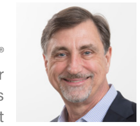
RHP ROYALHARBOR PARTNERS
Wealth Management

Glenn Royal, CFP®
Partner, Portfolio Manager
Royal Harbor Partners
Wealth Management



OCTOBER 12, 2020

Stimulus bills, vaccines, and elections.

MARKET UPDATE FROM GLENN

At times investors can find themselves with one foot on the pier and one in the canoe. For a moment, you're not that sure how it's going to end.

In the water? Back on the pier? In the canoe?

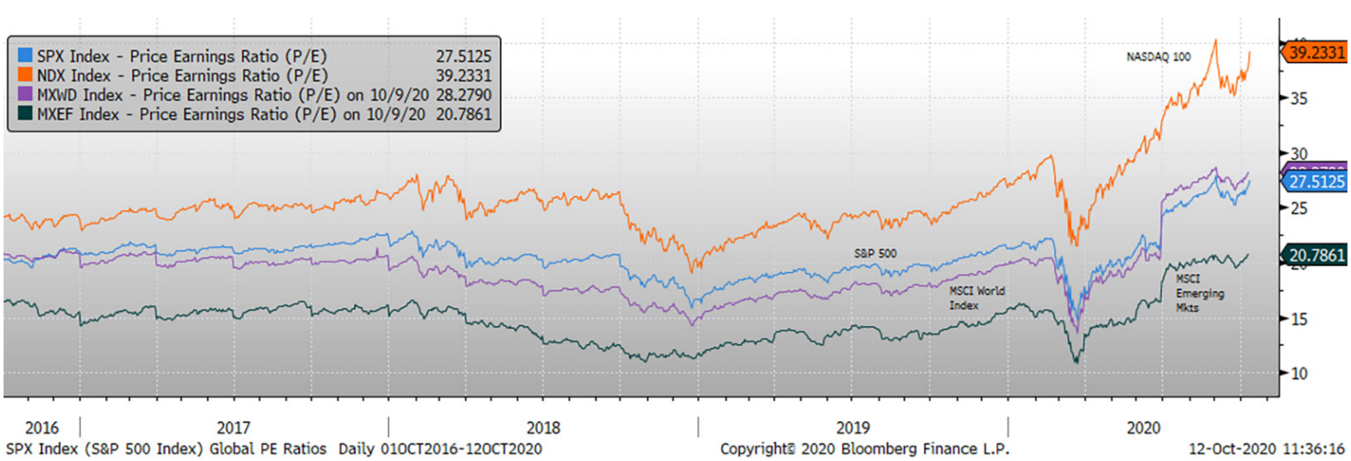
Thankfully, most of the time we land safely in the canoe and investors should this time as well.

The main driving factor for the markets is hopes of an additional fiscal stimulus bill. Personal consumption makes up nearly 70% of GDP and we are beginning to see indications that the positive effects from the first rounds of federal fiscal stimulus programs are weakening as those funds are depleted.

The unemployment rate has dropped from a peak of 14.7% in April to 7.9% in September but remaining well above the February unemployment rate low of 3.5%. After the 2008 Great Financial Crisis, it took nearly 8 years for jobs to return to pre-crisis levels and there is growing concern that consumer spending will be impacted without an additional round of federal support.

With approved pandemic fiscal stimulus ebbing, the Federal Reserve Bank is now jawboning lawmakers into action to pass another needed stimulus bill and the markets are picking up on the Fed's rhetoric. Chicago Fed President Charles Evans sees the jobless rate coming down to 5.5% by the end of next year with an additional $1 trillion of fiscal spending by Congress. Without it, he believes it will be a lot harder and much more unlikely to make much progress toward the 5.5% rate. What may be lost in the rhetoric was the Fed's commitment to keep rates near zero until inflation is clearly exceeding 2% coming out of a recession. *(continues on next page)*

Chart 1 | Global P/E Ratios



Add to this a resurgence of Covid-19 in Europe and the US, uncertainties surrounding the US presidential election, and seasonal market weakness, the markets have had a correction in equity prices in September. We entered the month of October with a market so top heavy in technology, that if the top 5 stocks by market capitalization (Apple, Microsoft, Amazon, Facebook, Google) in the S&P 500 were to decline by 10%, the bottom 100 stocks would need to increase by 90% in order for the S&P 500 to stay flat. These top 5 stocks comprised 23% of the total stock market value versus the 2000 dot-com period top 5 of 18% (MSFT, CSCO, GE, XOM, INTC). Under the surface, we see early indications of rotation into cyclical and value stocks on the belief that the recovery broadens out as the pandemic comes under control and business resumes globally.

However, looking at stimulus potential alone to revive growth expectations is perhaps an over-simplification. This economic crisis is driven by a public health issue that will require a vaccine to fully recover. And the reality is that any bullish outlook for risk assets must also be predicated on vaccine approval and production that allows governments to relax restrictions and encourages people to get out and resume a normal life.

Currently, there are 11 vaccines at an advanced stage of development. With 5 in Phase 3 trials that are focused on efficacy and the presence of neutralizing antibodies. ***The Good Judgment Project*** puts the probability of mass delivery of an FDA-approved COVID vaccine at 57% for the time period of January 21 to May 31, 2021 and 27% for delivery by June 1 to September 30, 2021. *(Source - Goldman Sachs)*

We believe that an approved and widely available vaccine will be positive for all risk assets and likely place pressure on interest rates with the US 10-year Treasury yield approaching 1% and the dollar continuing to remain weak.

We see opportunities in international stocks, both developed and emerging, with their lower P/E ratios (**see Chart 1**) and global growth prospects.

It is worth noting that the disparity between value and growth stocks is the widest recorded since records began in the early 70's. We may be due for a mean reversion to value should growth prospects improve and lead to inflationary pressures within the Fed's desired outcome.

If you have any questions or comments about our market updates, we welcome the opportunity to speak with you.

email us