

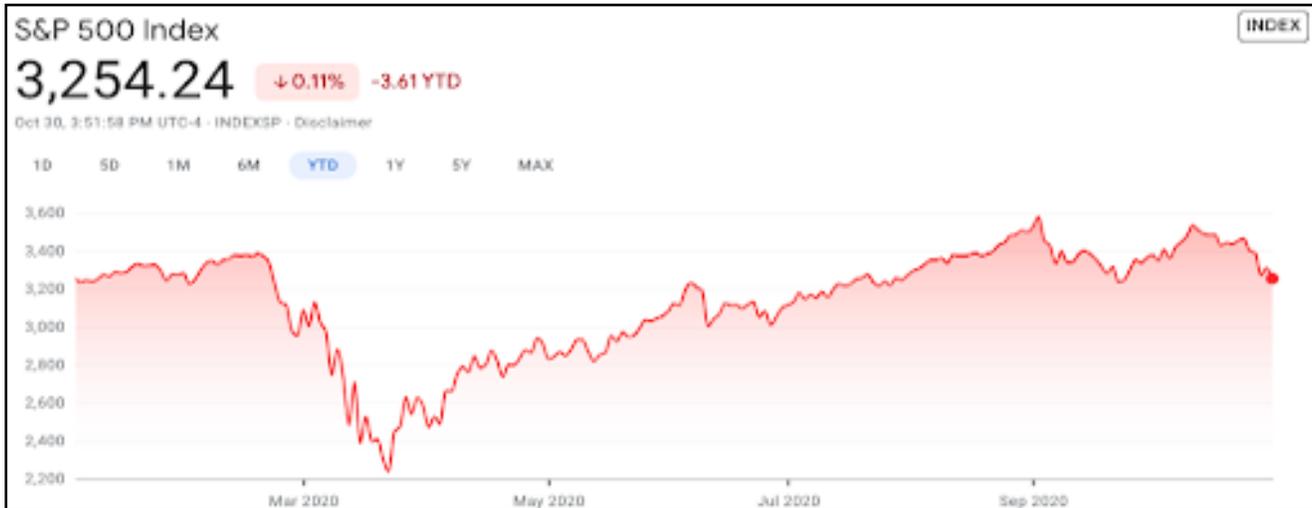


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Market and Economic Update

By Keith Burbank - Chief Investment Officer



As we enter the last two months of 2020, we still face a multitude of questions about our economy and markets.

On the economic side, third quarter GDP came in at an annualized rate of 33%. This followed a 2nd quarter decline of annualized 31%. Despite the unprecedented gain in the third quarter, the economy is still 3.5% smaller than it was a year ago.

Much of the gain can be contributed to consumption which was up 40%, with business equipment investment and residential investment leading the way. On the negative side, non-residential structures investment fell by 14.6% and government expenditure declined by 4.5%, mostly a result of a reduction in education employment as more students started the year online.

While the initial recovery in GDP after the first wave of lockdowns was lifted and stronger than anticipated, the expectation is that this economic progress is slowing and fourth quarter GDP growth will be closer to 4.5%. The rising infection rate is causing some municipalities to scale back or put further restrictions on business openings and activities. Employment gains for October are expected to have slowed to about 600,000, keeping the unemployment rate at 7.9%. Any further restrictions on business openings will continue to put pressure on the labor market.

Additionally, despite promises of additional stimulus targeted at individuals, no additional stimulus package has been passed and will not be any time soon, with the election looming on Tuesday.

Lack of further stimulus, coupled with an upcoming election, has sidetracked the markets for the moment. After peaking in early September, the markets sold off about 10%, and - Continued on pg. 2

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have bounced between that high and that short term low ever since. Most of the damage has been done to the high flying tech and consumer names that had led the market higher over the summer months, while the more “value” areas of the market have seen less of an impact.

With many questions still to be answered as to how the elections on Tuesday turn out, the recent market volatility is not surprising nor overly concerning. Despite the impact of the pandemic, market returns are still slightly negative year to date. Additionally, the fiscal support and potential future fiscal support, has proven to have buoyed the economy and should help stabilize future economic growth. The recent sell off, coupled with rising earnings estimates, has also helped bring down slightly elevated valuation ratios in the market.

For now, the markets and the economy are both looking for direction forward. The first clue will be the results on Tuesday, and hopefully the path forward will then be more clear as to the next steps in fiscal policy.



The recently passed Coronavirus Aid, Relief, and Economic Security (CARES) Act waives 2020 required minimum distributions (RMDs) from IRAs (including Traditional IRAs, simplified employee pension (SEP) IRAs, SIMPLE IRAs, and inherited Roth IRAs, and defined contribution plans (such as 401(k) and 403(b) plans). The RMD waiver is intended to help taxpayers whose retirement accounts may have been adversely affected by the economic downturn caused by the coronavirus (COVID-19) pandemic.

The Times They Are A Changing - But What To?

By James G. Steproe, J.D. - President



We will eventually overcome CoVid19. Whether through herd immunity, vaccines, or both, this too shall pass (to borrow a phrase). However, once it does, what will society look like? Everything will not go back to the way is was, it never does. It will also not turn out the way we think it should, it never does.

Predicting the future may be fun but is always a risky business. I recall reading a book in the mid 1970's purporting to predict what life would be like in 25 years or around the year 2000. The author got much right, the fall of Communism for one. However, he missed one of the most significant developments of the Twentieth Century, the invention of the microchip, which changed everything. The author also had never heard of a GPS. Think about it, if someone told you about GPS in 1975, you would have thought it pure science fiction, but think of how much today depends upon those two things, the microchip and GPS.

CoVid19 is one of those events which will change much. The question is to what and by how much, and while our efforts to answer these questions may be flawed, it is still fun to speculate.

Consider the following, if you walked into a bank branch wearing a mask ten years ago, everyone would dive to the floor; today, if you walk into a bank branch not wearing a mask everyone will dive to the floor. Despite initial and ongoing resistance, masks have become de rigueur in the public arena. Indeed, those without masks are looked down upon as thoughtless beasts (at least by some).

It is the same with social distancing. If a year ago you tried to prevent anyone from coming within six feet of you, your mental stability would have been in question. Now if you accidentally come within six feet of a stranger, you apologize and will, at times, be subjected to irate glares.

This is all while CoVid19 is active. Now, what about once the threat is over? Will things suddenly go back to normal? I suspect not. Things never go back to 'normal'. You might argue that most people do not like to change old habits. While this is somewhat true, once something is around long enough it becomes an old habit. Wearing masks in public and avoiding close contact could become more and more the norm, an old habit.

For years in other parts of the world, particularly Asia, the wearing of masks in public has been much more common. It prevents the spread of colds and the flu, an annual ordeal that could be greatly diminished by masks. Social distancing has not been the norm, but it too can have the same effect. - *Continued on pg. 4*

The Times They Are A Changing - cont.

Reducing disease is obviously a positive result but what might be the negative results? After all, the wearing of masks changes somewhat fundamentally our ability to communicate. I do not know if you have noticed, but the way we communicate has already begun to change. Typically, we have learned not just to rely on someone's words but their facial expressions as well. One of the great flaws in text messaging is the lack of facial expressions. Think of how many times you have misunderstood the intent of an email writer because you could not see his or her facial expressions. In our culture we often say things figuratively which the recipient has taken literally.

To a lesser extent, social distancing also reduces our ability to communicate. Whispering is about to become a lost art, and how do people date in this environment? Seeing the love of your life in the form of a stranger across a crowded room is just not going to happen when that stranger is masked, gloved, and demanding that you stay at least six feet away, and how about dancing? I guess dancing cheek to cheek with the person you just met is going to be out of the question.

How many handshakes does an average person make during a lifetime, a million? Well that number is about to go way down. Frankly, the handshake is dead. Even fist bumps may prove to be too much skin contact; however, the more recent elbow bumps might be OK. Hugs and kisses may henceforth be reserved to the bedroom - if then. On the other hand, the oriental bow could become standard here in the West. Hopefully, it will not replace hugs and kisses in the bedroom.

What about future pandemics? What have we learned? Well, we certainly have improved over the Pandemic of 1918. My namesake and Great Uncle Jimmy was one of the many young soldiers who died during The First World War not from battle but from disease. He was on a crowded troop ship returning home from France. Apparently, a number of these young veterans survived the trenches, but not the pandemic.

Nobody wants to contract CoVid19, but for most, particularly the young, it is an annoyance. But for the elderly and/or those with underlying conditions, the disease is more than an annoyance; it is a death sentence.

So, while 'The Times They Are A Changing', they need not bring undue hardship if we pay attention to lessons already given.

