8/21/2020 On the Mark-Elections and Markets
A Message from Chris Phelps, Advisor

I hope and pray everyone is doing as well as can be expected. While summer is soon coming to a close, we have a lot to look forward to in the next few months. Many view the upcoming elections as significant for both the economy and the financial markets. I agree that governmental policies and actions have an impact but not necessarily to the degree you may think. I have attached to this email an article that illustrates how the economy and markets respond to the results of our quadrennial festivities (i.e. Presidential election years).

It has been somewhat frustrating this week in that San Diego County met the State's required metrics to come off of the Governor's watchlist (e.g. effective last Tuesday), yet nothing changed. You still cannot go inside a fitness gym or styling salon and restaurants are still serving in parking lots and patios. In San Diego County daily new case levels have dropped to about 275 per day. The seven-day positive testing rate average has dropped from 4.25% to 3.45% over the last week. Even better is that hospitalizations continue to decline dropping to 284 from 420 three weeks ago. That is about a one-third reduction. Based on 644 "associated" Covid-19 deaths in San Diego county as of yesterday, infection fatality rates continue to hold steady at 0.03% for those under age 60, 0.40% for ages 60-69 and 1.7% for those age 70 or older. California state reported case levels have trended up (e.g. albeit at a slower rate compared to a week ago) however, hospitalizations continue to trend down dramatically. In the last three weeks the number of hospitalized virus patients (e.g. confirmed and suspected) has dropped by about 2,000 which represents a 25% decline. Clearly, even though case levels in California continue to rise, fewer people are requiring hospitalization and extreme life-saving measures.

Overall, stocks continue to move due to momentum, supportive fiscal and monetary policy and improving investor sentiment. Congress is still stalemated over the fifth Federal stimulus bill, although there appears to be some negotiating room because of the Trump Administration's implementation of its executive orders to prevent various benefits and other measures from completely disappearing. The vast majority of Companies reporting second quarter earnings beat their analyst-reduced estimates handily. Expectations are for significant improvements for earnings outlooks in the third and fourth quarters of this year. Short-term the U.S. and global economic recovery will likely be bumpier than what markets reflect. Uncertainty about the virus and the stimulus bill combined with stretched valuations imply near-term vulnerabilities to the stock and bond markets. On a positive note, central bank policies continue to strongly support credit markets keeping interest rates low and supporting corporate cash levels. Longer term, assuming the monetary and fiscal support continues, the conditions remain positive for the markets to continue moving up.

The letter I have attached this week regarding the impact of Presidential elections on the markets was written by Kezia Samuel, an investment analyst for AssetMark. He more or less confirms my previous notes on election impacts in that while government policies and actions may increase or slow economic activity, they are not the major factors. Let me know if you have more questions on this subject.

I am always available to you via phone, zoom conference or in person. I encourage you to remain optimistic and to do what you can to contribute to growing the economy. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

As always, stay safe and healthy!

Christopher L. Phelps, CPA/PFS, CFP®, AIF®
Principal
Phone (858) 485-1919   Fax (858) 487-0355   chrisp@financiallifeconcepts.com