

Nancy J. LaPointe

MBA, CFP®, ChFC®, CLU®, CASL®, RICP®
*Financial Planner, Wealth Manager,
Investment Adviser Representative**



NAVIGATE FINANCIAL
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More Market Volatility Ahead?

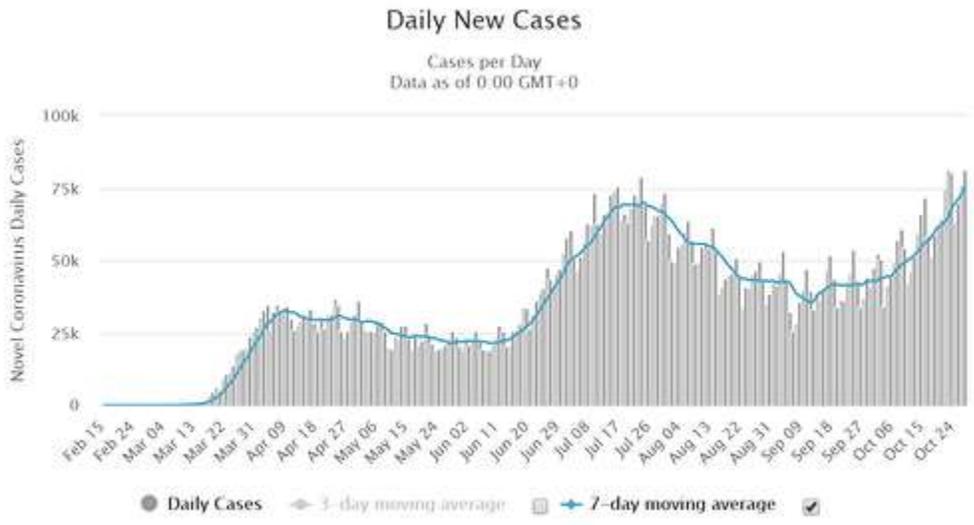
Presented by Nancy J. LaPointe

The medical news continues to get worse, as the third wave of infections is accelerating around the country. Case growth is now above the prior peaks in July, and the geographic spread of this wave continues to widen. Further, case growth in many states is now at levels that threaten their health care systems.

While the medical risks are rising, the economic recovery continues to move forward. Consumer confidence and spending, an area of concern, have shown better data, which is encouraging. Further, the recovery has been more resilient than expected. Financial markets, however, have dropped in response to both the rising medical risks and the news that no further stimulus will be available in the short term—and that volatility may continue. Let's take a look at the details.

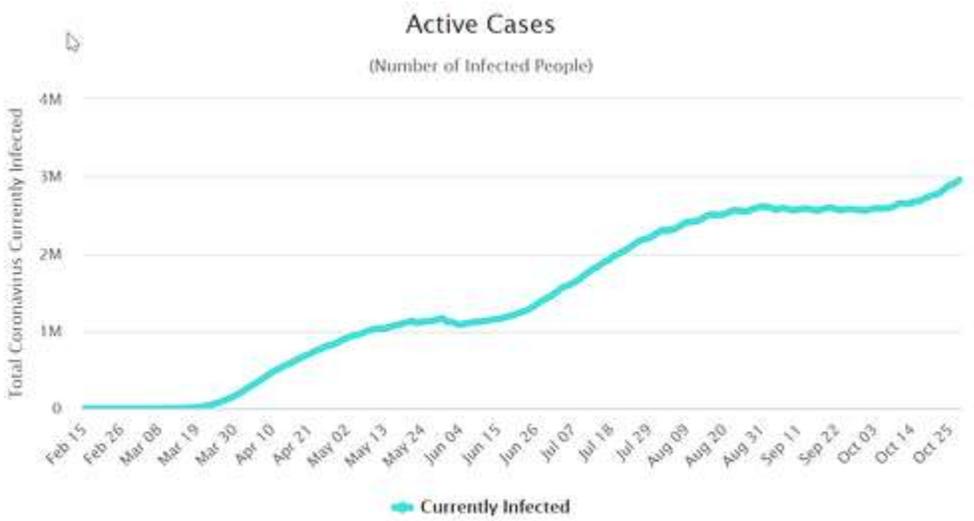
The Virus: New Cases Now Above July Peaks

New cases per day. The most obvious metric for tracking the virus is daily new cases. Here, we see that widening state-level outbreaks have continued to increase viral spread, to the point we are now at new highs, well above the July peak levels. The seven-day average number of new cases per day rose from just over 62,000 per day a week ago to just over 75,300 per day, a faster increase than the previous week. This is the sixth week in a row we have seen an increase, and the rate of increase has grown every week. The new case rate is now above the July highs—more than a full reversal of the improvement seen since then. This increase, combined with the wider geographic spread, means case counts are likely to keep rising over the next several weeks. The third wave looks like it may be both significantly more severe and longer lasting than prior waves.



Source: <https://www.worldometers.info/coronavirus/country/us/>

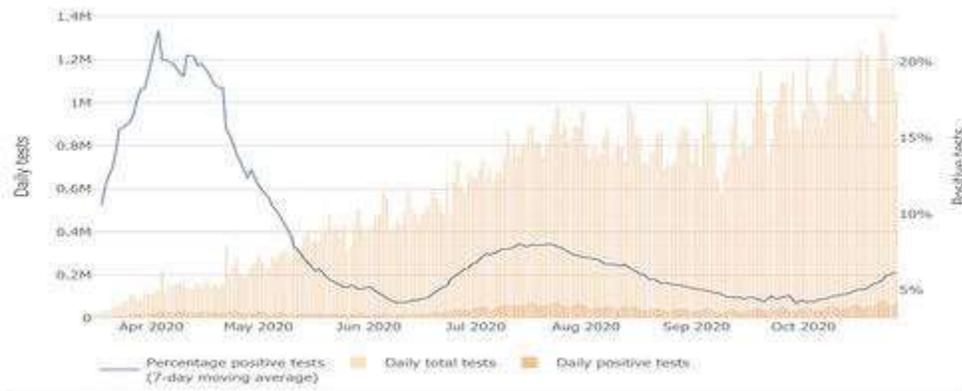
Total active cases. As the number of new cases has continued to rise, the number of active cases has also started to increase again after a period of stability. In recent weeks, the rate of increase has also accelerated. This is a bad sign, as new infections continue to outpace recoveries, which will increase the load on the health care system. Again, given the rising number of new cases and the stress this places on health care systems, we will likely see a larger increase in active cases than we saw in prior waves.



Source: <https://www.worldometers.info/coronavirus/country/us/>

Testing data. The testing news was better, as the number of tests has continued to trend up, although it remains quite variable. That said, the positive testing rate has also been increasing. It continues to rise further above the recommended maximum of 5 percent, showing that the pace

of increasing infections is continuing to outrun testing capacity again. While some of the increase in cases may come from better visibility from increased testing, the rising positive rate suggests the growth in cases is more likely due to a widening range of infection growth.



Source: *Johns Hopkins University*

The bottom line is that, on the medical front, the trends are moving in the wrong direction, and a third wave is well underway. Twenty-two states are now seeing the fastest spread of the pandemic thus far, up from 18 states last week. In several of those states, there are outbreak hotspots that are becoming health emergencies. Even in states where the virus remains under control, spread rates are also rising.

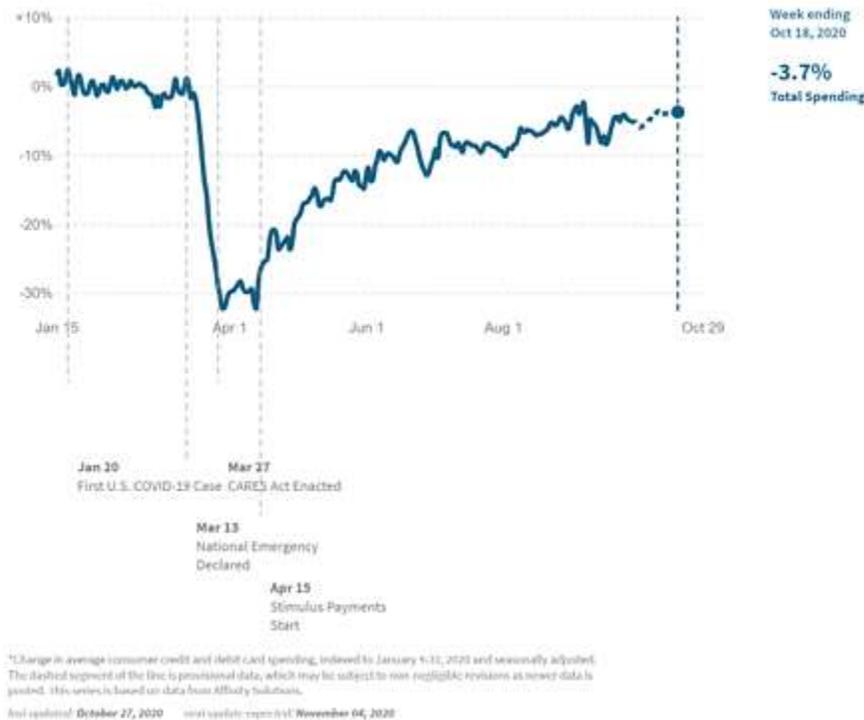
Looking forward, the question is whether the situation will continue to worsen. Given the ongoing accelerating infection rates and the fact that many outbreaks are in rural areas with limited local health care resources, that outcome looks likely. Given the rising positive test results around the country and the lags between infection and detection, we are also likely to have weeks or more to go before the full effects will be seen. Finally, the history of the first two waves suggests that there may be weeks to run. Overall, the medical risks are likely to keep rising over coming weeks, as the third wave runs its course.

The Economy: Recovery Continues Amid Signs of Slowing

Consumer economy. While the medical situation is deteriorating, the economic recovery continues, despite mixed data. The job market has been better in the past couple of weeks, with layoffs declining, for example, although they remain at high levels. Similarly, while recent consumer confidence has ticked down somewhat, consumer spending has been holding up. While this news is mixed, in the context of the rising medical risks, overall it suggests that the consumer is more resilient to the rising risks than had been feared.

Percent Change in All Consumer Spending*

In the United States, as of October 18 2020, total spending by all consumers **decreased** by **3.7%** compared to January 2020.



Source: <https://tracktherecovery.org/>

Business sector. On top of the signs of continued growth in the consumer economy, the business sector continues to do well. Business confidence and investment remain at pre-pandemic levels, and specific higher-frequency indicators are showing improvement in many cases.

The real question, going forward, is how durable this recovery is. Much of the recovery so far has been based on the spending power generated by the federal supplemental income support, but recent data shows that the recovery is continuing even after that has stopped. Given the resiliency of the recovery in the face of the medical and stimulus headwinds, it is likely the recovery will be durable.

With that durability in the face of risk, we should remember there are also opportunities. There is a real possibility the economic recovery could accelerate again once the medical risks subside, for example, or if another federal income support program is passed. While there are certainly headwinds, so far at least, confidence and spending are still holding up, and the recovery is still moving forward despite some slowing.

The Markets: More Turbulence

Financial markets rallied early in the month on the better economic news and on hopes that the medical risks were under control. But in the past two weeks, they have pulled back meaningfully on fears that risks were more significant than had been assumed. Given everything that is going

on, those fears seem reasonable, which suggests we might see more volatility ahead. That said, the fact that the economic risks remain under control, despite the rising medical concerns, should continue to provide some support. We saw similar drawdowns earlier in the pandemic. So far, this looks to be the latest round rather than something worse.

Volatility Ahead

The news this week is that the third wave continues, with medical risks rising, especially at the state level. With the data so far showing no signs of peaking and with widening geographic spread in multiple states, the risks are now material at the national level. Note, however, that we have been through this before, and that it is just a matter of time until we once more bring the pandemic under control.

The economic risks are also real. Despite recent positive news, we do see some slowing in the recovery. That said, growth has continued and has been much more resilient than expected. This is a positive signal for the future. Finally, markets continue to be turbulent as investors process the different risks, and more volatility is quite possible. But, as of now, the economic recovery continues, and that should help support the markets.

Given all of this, over the next couple of weeks the most likely case appears to be further deterioration of the medical news as the third wave proceeds, as well as continued slow improvement on the economic front. Markets will likely keep bouncing around on new developments, so expect more volatility. This will be a difficult period until we get the pandemic under control again—but get it under control we will. It will just take some time.

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Nancy J. LaPointe is a financial advisor located at Navigate Financial, 3663 College St. SE, Suite B, Lacey, WA 98503. She offers securities and advisory services as an Investment Adviser Representative of Commonwealth Financial Network[®], Member FINRA/SIPC, a Registered Investment Adviser. She can be reached at 360-628-8175 or at nancy@navigatefinancialNW.com.

Authored by Brad McMillan, CFA[®], CAIA, MAI, managing principal, chief investment officer, at Commonwealth Financial Network[®].

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3663 College St SE, Suite B, Lacey, WA 98503
Tel (360) 628-8175 | Cell (360) 402-3200 | Fax (360) 338-0450
Nancy@navigatefinancialNW.com | www.navigatefinancialNW.com

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