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Investment Institute

Weekly perspective on current market sentiment **December 2, 2020**

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Last Week's S&P 500 Index: +2.3%

Virus news overrides, for now

Key takeaways

- Virus- and vaccine-related news has been the main driver of stock market activity in recent months.
- While this is unlikely to change in the near term as vaccine distribution begins, there are other risks that could impact the recovery.

Lockdowns expanding in Europe, the U.S., and numerous other developed regions of the world as virus cases surge; a presidential election outcome in the U.S. that is still being litigated; and a likely slower pace of economic growth in the months ahead are just a few of the headwinds that many investors believe should be negatives for the stock market. But here we sit, quite close to all-time record highs in virtually all of the major equity indices.

Indeed, risk assets like stocks and commodities have been doing quite well in recent months, even in the face of a global pandemic that has resulted in more than 62 million people contracting the virus and nearly 1.5 million deaths worldwide attributed to COVID-19. The "reflation trade" certainly had legs in the month of November. But the financial markets tend to look ahead and anticipate (or handicap) what the economic environment will look like down the road. And that, in our opinion, is what is happening now. Our work suggests that U.S. gross domestic product (GDP) next year will grow 3.8% with the bulk of that growth coming after the first quarter of 2021. That's something for markets to be excited about, but we do want to keep in mind some of the risks that are potentially right around the corner.

Clearly, COVID-19 news surrounding potential vaccines has had a very positive impact on the equity market for a number of months. However, there are risks that investors should, at the very least, be aware of. From a logistics standpoint, will the vaccines be efficiently and widely distributed in a timely fashion? The initial distribution to frontline workers (hospitals, EMTs, etc.) and at-risk members of society (the elderly, those with pre-existing conditions) will be a good test. But sooner rather than later, this will be the question: How efficiently will the vaccine be distributed to the rest of the population?

In addition to logistics, there are concerns that the virus might mutate, much like the common flu, and make early vaccines less effective or even obsolete. Of course, there is always the question of public acceptance of a vaccine. A number of surveys in recent months have shown that less than 60% of Americans are willing to get vaccinated, which could impair the efforts to eliminate or drastically curtail the spread of the virus. Perceived potential side effects also play into public acceptance.

Other risks to the stock market include the possibility that Congress will not be able to agree on additional stimulus to help push the economic recovery further ahead. Most economists appear to believe the economy will need additional temporary stimulus to help businesses and workers negatively impacted by the pandemic.

In the nearer term, virus/vaccine news is likely to garner the headlines. We have a positive outlook for 2021 but realize there are multiple risks that could curtail or delay the recovery we anticipate.

Risk Considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

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