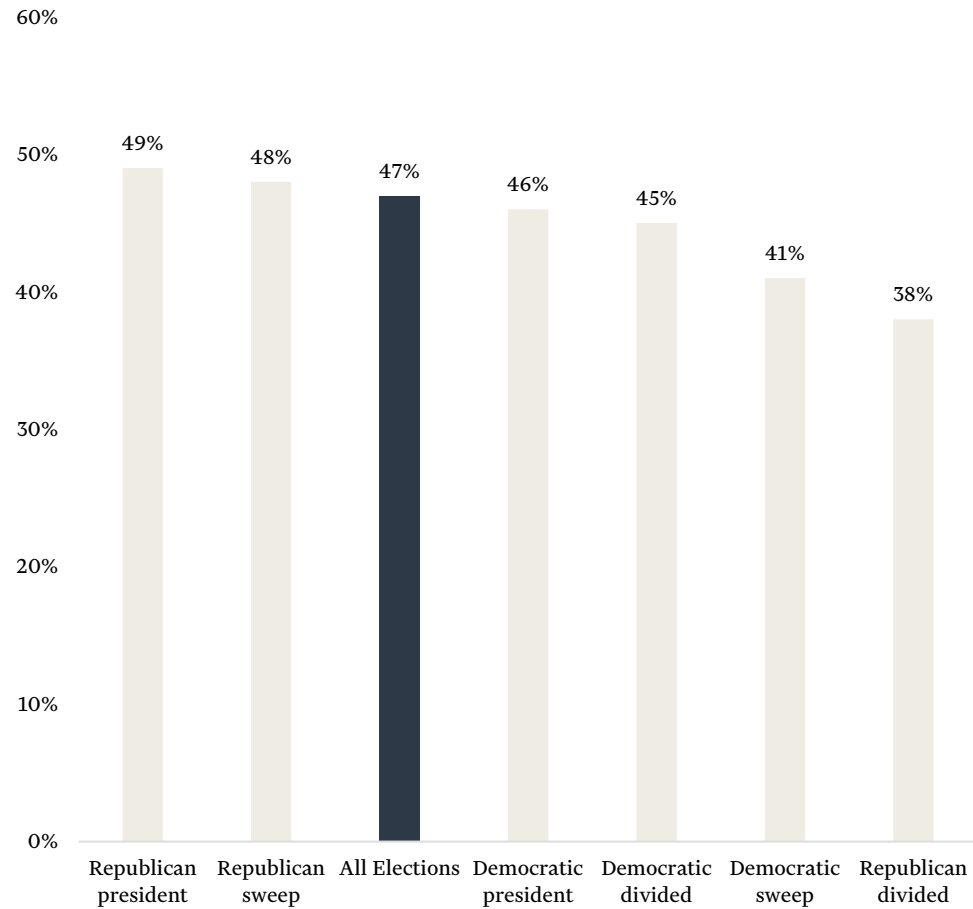
S&P 500 Sector Performance Spread (Top Performing Sector minus Bottom Performing Sector)



Election Uncertainty

History has shown that timing the market based on anticipated election outcomes is dangerous to your financial health.

Four-Year Presidential Market Returns



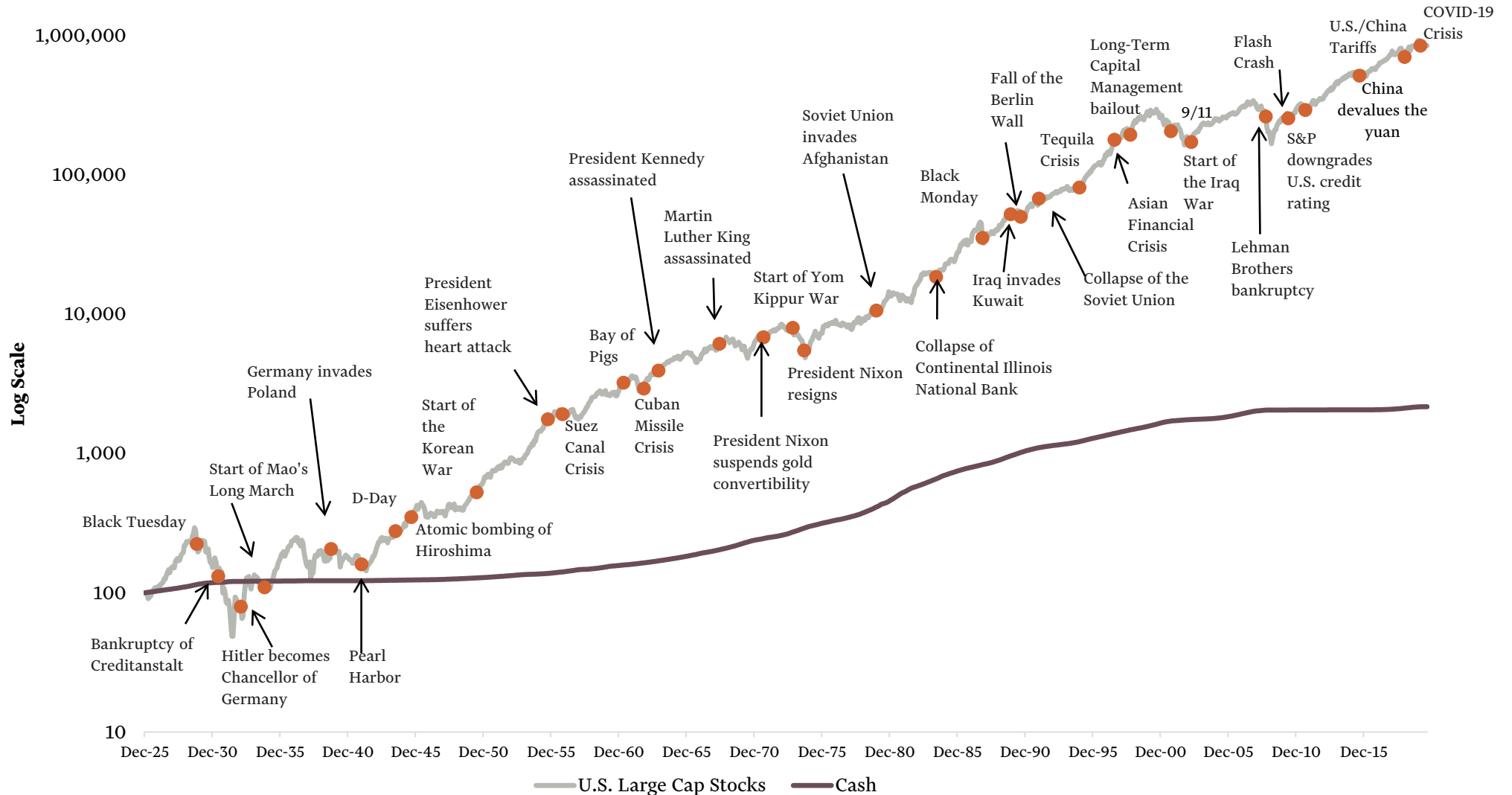
Volatility Index (VIX)



Monthly data since 1789 (mix of S&P 500, DJIA, Cowles Commission), Source: FMRCo.

The Perpetual Wall of Worry

The market has always been faced with risks to navigate around.



Key Takeaways

The market is contending with lots of worries (some old, some new).

Not all risks materialize into market-driving forces.

The recovery continues to be uneven with winners and losers.

Markets are forward looking.

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