BRENTON POINT
WEALTH ADVISORS

October 07, 2020

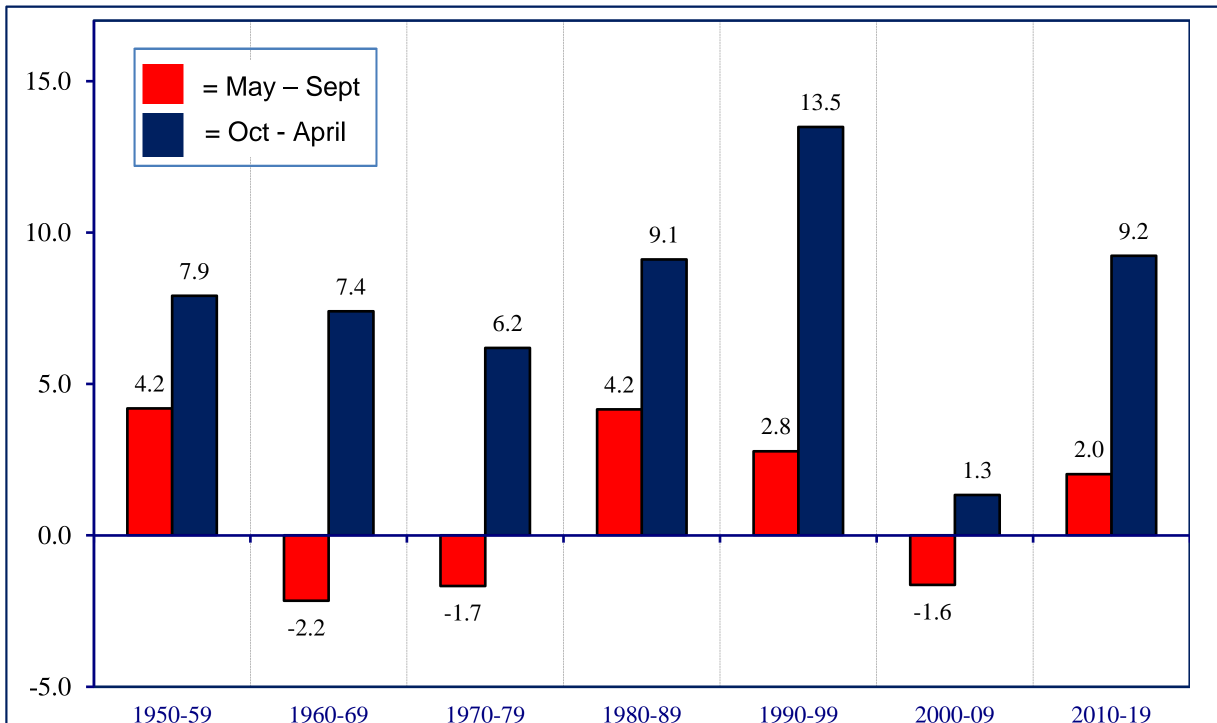
Investing Environment Review and Outlook – Volume 41

The latest news headlines are full of potential market risks. Election politics, recession, layoffs, delayed fiscal stimulus, a rise in COVID-19 cases, and now Trump is infected with COVID. The wall of worry is certainly intact. Despite the multitude of daily news distractions, our research tells us a committed Federal Reserve, low inflation , and a positive economic outlook mean there is more risk to the upside for equities than downside, particularly in the fourth quarter. The significant rebound in the ISM Manufacturing Index to 55 signals a more mature stage of the economic cycle, which has historically meant lower equity volatility ahead. This month we discuss the nearly 10% September decline in the S&P 500, the long history of positive seasonality from October to April, and the biggest investor concern: the presidential election. Equity ratings remain bullish 5's along with commodities and gold. Long-term bonds remain at a cautious 1, due to the high probability that long-term rates will move higher.

October to April: Best Seasonal Period of the Year

October 1st marked the start of the best seasonal period of the year for equities historically. Since 1950, the S&P 500 returned an average of 7.7% and was up 77% of the time during those months. This contrasts with May to September, which averages just 1.0% and is up 66% of the time. The October-April period lead the May to September period in every decade since 1950, so it's been consistent over time, as well. Even since 2010, returns were 9.2% and 2.0% respectively, similar to the norm. The fourth quarter alone is also positive, averaging a 3.9% return since 1950, and higher 78% of the time, despite some sharp declines like -14% in 2018 and -22.6% in 2008 during the Global Financial Crisis.

Chart 1: The Oct – April Period (Blue) for the S&P 500 Lead May – Sept Period (Red) In Every Decade Since 1950



This review and outlook report by Brenton Point Wealth Advisors LLC represents our views and beliefs regarding the current market outlook. Please also read the important disclosures at the end of this report.

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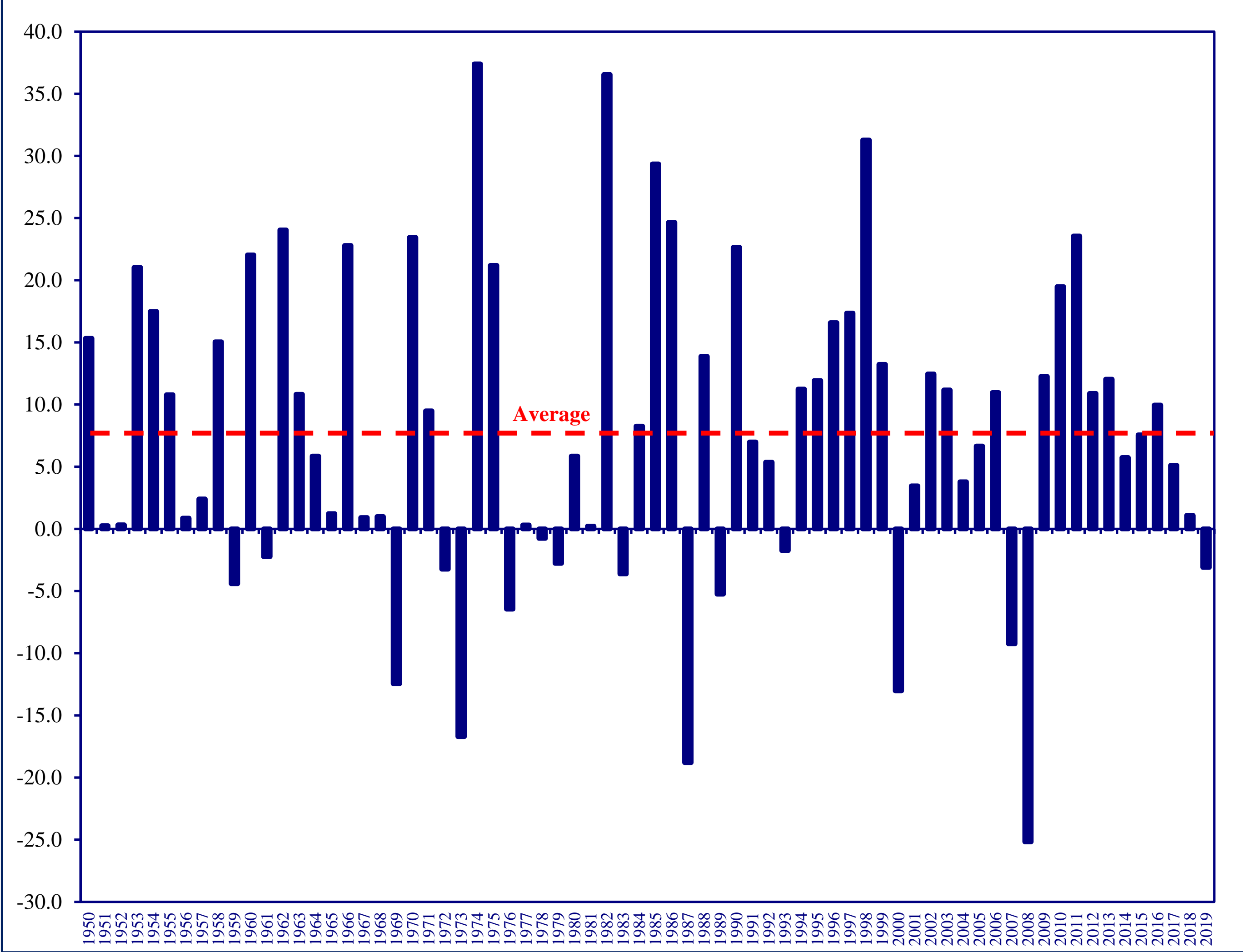
Chart 2: Historically, October to April is Best Period of the Year
S&P 500 Returns Since 1950



Average Return	7.70%
% Yrs Up	77%
Since 2000	
Average Return	5.30%
% Yrs Up	80%

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-9.6% Equity Decline in September: Normal Bull Market Reversal

From September 2nd through September 23rd the S&P 500 declined 9.6%, a standard bull market correction. Just since 2010, there have been 10 declines over 8%, and only 3 of those (2011, 2018, and 2020) declined over 15%. With our general long-term focus on capital preservation, we are primarily concerned with cyclical bear markets, which can do the most damage to portfolios. In contrast, during normal bull market reversals like we saw in September, when fundamental indicators were positive, it is most important to hold positions. These declines help to extend bull markets by cutting speculation. You can see that in investor positioning changes. Of the 10 groups we follow, 6 of them became more bearish during the September decline, raising cash that will drive the next leg higher. In fact, after 8% declines, the S&P 500 returned 42.9% annualized in the fourth quarter, with 79% of cases higher (4x the norm). That compares to a 13.1% annualized return after 8% rallies. This is one case where a weaker tape is a positive.

Chart 3: S&P 500 Down 9.6% on 9/23: Normal Bull Market Reversal
Max 1 Mo Declines Since 2010

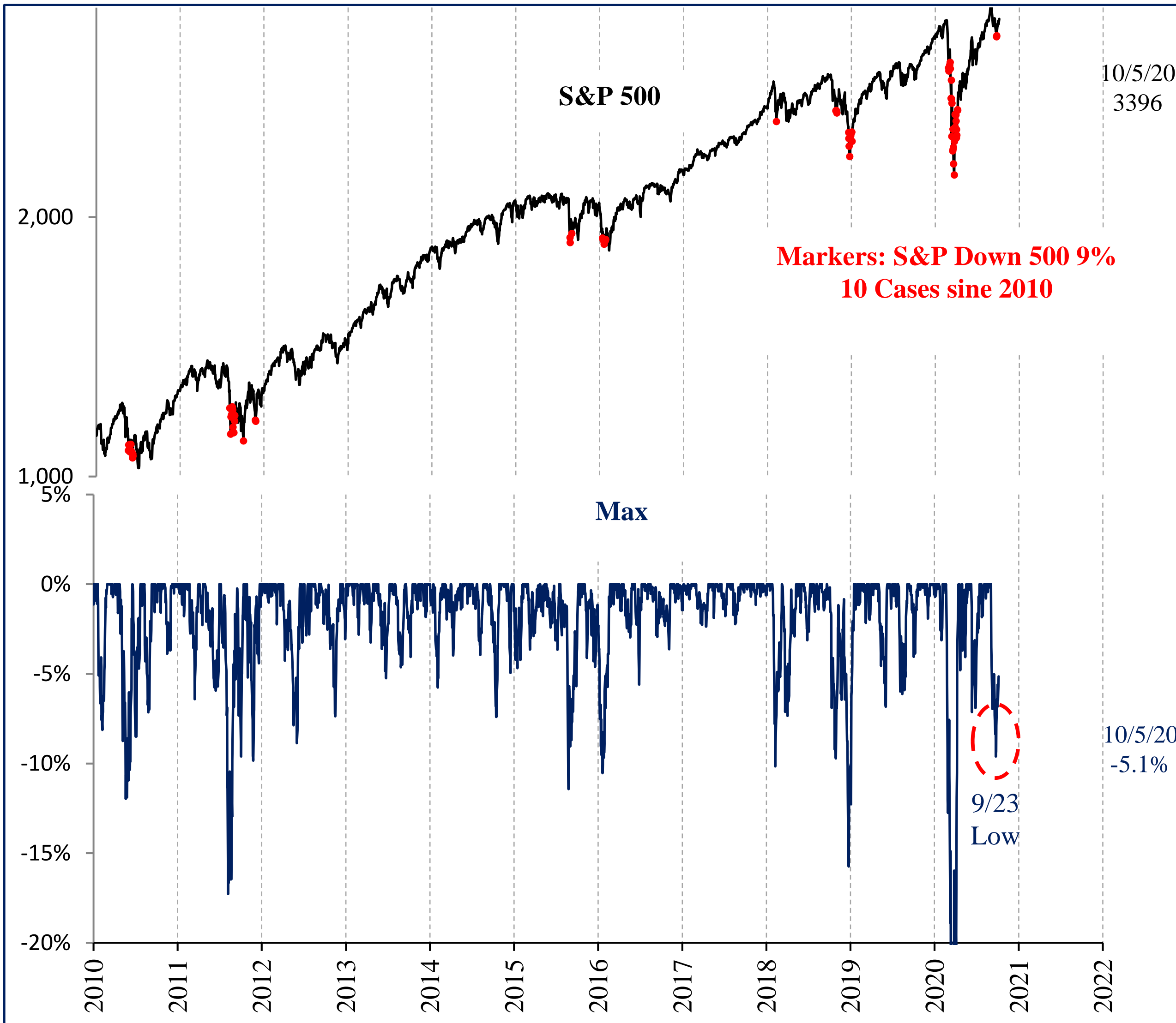

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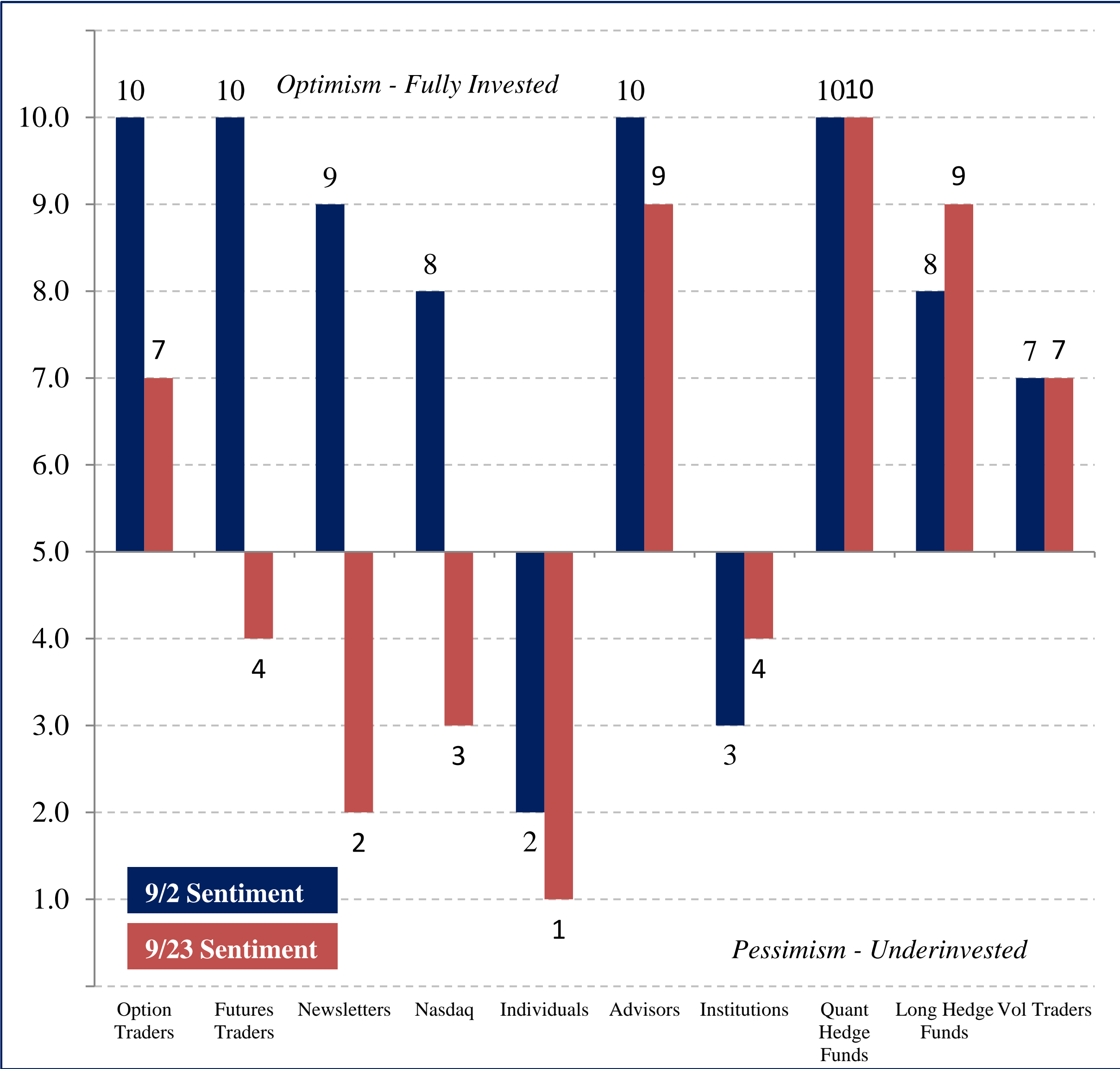
Chart 4: Equity Investor Positioning: More Favorable

Compare Recent S&P 500 Peak vs. Low on 9/23/20



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November Election: Contested Election Risk Lower

An ISI Evercore weekly survey showed the election overtook the COVID-19 pandemic to become the number one investor concern on August 7th. With a surge in voting by mail this year to 33% of voters from a norm of 18%, the biggest concern was a contested election resulting in an unknown delay to determine a winner. This was true particularly before the first debate, when there was no clear leader. However, after the debate, polls showed a significant jump in Biden's lead. With a bigger lead, the contested election risk declined, and equity markets rallied. In August, we reviewed election year history showing mixed returns ,as investors focused on the election in September and October (-0.8%/53% up) and more consistent positive returns after the election in November and December (2.7%/76% up), regardless of the outcome. This year is certainly different than most but so far, the market is following the same pattern.

Chart 5: ISI Survey: Biggest Market Risk
Election Overtook COVID-19

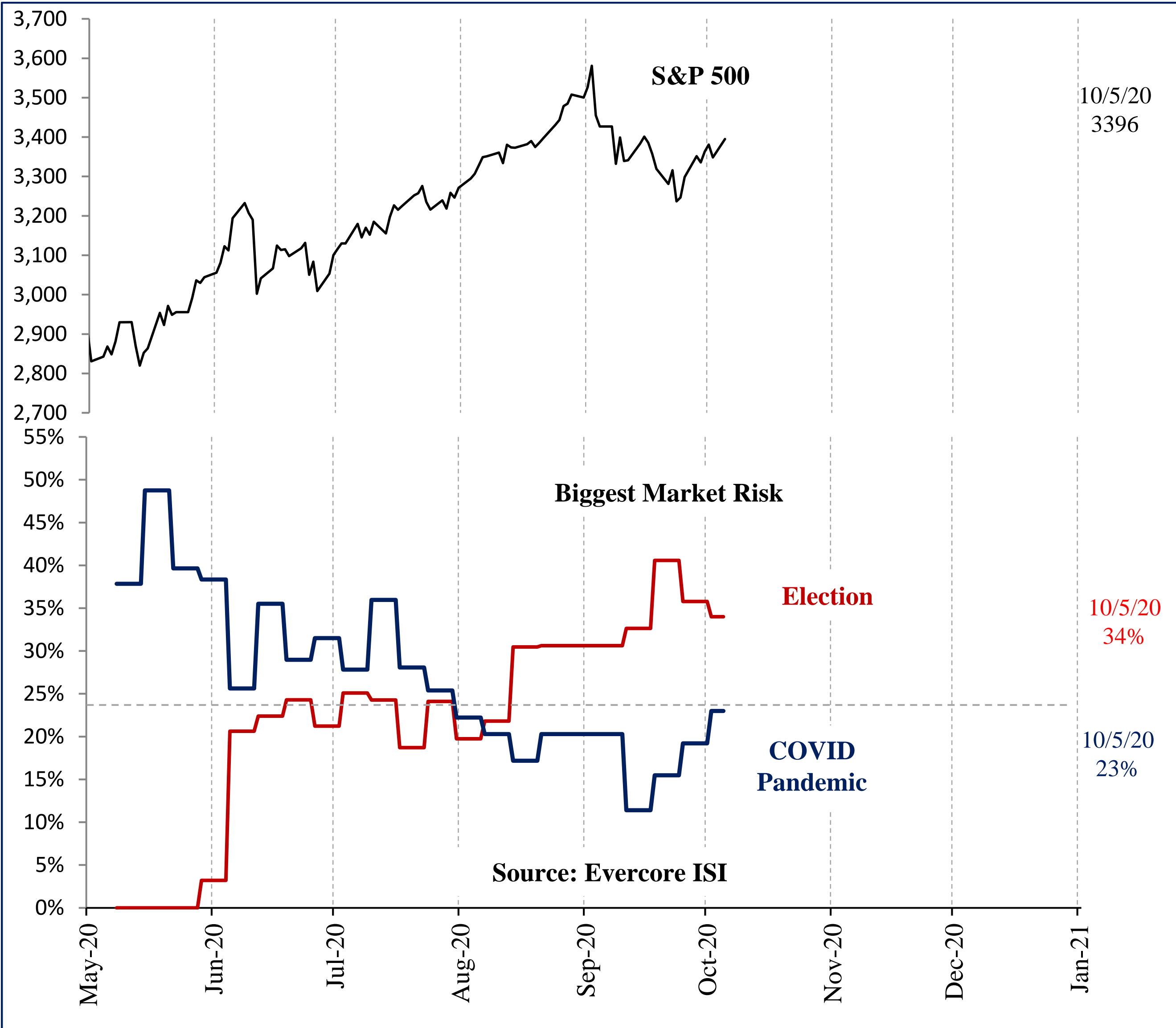

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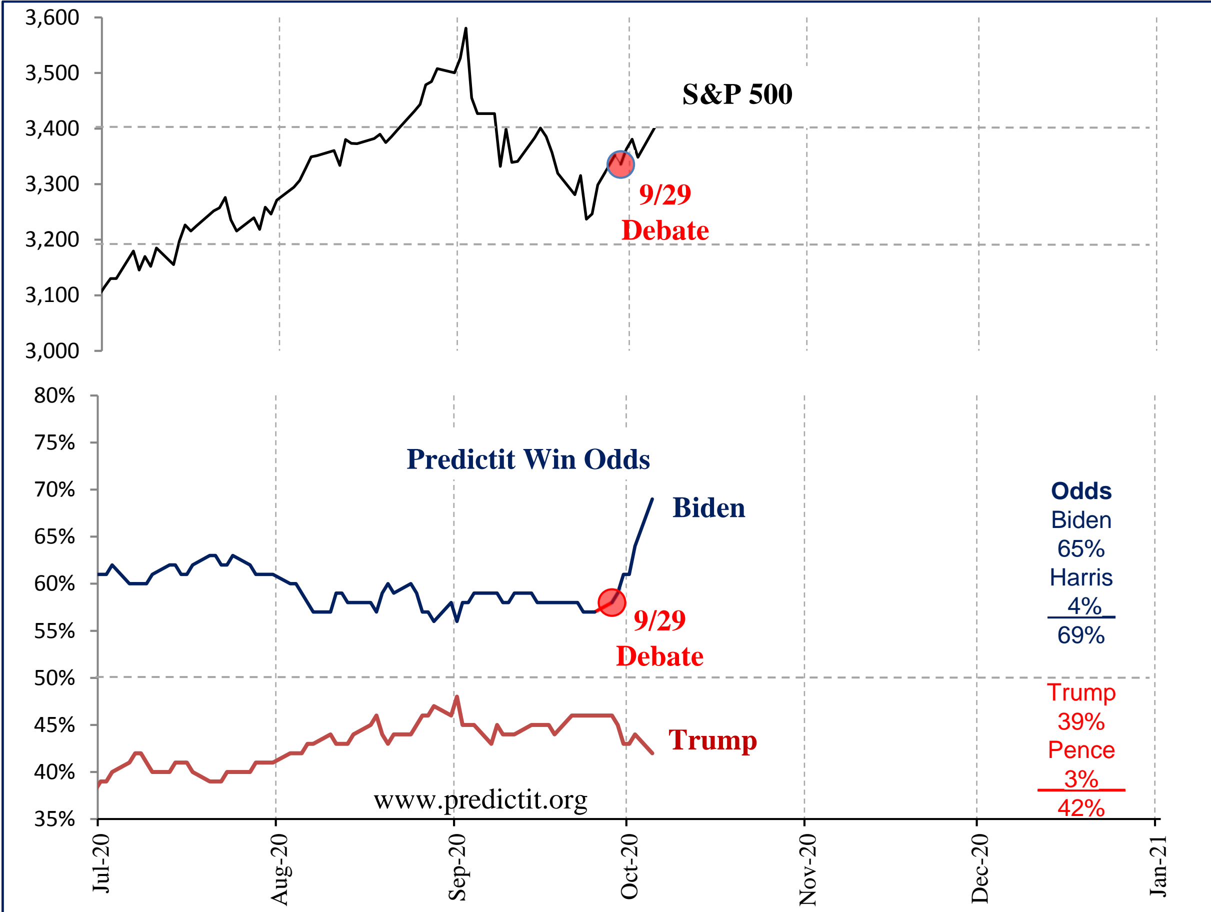
Chart 6: Predictit.org Betting Market: Biden 69% Odds to Win
Contested Election Less Likely after First Debate



Summary

We focus on the most predictive conditions for equity returns at every stage of the cycle. Today those include a committed Federal Reserve, low inflation, and a positive economic outlook-- conditions which historically were followed by strong equity returns. The September decline in equities was typical of the mixed returns in the months prior to presidential elections. The decline was a positive since it resulted in more favorable investor positioning with more cash available to move equity indices higher. Finally, the October to April period is the strongest period of the year back to 1950. Equity, commodity, and gold ratings remain bullish 5's this month and long-term bonds remain at a cautious 1, due to the divergence in rates from commodities and equity indices. We are always sensitive to changing conditions and their implications for future asset returns, but our study of prior cycles leads us to believe the next significant downside risk will result from a stronger rather than weaker economy. Sustained economic strength is often followed by higher rates, investor exuberance, higher inflation, and a restrictive Federal Reserve. Thank you for your support and please contact your advisor with any questions.

Michael Schaus
Director of Market Research