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**Economic & Market Summary**
**September 2020**

Over the last few months, the US economy has made substantial progress but challenges remain. About half of the jobs lost in March and April have returned. The unemployment rate is still high at 7.9% but down significantly from the peak of 14.7% in April. New and existing home sales have snapped back. Retail sales have fully recovered and were actually up year-over-year in each of the last three months. While the incredible amount of stimulus from Washington surely helped, the fast recovery underscores the dynamism of the US economy. However, growth will likely slow from here. The leisure, hospitality, travel, and brick-and-mortar retail industries, which comprise a significant portion of the labor force, will not regain full health until the coronavirus is controlled. Displaced workers in these industries will need new jobs and superfluous invested capital must find new uses or be written down. When and how the virus will be controlled remains unknown. Several vaccine candidates are in late-stage clinical trials, but vaccines probably won't be widely available until the middle of next year. Regardless, we expect the economy to continue healing even if growth slows. Widespread lockdowns in the spring were the primary driver of the collapse in growth and the surge in unemployment. While new daily COVID-19 case counts are rising again, we believe it's highly unlikely the entire country will shut down. We note that the surge in new daily cases over the summer, which was not accompanied by lockdowns, had minimal impact on the economic rebound. Even as some industries struggle, the broader economy seems to be adapting to life with the coronavirus.

Monetary policy will remain accommodative, perhaps more so than any previous cycle. Not only has the Federal Reserve signaled that interest rates will remain at zero until at least 2023, but it also imposed stricter criteria for future rate increases. In previous cycles, the Fed would preemptively raise rates to ward off high inflation as the economy approached full employment even if inflation was running below the 2% target. Now, the Fed is willing to let inflation run moderately above target before raising rates in order to average 2% over time. This implies a willingness to risk higher inflation in order to avoid triggering a recession by prematurely tightening monetary policy. The Fed's new strategy supports the economy and the stock market but could lead to more asset bubbles or other distortions longer-term.

The stock market has continued rebounding. Beneath the surface, there is a wide performance disparity between growth-oriented tech stocks and everything else. While the widely-cited, market cap-weighted S&P 500 index is up about 5% year-to-date, the equally weighted S&P 500 is *down* about 4%. Such a performance gap illustrates how unevenly the pandemic has impacted businesses, and speaks to investors' preference for growth stocks. The outlook for corporate earnings is improving, suggesting that many investors overestimated the pandemic's economic impact. Still, we'll probably see more market volatility in the coming weeks. Valuations remain somewhat stretched with the forward PE on the S&P 500 at about 22x. By comparison, the 10 year average PE is in the mid-teens. This leaves stock prices vulnerable to negative news. Between a contentious Presidential election and the ongoing pandemic, there are plenty of reasons for stocks to react negatively. However, while challenges remain, we believe the economy is tracking in the right direction. As long as that continues, any unsettling market volatility should be temporary.

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*To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address above.*