

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished October at 26,502, down -4.61% for the month and down -7.14% year-to-date. The S&P 500 closed October at 3,270, down -2.77% for the month, up +1.21% so far for the year. The NASDAQ Composite fell -2.29% in October, up +21.61% for the year. Small-company stocks, as measured by the Russell 2000, ended October up +2.04% for the month, and -7.79% year-to-date. Technology (-4.43%) was the worst performing sector in October.

"The U.S. presidency is set to change in January - but the two powerful forces that have driven financial markets this year will likely remain the same: the Federal Reserve and the pandemic." (The Wall Street Journal, *What a Joe Biden Presidency Will Mean for Markets*, Akane Otani, November 8, 2020)

Special Edition: Markets Bullish on Biden, Split Congress, and Vaccine News

Markets pulled back modestly in October, as traders positioned for a contentious November election and a surge in COVID-19 cases heading into winter. Following the election, markets became increasingly optimistic that Vice President Joe Biden and Senator Kamala Harris would be the winning ticket in the presidential race, and that the margin was comfortable enough to prevent a truly contested election result and the uncertainty that would entail. Current challenges to the election results are viewed by most as unlikely to change the outcome, and markets appear to be mostly ignoring them at this time. The results were closer in some congressional races, and with two key runoff Senate races in Georgia left to go, prediction markets are modestly favoring Joe Biden to have a Republican Senate and Democratic house to start his first term. Financial markets have responded favorably to this, with many expecting it narrows the probability and the scope for sweeping policy changes in the near-term, thus reducing uncertainty for investors.

Markets also got positive news on the vaccine front as Pfizer announced their vaccine candidate, now in phase-3 human trials, showed 90+% effectiveness in early data. This level of effectiveness was viewed as a positive for how rapidly an economy could re-open following approval, as higher effectiveness would reduce the number of vaccines needed to achieve herd immunity. It's also positive for the other vaccines being tested, as many are using the same or similar technologies and approaches. Experts are urging caution, though, that the results are still early and that any widespread distribution of a vaccine is still multiple months away. Many leading experts fear a tragic season may be ahead due to a number of reasons: an increasing surge in cases and hospitalizations across the U.S., growing fatigue and laxity around social distancing and mask-wearing compliance, and fewer opportunities for outdoor socialization, to name a few. We pray for the health and safety of all of our readers, clients, communities, and nations in the month ahead.

"The moves suggested individuals, hedge funds and other investors were rapidly recalibrating their forecasts for faster economic growth and higher inflation based on the vaccine news, as a successful vaccine has the potential to restart swaths of the economy hobbled by the pandemic ... The new leg of the rally in stocks also reflects the reduced uncertainty surrounding the U.S. elections, combined with expectations that a Democrat-controlled White House and divided Congress could result in moderate policy measures on taxes and spending." (The Wall Street Journal, *Dow Surges to Highest Level Since February on Vaccine Results, Biden Win*, Caitlin Ostroff, Nov. 9, 2020)

GDP and Employment Recovery Continues

Sharp increases in consumer spending drove U.S. GDP in the 3rd quarter to its strongest gain on record, +7.4% over the prior quarter or +33.1% annualized. Importantly, this follows the worst decline on record, -9% in the second quarter or -31.4% annualized. Still, the U.S. has now recovered about two-thirds of the economic output lost to COVID, an outcome widely seen as better than feared. The labor market also added another 638,000 jobs in October, the sixth straight monthly gain. This brought the unemployment rate, which reached 14.7% in April, down to 6.9%. While these indicators point to a better than expected economic recovery so far, both GDP and employment are still expected to end 2020 meaningfully worse than 2019. With the virus surging, cold weather ahead, and much needed fiscal stimulus from Congress less than certain, we encourage investors to remain aware that these signals could disappoint in the near-term, and volatility may pick up.

MARKET METRICS

| INDEX OR METRIC | CLOSE AS OF 09/30/2020 | CLOSE AS OF 10/31/2020 | CHANGE PREVIOUS MONTH END | 2020 YTD % CHANGE |
|------------------------------|---------------------------|---------------------------|---------------------------------|----------------------|
| Dow Jones Industrial Average | 27,781.70 | 26,501.60 | -1,280.10 | -7.14% |
| S&P 500 | 3,363.00 | 3,269.96 | -93.04 | +1.21% |
| NASDAQ Composite | 11,167.51 | 10,911.59 | -255.92 | +21.61% |
| RUSSELL 2000 | 1,507.69 | 1,538.48 | +30.79 | -7.79% |
| Fed Funds Rate | 0.00%- 0.25% | 0.00% - 0.25% | UNCHANGED | |
| 2-Year Treasury | 0.13% | 0.14% | -0.01% | |
| 10-Year Treasury | 0.69% | 0.88% | +0.19% | |
| Crude Oil \$ per Barrel | \$40.22 | \$35.79 | -\$4.43 | -41.39% |
| Gold \$ per Troy oz. | \$1,895.50 | \$1,879.90 | -\$83.10 | +23.43% |
| UK Pound in U.S. \$ | \$1.2928US = 1£ | \$1.2930US = 1£ | \$ WEAKER | -2.40% |
| Euro in U.S. \$ | \$1.1727US = 1€ | \$1.1649US = 1€ | \$ STRONGER | +3.77% |
| Canada \$ per U.S. \$ | \$1.33575C = \$1.00US | \$1.33335C = \$1.00US | \$ WEAKER | +2.82% |
| Japan Yen per U.S. \$ | 105.53¥ = \$1.00US | 104.54¥ = \$1.00US | \$ WEAKER | -3.80% |



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