630 Business Center Drive, Third Floor, King of Prussia, PA 19406 • www.tp-advisory.com
Phone: 610-254-0451 Fax: 484-580-8482 email: thomaspadilla@comcast.net

The Federal Reserve Backs the Market

Global Markets and Regions

	3rd QTR	2020 YTD
US	13.00%	20.70%
Developed Europe	15.60%	5.40%
Asia	17.40%	20.90%
Emerging Markets	18.37%	16.38%

US Markets

	3rd QTR	2020 YTD
Dow 30	10.70%	9.70%
Large Cap Cos.	10.14%	40.79%
Mid. Cap Cos.	24.36%	13.12%
Small Cap Cos.	31.21%	10.82%
Bonds	0.98%	7.60%

Markets in 2020 served to investors another wealth- threatening existential moment. The last time we had a market like this in 2008 - 2009, prices actually declined significantly more on a percentage basis. It's interesting to note that only our financial health was threatened at the time. This crisis threatened our physical health as well.

Many of the responses to the last crisis were re-deployed. The Federal Reserve provided all the liquidity the market needed and kept the financial system functioning. The Government's unique fiscal policy response of direct payments to consumers and businesses, have limited the employment and income impacts to at a least tolerable level. The Federal budget deficit has expanded dramatically, but for the time being this seems manageable. They are aware of and acknowledge the Covid impacts on the economy. The Fed will remain in a supportive/reactive mode, standing ready to act should financial conditions deteriorate.

I'll leave an analysis of the Government's response to the public health impacts of the crisis to others more qualified to comment, but the impact on the economy has been substantial and uneven. One of the unusual outcomes, whether intended or otherwise, has been the resulting Covid-lockdown winners and losers. Most people understand the impact on restaurants, gyms, travel and leisure industries, but others areas of the economy have been able to at least adapt and survive; think Walmart, Home Depot and chain grocery stores. Technology, on the other hand, has boomed. Whether the long term impacts of the disruptions are good or bad is yet to be determined. The market's response has been one of the biggest dispersions of return results in recent history.

The market has focused on and responded to Covid health related news and developments with uncanny correlation as the spread of Covid and the rush to develop vaccines have played out. The successful development and rollout of the vaccines has been a significant market changing event. Surveys indicate that 50% to 70% of the population is willing to be vaccinated. The rollout of inoculations has begun.

Restrictions on public movement and travel have remained in place for a large part of the country, particularly financially essential states such as New York, California, New Jersey and Pennsylvania. As the data continues to come in, it is apparent that the lockdowns are only marginally effective in controlling the spread of Covid. The non-Covid health and welfare impacts of the lockdowns are starting to make the tradeoffs look worse than the intended benefits.

Understanding that returning to the economic circumstances of the end of 2019, before Covid, will require that the rest of the economy opens up. The rebound of the economy in the 2nd and 3rd quarters has been epic. We are trending in the right direction, but we're not there. There are some signs the rate of improvement is starting to slow down.

This is happening as we begin the earnings season and close the books on corporate results for 2020. Investors are going to want to see signs of continued progress towards more "normal" earnings growth. Earnings ultimately drive stock prices. Direct stimulus payments by the government to individual households and the PPP loans (Payment Protection Payment) allowed workers to continue to spend and consume. The have also paid down debt levels. Personal savings levels have risen dramatically. All of this has been supportive of earnings. When the economy fully reopens, the average consumer will have money in the bank and a pent up desire to spend. This activity has been and continues to be supportive of corporate earnings.

It has been a rather uneventful political scene with the recent elections; JUST KIDDING! With Democrat gains, higher government spending will be turbocharged. Substantial increases in infrastructure spending had been a topic of discussion for the Trump administration, even before Covid. With the consolidation of control by the Democrats, this train should finally leave the station.

So we enter 2021 with a lot of the same concerns as 2020, particularly regarding Covid. The Federal Reserve will continue to backstop the market. The fiscal plans of the government appear poised to replace direct payments, or supplement them with higher directed spending, as economic support. Consumers are in a condition to spend. We're almost back, but only if the economy fully reopens. We'll see.