THE CAPITAL MARKETS

Presbyterian FOUNDATION
NEW COVENANT TRUST COMPANY
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The Dow Jones Industrial Average (DJIA) finished September at 27,781 down -2.28% for the month, and down -2.65% year-to-date. The S&P 500 closed September at 3,363 down -3.92% for the month, up +4.09% so far for the year. The NASDAQ Composite fell -5.16% in September, up +24.46% for the year. Small-company stocks as measured by the Russell 2000 ended September down -3.47% for the month, and -9.64% year-to-date. Energy (-20.20%) was the worst performing sector in Q3.

"U.S. stocks turned in a second consecutive quarter of dramatic gains, continuing a historic stock-market recovery that few predicted in the depths of the March downturn." (The Wall Street Journal, *Stocks Finish Second Straight Quarter of Big Gains,* Gunjan Banerji, September 30, 2020)

3rd Quarter Review - Optimism Outweighs Caution, For Now

The S&P 500 pulled back in September but still gained +8.47% in the 3rd quarter, now up +4.09% for the year. While worrisome signals abound, the economy so far has managed to avoid many of the worst case scenarios viewed as possible early in the pandemic, and has recovered at a better-than-expected pace through the summer. Market participants continue to price in optimism around accommodative Federal Reserve policy, additional relief spending from Congress, successful progress on COVID-19 vaccines, and eventual economic re-openings in 2021. These factors, though, are less than certain and the market appears to be ignoring material risks surrounding the severe disruptions and increasing layoffs concentrated in industries such as airlines and hospitality, the negative effects on consumer spending and eviction rates from enhanced unemployment benefits expiring, and a ratcheting up of tensions between the U.S. and China - this time over Taiwan and the South China Sea. With these risks plus a contentious election season ahead, we view market volatility as likely in the near-term, and encourage investors to ensure their cash reserves are sufficient for near-term cash needs.

Traders Bet on Election Day Volatility

Options traders have driven up the price of so-called 'volatility insurance' to over 6X normal levels, an all-time record, for the periods immediately following election day 2020. This may be due to an increased risk of what many consider to be a worst case outcome for markets, a contested election. In the event of an extended period of time following election day where the outcome is challenged or unclear, a risk seen as elevated in 2020, such uncertainty could lead to sharp swings in markets as the eventual outcome is worked out over time. From a market perspective, the latest polling showing a double digit national lead for former Vice President Joe Biden was seen as a positive by many, as it reduces the risk of a contested election. We encourage investors to remember that long-term investment returns are driven by hundreds, if not thousands, of various factors over decades and through various Presidential administrations. Remaining balanced and diversified, keeping fees low, and maintaining a disciplined and long-term focus through short-term swings are the factors most likely to contribute to optimal investment results over time. If there are any questions or concerns around your level of risk or exposure to equities, please just reach out to us and we'd be happy to assist in your analysis.

" 'The market's base case is that we're going to get some stimulus post-election,' said Michael Bell, a global market strategist at J.P. Morgan Asset Management. 'In many ways, a clear election result which leads to some stimulus ... is better than an unclear result which leads to continued lack of stimulus.' " (The Wall Street Journal, *Stock Futures Rise as Trump Appears to Soften Stance on Stimulus,* Caitlin Ostroff, October 7, 2020)

Employment Recovery Slowing

Through September employers have brought back about half of the 22 million jobs lost since February. With 661,000 jobs added in September, though, the pace of recovery is dramatically slowing and most expect the employment recovery will be measured in years and not months. Large corporate layoffs are now beginning in earnest, with Walt Disney Co. announcing 28,000 previously furloughed theme park workers would be laid off and American and United Airlines are moving forward with more than 32,000 total job cuts. A decline in government jobs, particularly school teachers, is also hindering jobs numbers. Following a better than expected early recovery, it's possible that complacency could be delaying the relief and stimulus needed to limit any permanent economic damage to the most affected industries and their employees. Volatile negotiations around relief spending for airlines, restaurants, and municipal governments will be closely watched in the month ahead.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 08/31/2020	CLOSE AS OF 09/30/2020	CHANGE PREVIOUS MONTH END	2020 YTD % CHANGE
Dow Jones Industrial Average	28,430.05	27,781.70	-648.35	-2.65%
S&P 500	3,500.31	3,363.00	-137.31	+4.09%
NASDAQ Composite	11,775.46	11,167.51	-607.95	+24.46%
RUSSELL 2000	1,561.88	1,507.69	-54.19	-9.64%
Fed Funds Rate	0.00%- 0.25%	0.00% - 0.25%	UNCHANGED	
2-Year Treasury	0.14%	0.13%	-0.01%	
10-Year Treasury	0.72%	0.69%	-0.03%	
Crude Oil $ per Barrel	$42.61	$40.22	-$2.39	-34.13%
Gold $ per Troy oz.	$1,978.60	$1,895.50	-$83.10	+24.45%
UK Pound in U.S. $	$1.3390US = 1£	$1.2928US = 1£	$ STRONGER	-2.41%
Euro in U.S. $	$1.1960US= 1€	$1.1727US= 1€	$ STRONGER	+4.47%
Canada $ per U.S. $	$1.30295C = $1.00US	$1.33575C = $1.00US	$ STRONGER	+3.01%
Japan Yen per U.S. $	106.045¥ = $1.00US	105.53¥ = $1.00 US	$ WEAKER	-2.89%

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