



Great-West Investments Capital Markets Perspective

Week in Review: September 15th – 20th

INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE)		INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE)	
			1 WK.	YTD				1 WK.	YTD
Dow Industrials	Lg. Cap Eq.	27,657.42	0.0%	-3.1%	FTSE 100	UK Equity	6,007.05	-0.4%	-20.4%
S&P 500®	Lg. Cap Eq.	3,319.47	-0.6%	2.7%	Nikkei 225	Japan Equity	23,360.30	-0.2%	-1.3%
NASDAQ Comp.	US Equity	10,793.28	-0.6%	20.3%	EEM:US	Emkt. Equity	\$44.52	1.3%	-0.8%
Russell 2000®	Sm. Cap Eq.	1,536.78	2.6%	-7.9%	EFA:US	Non-US Equity	\$65.13	0.5%	-6.2%
Stoxx 50	Europe Eq.	3,283.69	-1.0%	-12.3%	UST 10y (yield)	US Treasury	0.70%	0.03%	-1.22%
					B/Barc AGG	Fixed Inc.	2,379.15	-0.01%	6.93%

Markets seemed willing to continue their slow rotation away from the “COVID-safe” growth names that had driven gains since the market low in late March, as communications, consumer discretionary and technology stocks lagged last week while the “reflationary trifecta” of energy, industrials and materials led. Depending on how you count it, **this marks roughly the third week in a row** that this slow rotation away from what has worked best during the pandemic and toward what comes next has continued.

That wasn't necessarily the only shift in focus for investors, though, as **there also seemed to be a tentative move away from the pandemic as the only driver of sentiment and toward the November election as at least a secondary influence** on how markets are viewing the landscape.

To be clear, the pandemic is still very much in the pilot's seat, but the election has crawled into the cockpit and taken up the co-pilot's seat. One example of that appeared in Friday's **preliminary read on consumer sentiment from the University of Michigan**. While there was nothing wrong with the report *per se* (consumer sentiment bumped up against the upper bound of its recent pandemic-inspired holding pattern and continued to improve,) but this comment from the lead author of the report was telling: “...the data indicated that the **election has begun to have an impact on expectations about future economic prospects**”¹. That, combined with the UofM's conclusion that respondents to its survey currently view the race for the White House as “a virtual tie,” means that markets may be increasingly sensitive to election-related headlines as November inches closer.

One thing that hasn't changed, however, is Federal Reserve policy. As widely expected, the Fed's rate-setting committee left rates alone and indicated no significant changes in its other efforts to stimulate the economy, such as the size of asset purchases for its own balance sheet. **Equity markets weren't terribly impressed** by that, though, and US actually did a moderate about-face on Wednesday as Chairman Powell debriefed the country on the FOMC's two day meeting² – turning from a slight gain in the morning to a slight loss as the press conference continued. And it was mostly downhill from there: stocks finished the week with three consecutive down days following Powell's comments.

¹ www.sca.isr.umich.edu

² Federal Reserve, [youtube.com/watch?v=6thA5ikaL74](https://www.youtube.com/watch?v=6thA5ikaL74) (9/16/20)



What was it about the Fed's remarks that grated on the market's nerves? It's impossible to know, but **investors may have been hoping for an indication that the pace of asset purchases would increase** if the recovery falters. Or, maybe it was **Powell's quiet confirmation that markets seemed to be counting on some form of renewed fiscal stimulus** even though it seems less and less likely that any will be forthcoming. A final candidate: **it could also be that markets didn't believe Powell when he tried to reassure investors** that inflation would eventually reach the 2% goal, or that the Federal Reserve has plenty of ammunition to combat a deepening recession if that becomes necessary.

Meanwhile, the ongoing recoveries in manufacturing and housing continued. With regard to housing, Tuesday's National Associations of Home Builders (NAHB) **housing market index beat expectations by a wide margin once again** on its way to setting a new record, even as the builder's trade group called out a 170% increase in lumber prices as a particular cause for concern³. At the same time, it's also plausible that this implicit spike in building costs may have impacted new construction activity, as witnessed by **a deceleration in starts and permits⁴ that disappointed economists.** Still, **the housing market remains probably the best example of a "V-shaped" recovery** that we've seen so far.

As for manufacturing, last week's two regional Fed surveys continued to show expansion, but in somewhat "lumpy" fashion: **Empire State was far better than expected⁵, while the Philly Fed⁶ showed continued growth, but at a decelerating rate.** Taken together with a mild disappointment industrial production – which was impacted by the arrival of Hurricane Laura⁷ – **the picture that emerges is one of a continued, if somewhat uneven, recovery in manufacturing.**

On balance, then, we're left with a market that seems to be slowly shifting its focus from "COVID-mode" to "election mode," even as the economy itself tries to figure out exactly which way to go. But, like always, the pandemic remains ever in the background, fully capable of reasserting its dominance over the narrative if something breaks decisively in either direction.

On second thought, **I guess that feels more like "wait-and-see mode" than it does anything else.**

What to Watch This Week: September 14th – 18th

What to Watch (September 21st – 25th)

Monday: Chicago Fed National Activity Index

Tuesday: Richmond Fed

Wednesday: Flash PMI Composite, FHFA home prices, Powell testimony (House)

Thursday: Weekly jobless claims, Powell testimony (Senate), new home sales, KC Fed

Friday: Durable goods orders

This week will see a **continuation of the monthly ration of housing-related data, more regional Fed manufacturing reports and a pair of presentations by Chairman Powell** in front of key committees of both chambers of congress. **Wednesday's flash PMI ("purchasing managers' indices") data will also be of interest.**

For my money, Chairman **Powell's testimony** in front of the House Select Subcommittee on the Coronavirus Crisis on Tuesday **carries the greatest potential to impact markets.** (Wednesday's testimony in the Senate will likely be a simple reprise of that discussion.) Given Powell's statement last week that he believes more relief is

³ <http://eyeonhousing.org/2020/09/builder-confidence-soars-to-an-all-time-high-lumber-risks-remain>

⁴ <https://www.census.gov/construction/nrc/pdf/newresconst>

⁵ https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2020/esms_2020_9_survey.pdf?la=en

⁶ <https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2020/bos0920>

⁷ <https://www.federalreserve.gov/releases/g17/current>



needed and that the “overwhelming majority of those forecasting that the recovery will continue are assuming more fiscal support,”⁸ **it’s easy to imagine that his comments might represent a tactfully delivered lecture designed to goad lawmakers into approving additional stimulus.** But whether or not that will resonate with a Congress focused on the November elections is an altogether different question.

The flash PMIs on Wednesday are probably a close second in terms of potential impact. As discussed above, the regional Feds (which we get another batch of this week,) have begun to show some lumpiness. If that same message comes through in Wednesday’s preliminary read of manufacturing- and services-related PMIs, it could weaken the case in favor of a further acceleration in economic activity.

That leaves housing as the one sector of the economy where strength is more or less unassailable. This week’s read into housing prices (Wednesday) and new home sales (Thursday) should help confirm that.

Source for index data: Bloomberg.com; GWI calculations.

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⁸ Federal Reserve, [youtube.com/watch?v=6thA5ikaL74](https://www.youtube.com/watch?v=6thA5ikaL74) (9/16/20)