Partner Talk®

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Surveying the Landscape

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"I am the one thing in life I can control." - Hamilton

If you have seen *Hamilton*, Broadway's retelling of the story of a founding father, you may recognize the line above. *Hamilton* opened in 2015 and was recently introduced to a much wider audience this past month via Disney+. I am among the many who have watched the musical this past month and now I find the songs rattling around in my head on a non-stop loop. However, the line quoted above from Aaron Burr's character has really struck a chord. As most of us come to learn from an early age, there is actually very little in this life that we can truly control. While most of us expend a lot of effort to plan and strategize to protect our assets and our health, there are still many things in this life that we have very little, if any, control over. We have seen this demonstrated acutely in the first half of 2020. The list of out-of-the-ordinary occurrences this year seems to bear this out.

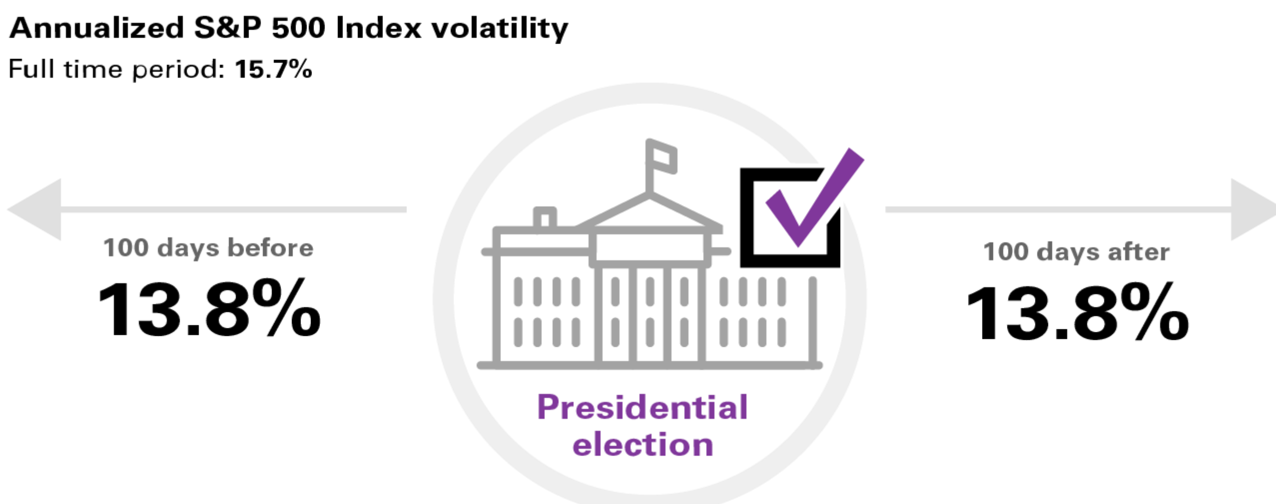
For those watching closely, the market's reaction to the events of this year has certainly been quite interesting. The market's recent fall and subsequent rebound speak to the inherent unpredictability of its daily performance. In many ways talk of pandemics, impending recessions, protests, school closings, upcoming elections, and so forth, just add to the 'noise of the market'. This can distract investors from their long-term strategies for meeting their investment goals. We would not credit anyone claiming to know with certainty how things are going to play out with either the global pandemic or the market over the next twelve months.

This time last year we were talking about the U.S. economic expansion that was going on 10 years, the country's longest on record. Even now, with all of the pandemic and other crises, the market has had a tremendous rebound since the lows of March. Massive government spending is certainly helping to keep things afloat. The market is currently enjoying unprecedented levels of monetary stimulus but as always uncertainty lies ahead. As a new coronavirus relief bill is being worked on by lawmakers, Federal Reserve officials continue to discuss their policies in the face of growing doubts about the prospects for a sustained economic rebound in light of the nation's uneven public-health response to the pandemic.

As we are seeing a spike in COVID-19 cases in many parts of our country, Pfizer and several other drug makers work feverishly to provide a vaccine for the disease. There is optimism as the company starts Phase 3 testing of a vaccine candidate it is developing. Hopes are raised that a suitable vaccine might start becoming available relatively soon. For now, the hope of an eventual COVID-19 cure has outweighed investor's worries over what the economic effects of the pandemic will be.

Recent data shows that the personal savings rate of the American household is up significantly. This is good news compared to the earlier reports of American households lacking any real emergency funds. Although consumer confidence typically comes back slowly, there is now potential for a burst of liquidity in early 2021.

Looking towards the presidential election in November, it was surprising to see that a recent Vanguard study does not support the notion that market volatility increases as we approach the election date. The data shows that historically there is below average volatility in the periods surrounding the election:



Source: Vanguard calculations of S&P 500 Index daily return volatility from January 1, 1964, through December 31, 2019, based on data from Thomson Reuters.

Of course "past performance is no guarantee of future results", meaning that this year we may well see volatility in the market increase around October/November.

Of note, a potential Democratic party sweep of Congress and the Presidency would likely pave the way for a new tax plan effecting high-income earners the most. A sweeping Democratic party win could also lead to significant market repricing in some market sectors. Regardless of which party wins in November, historical data going back 150 years shows there to be very little difference in returns related to which party sits in the White House. To be clear, PMA has no plans of making any tactical shifts in our portfolios based on the upcoming election.

Much of this month's letter is meant to convey that as we move into the back half of 2020 we must remain positive and hopeful for the future all the while being diligent to stick to our plan with our eyes on long-term goals. And while there are many things outside of our control, what we can control are decisions we make to diversify our investments and maintain a long-term outlook for the future. As we have in the past, PMA continues to stress the importance of diversification and controlling for risk.