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October 2020: Market Review

Despite a strong start to October, global equities posted a second consecutive month of declines in October as a surge in Covid-19 cases around the world weighed heavily on investor sentiment. Countries in Europe were the most negatively affected as both Covid-19 infections and deaths have increased, causing Germany, France, and the U.K. to reintroduce national lock downs for the entire month of November. The U.S. posted it's largest quarterly growth of GDP on record in the third quarter (+33.1% annualized), but the better than expected economic news was not enough to calm investors' fears surrounding the recent surge in Covid-19 infections. In addtion, the uncertainty surrounding the upcoming presidential election and the lack of further fiscal stimulus from Congress has pressured equity markets. The S&P 500 Index fell -2.7% this month but remains up +2.8% year-to-date. The Dow Jones Industrial Average (-4.5%) posted its largest monthly decline since March. The NASDAQ Composite depreciated -2.3% but is still up +22.5% year-to-date.

In the United States, the number of new daily Covid cases hit a record high of 99,300 on the last day of the month with much of the increases concentrated in midwestern states. Although ambiguity remains regarding Covid-19 cases and the national election, economic data continued to show signs of improvement. Unemployment numbers inched closer to peaks seen in previous recessions as initial unemployment claims fell to 787,000 and the unemployment rate dropped to 7.9% in September. In addition, retail sales beat expectations and rose for the fifth month in a row. Among commodities, WTI crude oil ended the month at $36 a barrel, down from $40 in September. Gold ended the month at $1,877, lower than its close of $1,888 last month.

Within domestic equities, value outperformed relative to growth across all capitalization sizes in October. The Russell 1000 Growth Index fell -3.4% while the Russell 1000 Value Index declined -1.3%. In mid cap equities, the Russell Midcap Growth Index gained +0.1% for the month versus a +0.9% increase in the Russell Midcap Value Index. Small cap equities outperformed mid and large cap stocks as the Russell 2000 Growth Index added +0.8% versus a +3.6% rise for the Russell 2000 Value Index. Although value indices outperformed their growth counterparts in October, growth indices have posted gains year-to-date while the value indices still have large losses on the year.

Major international indices posted losses in October as many countries have failed to control Covid-19 infections. The MSCI EAFE Index lost -4.0% during the month while the MSCI Europe Index plunged -5.6% as partial lock downs have been reinstated in Germany, France, and the U.K. The MSCI Pacific Index held up better, falling a mere -1.3% as countries in Asia have been able to curb viral infections more effecitively. The MSCI Emerging Markets Index grew +2.1% driven solely by strong returns in China (+5.3%) as their economy continues to rebound.

U.S. treasury markets also were down this month as yields rose on positive economic data. As such, the yield on the 10-year Treasury closed at 0.88%, higher than last month's close of 0.69%. The Bloomberg Barclays U.S. Aggregate Bond Index declined -0.5% for the month while the Bloomberg Barclays Treasury 20+ Year Index slumped -3.1%. The Bloomberg Barclays U.S. Treasury Index fell -0.9% during the month. Conversely, the Bloomberg Barclays Corporate High Yield Bond Index posted a modest gain of 0.5% in October.

As Covid-19 cases rise across Europe and the U.S., concerns over further lockdowns and their ensuing negative economic impact have hurt equity results. The uncertainty of U.S. elections has caused modest volatility in the markets despite evidence that stock market returns are largely unaffected by the political party in control. Market volatility is likely to subside upon finalized election results, while Congress is expected to focus on passing further Covid-related economic stimulus post election. Further fiscal stimulus or any positive news on vaccine development and distribution would likely outweigh any negative sentiment or economic data in the coming months.