Sather Financial Group

Private Wealth Management

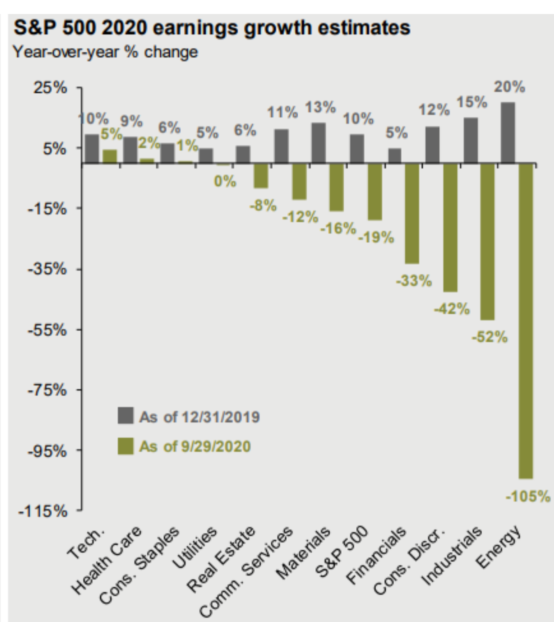
Third Quarter 2020 Commentary
An Out-Of-Body Experience

When we think about all that has happened this year, it has been a very weird dream that makes little sense; and I'm ready for it to be over. Time to wake up! And yet, I am thankful to be approximately at breakeven for the year.

In the first quarter, we set a record for the fastest drop from a record high to a "bear" market (a 20% drop). Subsequently, we set another record, recovering just as quickly and going from a bear market back to a record high.

The Fourth Quarter*:* Over the last 30 years (1990-2019), the S&P 500 stock index has gained an average of +4.7% (total return) over the final 3 months of the year (October-November-December). Eighty percent of the time, (24 out of 30) the fourth quarter has produced a positive total return gain. (source: BTN Research).

Source: Dow Jones Market Data



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Earnings from the S&P 500 continue to recover. However, it is not in an even manner.

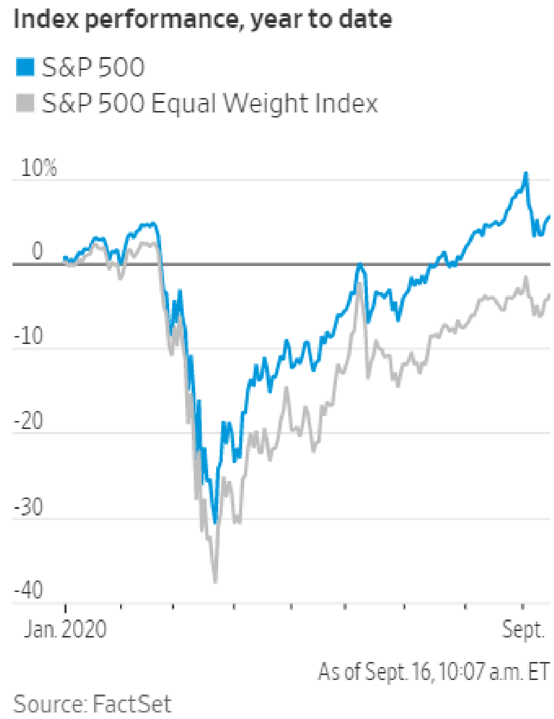
Certain industries such as energy and industrials should expect some very hard times going forward.

Other businesses have benefitted from the new pandemic-induced "**digital divide**."

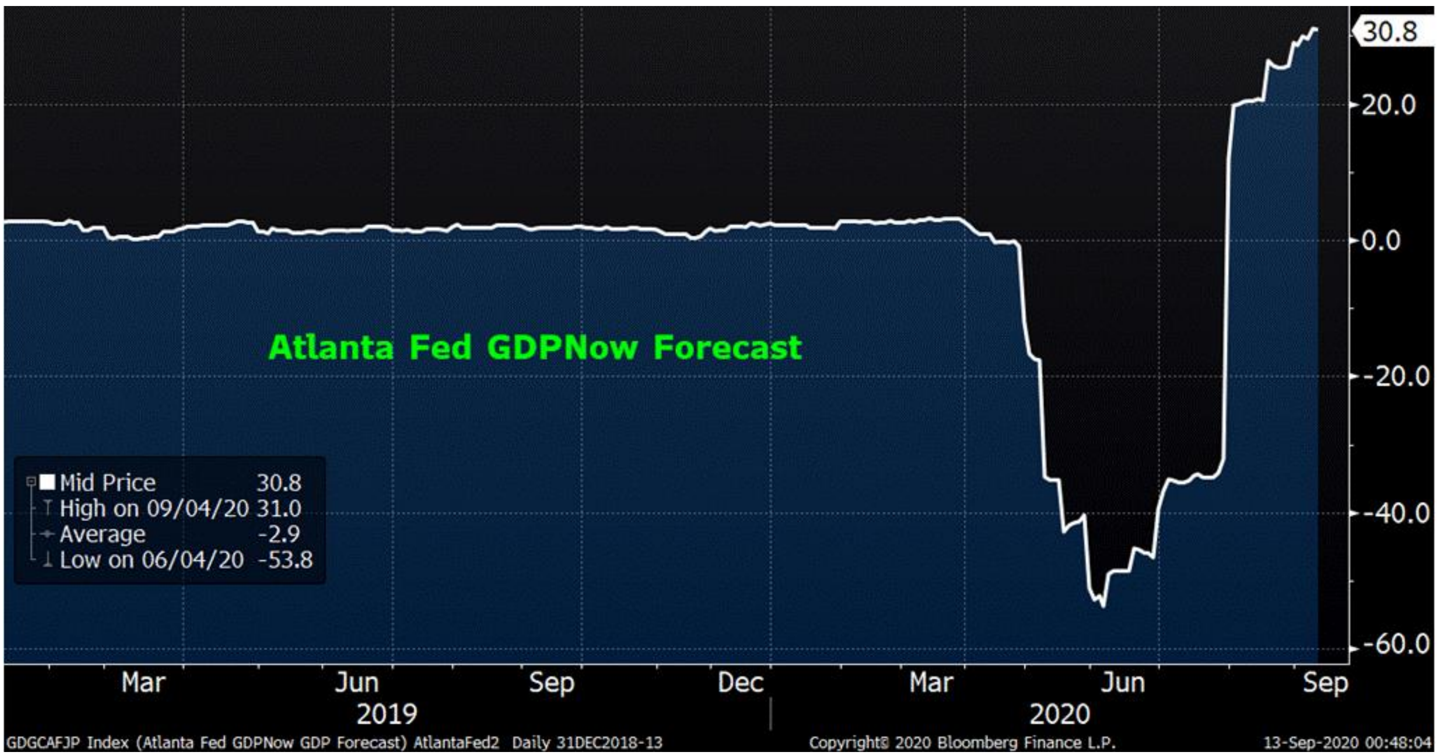
Certain types of technology firms facilitate "work from home" or a normal growth pattern, despite pandemic related challenges.

The difference in the chart to the right highlights the performance of the "digital divide champions" versus the rest of the S&P 500.

Furthermore, this really exposes the challenges faced by energy and industrials.



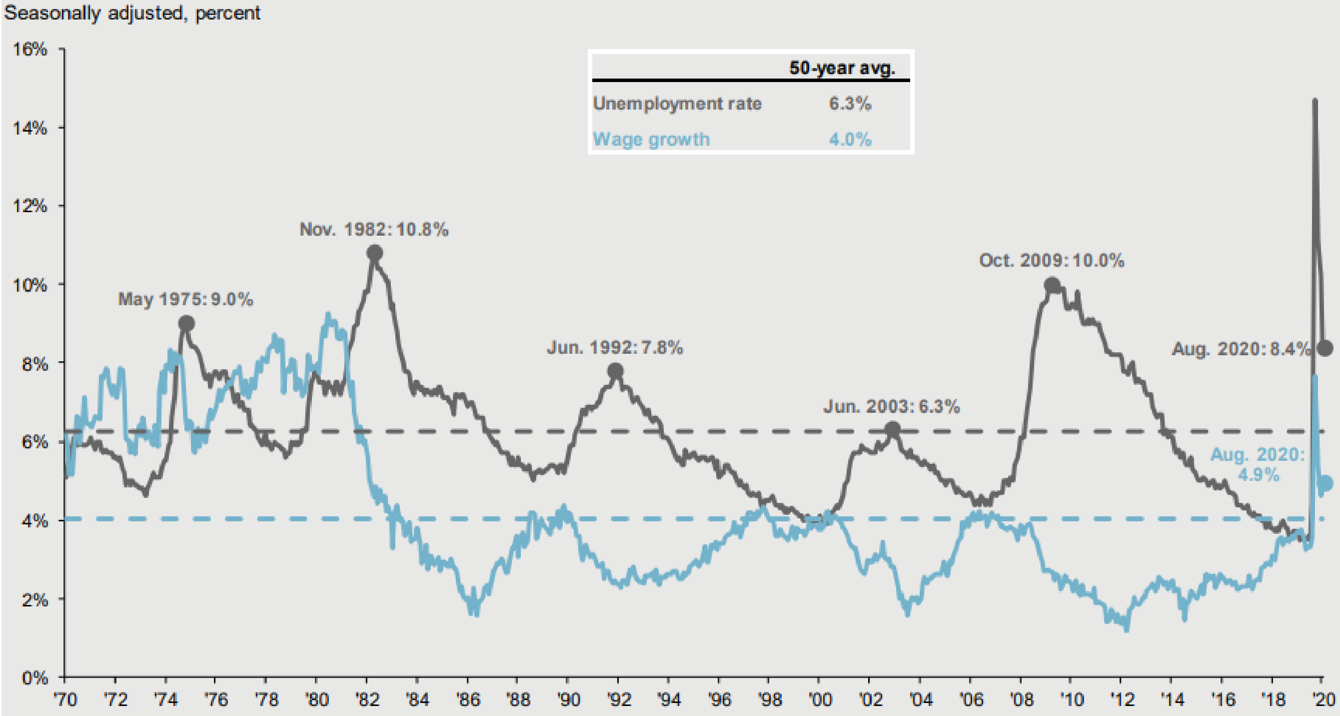
Things could have been much worse. The 9.1% (30.8% annualized) drop in the US economy between the 2nd quarter of 2019 and the 2nd quarter of 2020 was a smaller decrease than the decline that took place in India (down 25.2%), the UK (down 20.4%), Mexico (down 17.1%), France (down 13.8%), Italy (down 12.8%) and Canada (down 11.5%) (source: Organization for Economic Cooperation and Development).



Jobs Lost: Before the pandemic hit the United States, the number of out-of-work Americans as of 2/29/20 was 5.79 million. As of 8/31/20, the number of out-of-work Americans was 13.55 million. In the last 6 months, the pandemic is largely responsible for 7.76 million people losing their jobs (source: Department of Labor).

Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers

Seasonally adjusted, percent

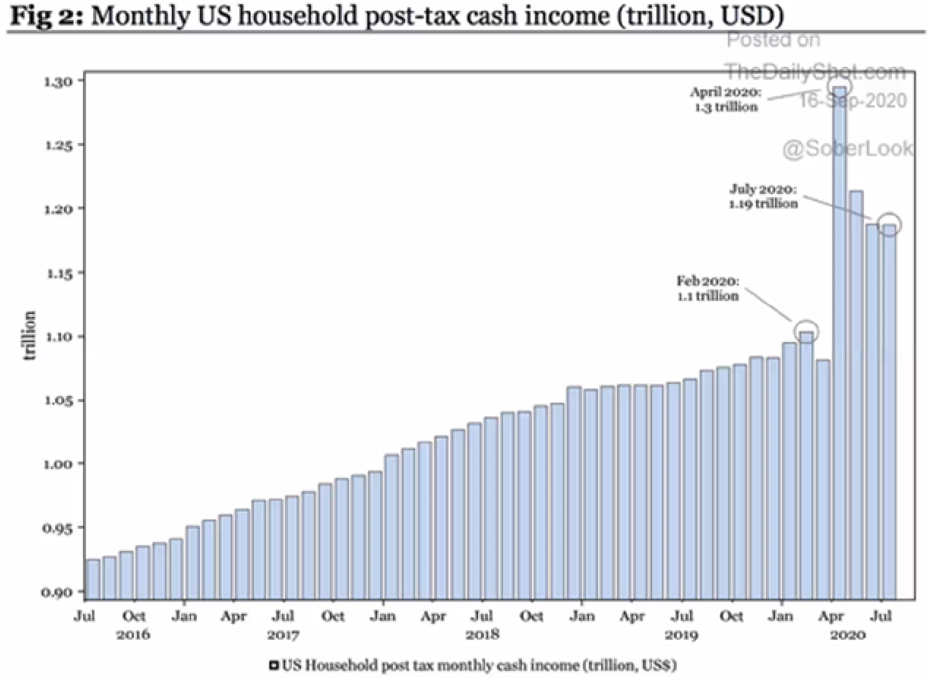


Source: BLS, FactSet, J.P. Morgan Asset Management.

Of course, with this many people out of work it is only natural to assume that household income levels would drop and debt levels would increase.

Due to the quick action by the Treasury and Federal Reserve to send stimulus payments out, income levels actually ROSE during the April to July time frame.

Fig 2: Monthly US household post-tax cash income (trillion, USD)

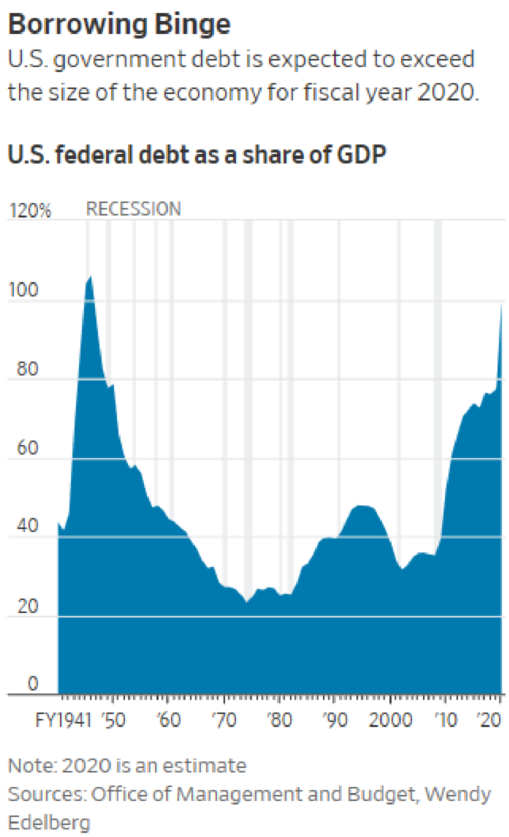


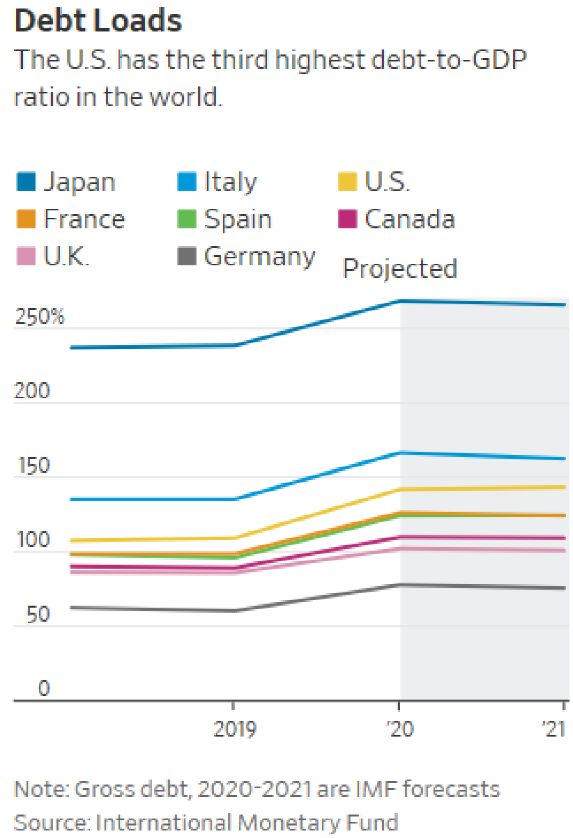
Source: Longview Economics, Macrobond

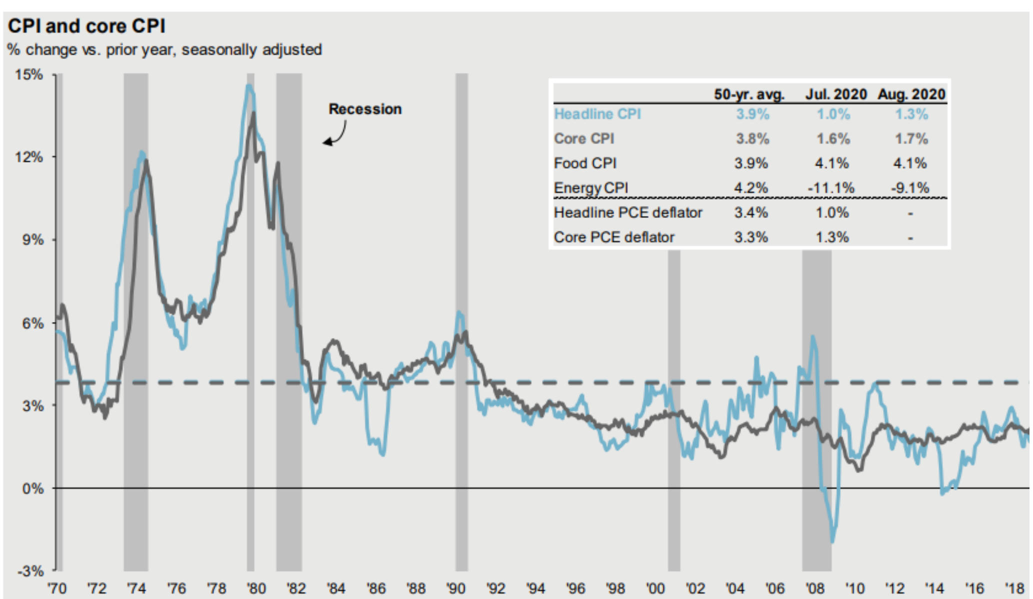
However, we should not expect this income increase to continue. The CARES Act ended on September 30th. Simultaneously, companies like Disney announced the layoffs of 28,000 employees. Many other industries will be similarly impacted.

Short of another stimulus package, we think things will be difficult. Both Republicans and Democrats recognize the need for another round of stimulus. Unfortunately, this has just become another pawn in the election-year chess game.

Debt Increase: Obviously, a stimulus package that allows income to increase for the average household can only be accomplished by increasing debt. Our national debt has grown from $22.623 trillion on 9/24/19 to $26.786 trillion on 9/24/20, an increase of $4.163 trillion. That's equivalent to adding $11.4 billion of new debt per day, or $475 million per hour, or $7.9 million per minute, or $132,000 per second over the past year (source: Treasury Department).





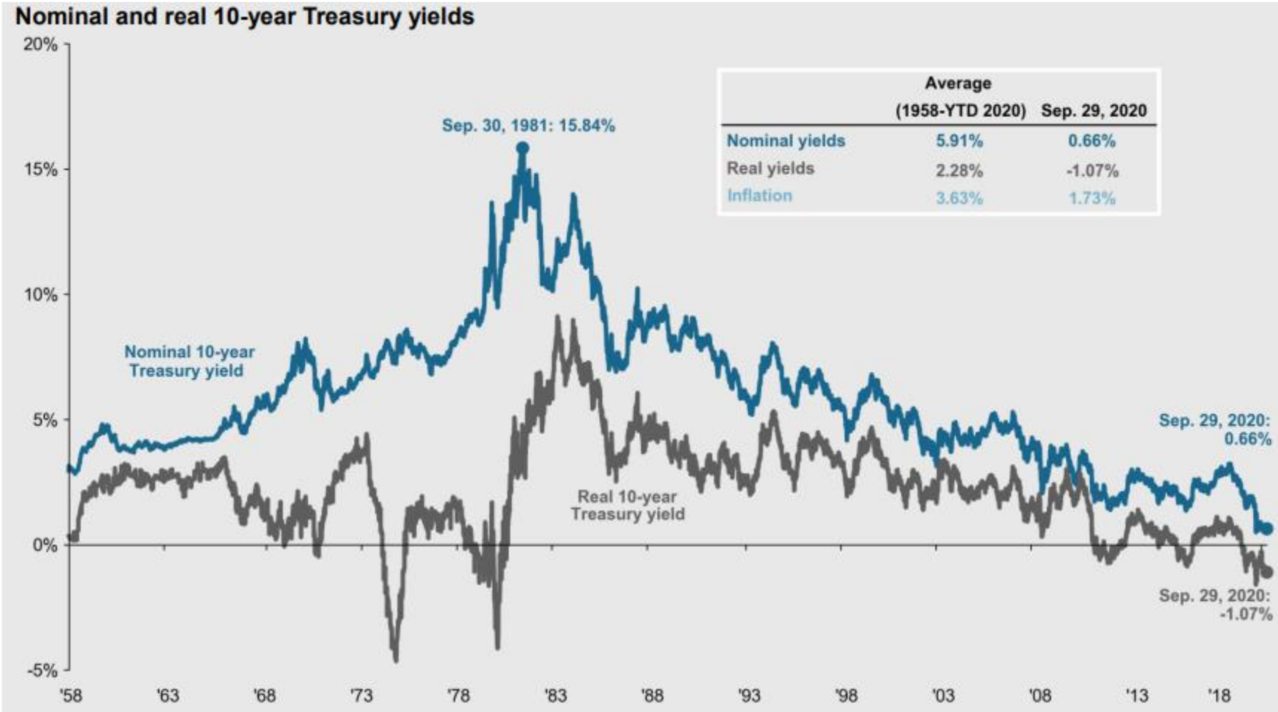


Source: BLS, FactSet, J.P. Morgan Asset Management.

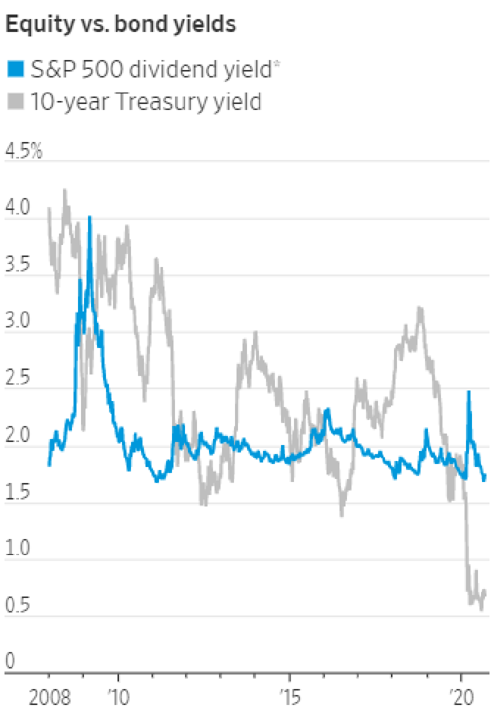
Inflation: With debt increasing the natural conclusion is that inflation will also increase. That has not happened yet. Rather, we have seen pockets of inflation.

General demand has increased the cost of things like food and healthcare while a massive decline in transportion has lowered energy expenses significantly.

We expect interest rates will stay low for the forseeable future. And even though we have low inflation, the "real" return on fixed income securities will be negative. As such, investing in "risk-free" assets like US Treasury Bonds will prove to be a guaranteed loser over time.



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.



*Last 12-months

At the same time that interest rates have declined, the dividend yield on the S&P 500 is 1.82% (three times the fixed income market).

Furthermore, as companies increase profits over time, the cash paid out in the form of a dividend increases.

Given this very unusual dynamic, we anticipate increased emphasis upon the stock market to produce cash flow for our clients.

End Of The Year: Although we have a few guesses as to what might happen over the next quarter or year, they truly are just guesses.

Any short-term decisions will be burdened with many unknowns.

As such, the longer we can extend our time frames in managing portfolios, the better.

During times like these, there truly are no dumb questions.

We plan on sending out a variety of tax planning and end of year planning commentaries. ***Let us know how we can help***.

Best wishes for a safe and healthy end to the year.

Sincerely,

Dave

Dave Sather, President
Certified Financial Planner

Warren

Warren Udd, Vice-President
Certified Financial Planner