MEEDER
INVESTMENT MANAGEMENT

CAPITAL MARKETS COMMENTARY

Looking for clarity in a time of uncertainty

OCTOBER 2020

- Pfizer announced that it has created a vaccine that provides an effective rate of more than 90% against COVID-19. It is now awaiting approval from the FDA.
- While not official, it appears that Joe Biden will likely become the 46th president of the United States and that Congress will remain divided with a Republican controlled Senate and a Democratic majority in the House of Representatives.
- GDP rebounded from its worst ever quarterly drop of -31.4% in Q2 with the largest single quarter-over-quarter change in Q3 of +33.1%.

COVID-19

Pfizer shared extremely positive news by announcing its COVID-19 vaccine provides an effective rate greater than 90% for those that are not infected. For perspective, a vaccine for the common flu offers roughly a 50% effective rate. The vaccine will still need to clear FDA approval, but the firm is currently working on the next challenge of mass production and a fast delivery. Pfizer forecasts the company will produce 50 million doses of the vaccine by the end of the year and produce as many as 1.3 billion in 2021. This news of a potential vaccine caused the price of WTI crude to rise more than 8% in a single day.

Despite the very positive news, the daily number of confirmed COVID-19 cases in the U.S. and many countries worldwide are reaching new highs. More than 50.5 million confirmed contractions of COVID-19 have resulted in over 1.2 million deaths globally. In the U.S., 10 million cases have resulted in more than 237,000 deaths. The U.S. continues to keep the economy open, but the daily level of new confirmed infections is snowballing, even exceeding a new threshold of 120,000 in a single day. The number of confirmed cases were expected to rise as we enter flu season and more people stay indoors, but the current COVID-19 contraction rate spikes are alarming to medical professionals. The global pandemic forced England, France, and Germany to enter a lockdown due to a spike in the number of COVID-19 contractions.

2020 ELECTION

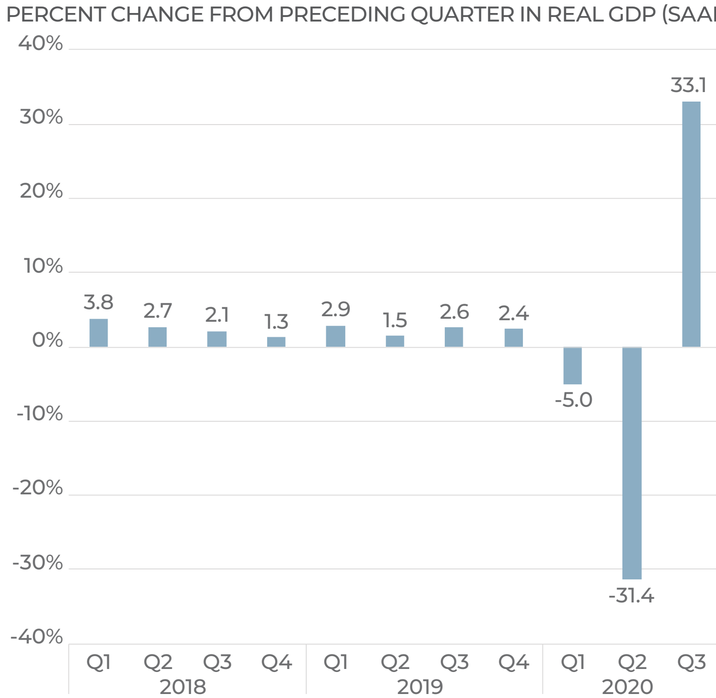
The aftermath of the 2020 U.S. Presidential Election continues to unfold. The Democratic nominee, Joe Biden, is projected to win the White House. In the Senate, both seats for the state of Georgia will hold a runoff race in early January because the state legislature requires the winning candidate to receive more than 50% of the vote. Current numbers suggest that Republicans will likely keep control of the Senate, while Democrats will retain a majority in the House of Representatives. The stock market spiked on the increasing likelihood of maintaining a split congress.

Since 1928, a split party Congress has produced some of the best stock market returns, regardless of which party won the presidency. The reason is that two parties in Congress generally create gridlock, which reduces uncertainty for investors by preventing abrupt and unexpected policy changes.

Although some facets of the 2020 election remain undetermined, some aspects are already historic. The nonpartisan Center of Responsive Politics estimates that the Congressional and Presidential campaigns for the November 2020 elections cost $10.8 billion. Campaigns spent more than $1 billion on television campaign ads, with $882 million of the total directed to six key battleground states.

Despite the record dollars spent by both campaigns, expected volatility followed a somewhat similar pattern to past elections. Since 1992, volatility in presidential election years tend to spike an average of 38% in the three months preceding election day. This year was similar as the CBOE Volatility Index (VIX) spiked more than 50% during this time frame.

PERCENT CHANGE FROM PRECEDING QUARTER IN REAL GDP (SAAR)



Source: US Bureau of Economic Analysis

ECONOMY

In the U.S., GDP roared back from its worst drop ever of -31.4% in the second quarter to its most significant jump ever of 33.1% in the third quarter. In the final week of October, initial weekly jobless claims fell modestly to 751,000. This number is the lowest level since the pandemic began but is losing momentum from previous monthly declines. For October, nonfarm payrolls added 638,000 jobs and surpassed analyst expectations of 530,000 but are at the slowest pace since the recovery began. The unemployment rate also fell from 7.9% to 6.9%. This surprise of better-than-expected strength in the jobs market of the economy and caused the yield on the 10-year Treasury to jump to higher than 0.83% following the news.

STIMULUS

Some investors are expecting the government to provide a stimulus plan to help spur the slowing rebound of this economy. Both political parties mostly agree that it is needed, but the amount of stimulus is the most significant component they have yet to resolve. The current administration wants a much smaller package, as they feel the economy is coming back on its own and excessive spending would not be prudent. It is not clear if the current administration will continue to try and push this legislation through or if a bill will need to wait until the new administration takes office in January. Democrats are currently in favor of a much larger stimulus, which may provide additional wind at the backs of equity investors.

FEDERAL RESERVE

At the November meeting, the Fed maintained the short-term lending rate among banks at a range of 0-0.25%. The Federal Reserve noted that many aspects of the economy remain below levels prior to the pandemic and stated, "it is committed to using its full range of tools to support the U.S. economy" to help the country sustain the economic rebound. In September, the Fed provided long-term guidance and stated that rates are likely to remain near zero through 2023, and possibly even longer.

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