

OBSERVATIONS

- COVID-19: Global death toll passes 1,000,000 – far outpacing the burden of influenza, which kills an average of 389,000 globally (an estimated 67% of which are aged 65 or older).¹
 - The President, First Lady, Sen. Mike Lee, Sen Thom Tillis, Sen. Ron Johnson, White House adviser Hope Hicks, RNC Chair Ronna McDaniel, former N.J. Governor Chris Christie, former adviser Kellyanne Conway, campaign manager Bill Stepien, aide Nick Luna, 3 unnamed journalists and one staffer have all tested positive as of 4-Oct.
- Manufacturing rebound: Nondefense capital goods orders exceed pre-crisis levels and are at 8-yr highs.²
- The 81 Initial Public Offerings (IPOs) in Q3 will mark the busiest quarter since 2000 - during the dot com era.³
- Bankruptcy activity in Q3 was the most active Q3 on record – nearly 70 companies (with liabilities greater than \$50 million) filed for either Chapter 7 or Chapter 11 protection.⁴
- Down month, up quarter – S&P 500 closed out the month of September down -3.80%, while posting positive +8.93% returns for the quarter.⁴
- In spite of the pandemic and recession, 86% of Americans will be shopping this holiday season, 32% plan to do majority of shopping online, and digital gift card spending is expected to increase 33% from prior years.⁵
- Lack of stimulus impacting income - last week the Commerce Department released August personal income statistics which showed a decline of -2.7% MoM, vs. expectations for a -2.5% decline.⁴
- Limits on stock buybacks and dividends for the largest banks (i.e. greater than \$100bn in assets) extended by the Federal Reserve through the remainder of 2020. The measures were first introduced in June.⁴
- The Small Business Administration has received nearly 96k (2% of the number of outstanding loans) applications for loan forgiveness in the Paycheck Protection Program (PPP). The PPP still has \$130bn in funds – though the program expired on 8-Aug.⁶
- Last Friday's Jobs report – the economy added 661k jobs and the unemployment rate declined to 7.9% during the month of September. Nearly half of the job gains (318k) came from leisure and hospitality.⁷
 - Job gains were less than expectations (859k), and layoff activity has once again started with Disney (28k employees), Dow (6% of workforce), Royal Dutch Shell (7k-9k employees) and airlines (estimated 30K+ employees) all announcing cuts last week.⁶

EXPECTATIONS

- China has approved four vaccines for limited use in China as well as with select first-line responders in UAE, Pakistan, and Saudi Arabia. Russia has approved one vaccine for limited use as well despite an abbreviated phase III trial. In the U.S., the Moderna vaccine is the most likely to report results of its Phase III trial before the end of the year.
- As Q3 earnings draws near, analysts increased earnings estimates for the S&P 500 by +4.1% during Q3. The last time analysts increased estimates during the quarter was Q1 of 2018. Increasing estimates are rare, over the last 15 years analysts have tended to reduce estimates during the quarter by -5.0%.

ONE MORE THOUGHT – *What to expect from Aggregate Bonds during the next bear market.*

The 10-Year treasury yield peaked at nearly 16%⁴ in the fall of 1981 and has been in steady decline to the present day's yield of a paltry 70bps⁴ (as of 2-Oct). With this level of yield in mind, we think it is important to level set

¹<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6815659/>

² BCA Research

³ Marketwatch, Renaissance Capital

⁴ Bloomberg LP

⁵ The Visa Back to Business Study, Global Small Business and Consumer Insights

⁶ WSJ

⁷ U.S. Bureau of Labor Statistics, Employment Situation Summary, 2-Oct

expectations for the broader fixed income asset class. In past, fixed income has played an important role in portfolios on a number of measures, one of which has been to stabilize the portfolio during times of equity market duress. As interest rates are likely to remain low for an extended period of time, it becomes clear that the portfolio stabilizing characteristics of fixed income has been greatly diminished. Taking a look (chart of the week) at the most recent bear markets (*an equity market decline in excess of -20%*) in the S&P 500, we think it is important to highlight the following. Higher bond yields have played a critical role for fixed income's ability to serve as a ballast for a portfolio during bear markets. As yields have declined over time, so too has the ability of fixed income to serve as the portfolio stabilizer that it once served – important to note that the Fed openly opposes the notion of negative interest rates, so further declines in interest rates are likely minimal. Expectation setting is crucial with regards to the role of fixed income, we believe the asset class continues to play a role in portfolios, however, clients are best served understanding that portfolio volatility is likely not offset by this asset class in the event of a near future bear market – all else equal. It is also true that conditions may change and if they should, we will react accordingly. In the meantime, we continue to focus on disciplined asset allocation, rational asset class and portfolio expectations, and opportunistic investing on behalf of our clients.

CHART OF THE WEEK

Fixed Income's portfolio stabilizing characteristics likely impaired relative to prior periods.

Bear Market		10-Year Treasury Yield			Aggregate Index	U.S. Treasury	S&P 500
Start Date	End Date	Start	End	Change in Yields	Total Return	Index Total Return	Total Return
3/24/2000	10/9/2002	6.2%	3.6%	-2.6%	→ 29.1%	31.4%	-47.4%
10/9/2007	3/9/2009	4.6%	2.9%	-1.8%	→ 7.2%	15.4%	-55.2%
2/19/2020	3/23/2020	1.6%	0.8%	-0.8%	→ -0.9%	5.4%	-33.8%

Higher beginning yields means more room for bonds to appreciate to "stabilize" the portfolio. The inverse of the prior holds true and with the 10-Year Treasury yield currently at 70bps, fixed income likely offers little opportunity for "protection" against equity bear markets..

Source: Clearstead, Bloomberg LP, as of 2-Oct, Aggregate Index = Bloomberg Barclays Aggregate Bond Index, U.S. Treasury Index = Bloomberg Barclays U.S. Treasury Index. Past performance is not an indicator of future results.



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