October 2020 Market Commentary

Toth Financial has made the decision to cancel the already postponed Client Appreciation Day breakfast event, as well as the Toth Financial Christmas/Holiday Open House. We have made this decision with the health and safety of our clients as the top priority and the hope to be able to host our normal events again next year.

The US and global equity markets are in the recovery phase of the business cycle following the COVID-19 recession. This implies an extended period of low inflation, low interest rate growth and an environment that favors equities over bonds. While we have been the beneficiary of the rapid rebound in the US equity markets over the summer, the most recent pull back was a welcome relief and not terribly surprising.

The US Gross Domestic Product (GDP) contracted in the second quarter of 2020 at an extraordinary rate of 31.4% and the estimated expansion (growth) in the third quarter is currently forecasted to be 34.6% by the Atlanta Federal Reserve's GDPNow model. This truly demonstrates the accelerated nature of this economic event and especially when compared to the great recession that began at the end of 2007 (December) and lasted for 18 months (June 2009). It was not fully realized that the US had exited the great recession until the end of January 2010, well after much of the market returns had been realized (nearly 63%). While I am not suggesting we are through the COVID recession, history has shown that equity markets will lead economic data reporting and a proactive, methodical approach to investing will allow investors to participate in the recovery.

The US elections (both presidential and congressional) create uncertainty around tax changes, government regulations and China-US trade negotiations; however, we contend the recovery will persist and market valuations will continue to expand. Some sectors may benefit more favorably than others depending on the electoral outcome, but all-in-all the recovery should endure.

A second wave of coronavirus infections does provide a backdrop of risk; however, we would anticipate that a second round of meaningful lockdowns will be avoided as governments have a better understanding of mitigating efforts and consequences. Positive COVID vaccine developments are encouraging; therefore, a repeat of the March selloff is considered less likely.

While overheated tech stocks and US election uncertainties present near-term headwinds, we believe positive vaccine developments, the Fed policies and an ongoing economic recovery should allow equity markets to push higher. We remain focused on investing into financially sound, multi-national companies who remain well capitalized during uncertain times such as we have faced this year.

The Directors, staff, and I wish you a happy, healthy, and safe 2020 Holiday season.

Tom

www.tothfinancial.com
608 South King Street, Suite 300,
Leesburg, VA 20175
703.443.8684 *main* / 800.445.1880 *toll free* / 703.669.4577 *fax*