



Volatility on the Horizon?

We hope that this letter finds you safe and healthy during these unprecedented times.

2020 continues to be one of the most unpredictable years in memory, with indices striving forward in the third quarter, despite a resurgence in COVID-19 cases. Rallying early in the quarter, stocks reacted to a combination of even more accommodative Fed policy, hopes for a COVID-19 vaccine, and a stronger-than-expected economic rebound. Despite these elements, markets dipped modestly later on in the quarter, due to uncertainty of the timing of these factors.

A positive quarter indeed, major U.S. stock indices continued their march forward, with the tech-heavy Nasdaq and S&P 500 being the strong leaders of the domestic samples. As the presumed beneficiaries of the pandemic-induced evolution of human behavior, “FAANGM” stocks, and the like, helped send the Nasdaq and S&P 500 to all-time highs by early-September. Notwithstanding the impressive rebound, most other more diversified indices, however, continued to struggle towards breaking-even for the year.

Entering this final quarter, we are keenly aware of the biggest unknowns for the markets and the economy will be resolved positively or negatively in the next three months.

Starting with the obvious, November 3rd is Election Day, and apropos for 2020, this election will be one of the most uncertain in our lifetimes. Beyond the most important question of the presidential victor, markets are also focused on whether the Democrats will be able to take control of the Senate. If so, and Biden wins the Presidency, Democrats would control both the legislative and executive branches of government, a scenario dubbed the “Blue Wave” by the financial media. Such a scenario would result in the increased potential for policy changes which would likely create short-term market volatility.

However, any near-term volatility associated with a “Blue Wave” would likely be small compared to the worst-case scenario for the election, of an unknown winner. If a contested election, the likely result would be the entire country being dragged through a similar episode of Bush vs. Gore in the early 2000s. In that outcome, we should expect significant short-term market volatility until a winner is declared, potentially as late as mid-December.

Ironwood Investment Counsel, LLC constructs and manages customized investment and wealth management programs designed to meet our clients’ unique goals and objectives. Our distinctive process maximizes performance through return enhancement, risk reduction, tax efficiency, and cost containment.

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Unfortunately, the election is not the only source of potential uncertainty and volatility coming in the next three months. Hopes for a COVID-19 vaccine have helped stocks rally to current levels, and there are now three separate vaccines undergoing final Phase III trials. Those trials will likely reach their conclusion in the coming weeks, perhaps before the election. If those trials fail to produce a viable vaccine candidate, that will also create volatility as markets are expecting widespread COVID-19 vaccine distribution by early to mid-2021.

Finally, by the end of the fourth quarter, investors will learn the fate of the stimulus bill currently stuck in Congress. There's near-universal agreement the economy could use more stimulus, but the politics of the election, combined with Republican and Democrat differences about fund amount and allocation, have prevented stimulus from being passed. Markets expect a stimulus bill to pass by year-end, and if that fails to materialize, it will create more volatility.

Bottom line, the resiliency of the U.S. economy and markets is both admirable and encouraging, as the economic and market recovery from the worst pandemic in 100 years has been nothing short of extraordinary. That rebound verifies the value of sticking to a well-constructed, diversified financial plan aimed at achieving long-term investment goals.

While short-term volatility might reappear between now and year-end, the markets in 2020 have once again demonstrated that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of elevated volatility, market corrections, bear markets and even global pandemics.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review. During these strange times, we hope you and your loved ones are doing well, and we look forward to speaking with you soon.

Ironwood Investment Counsel, LLC

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