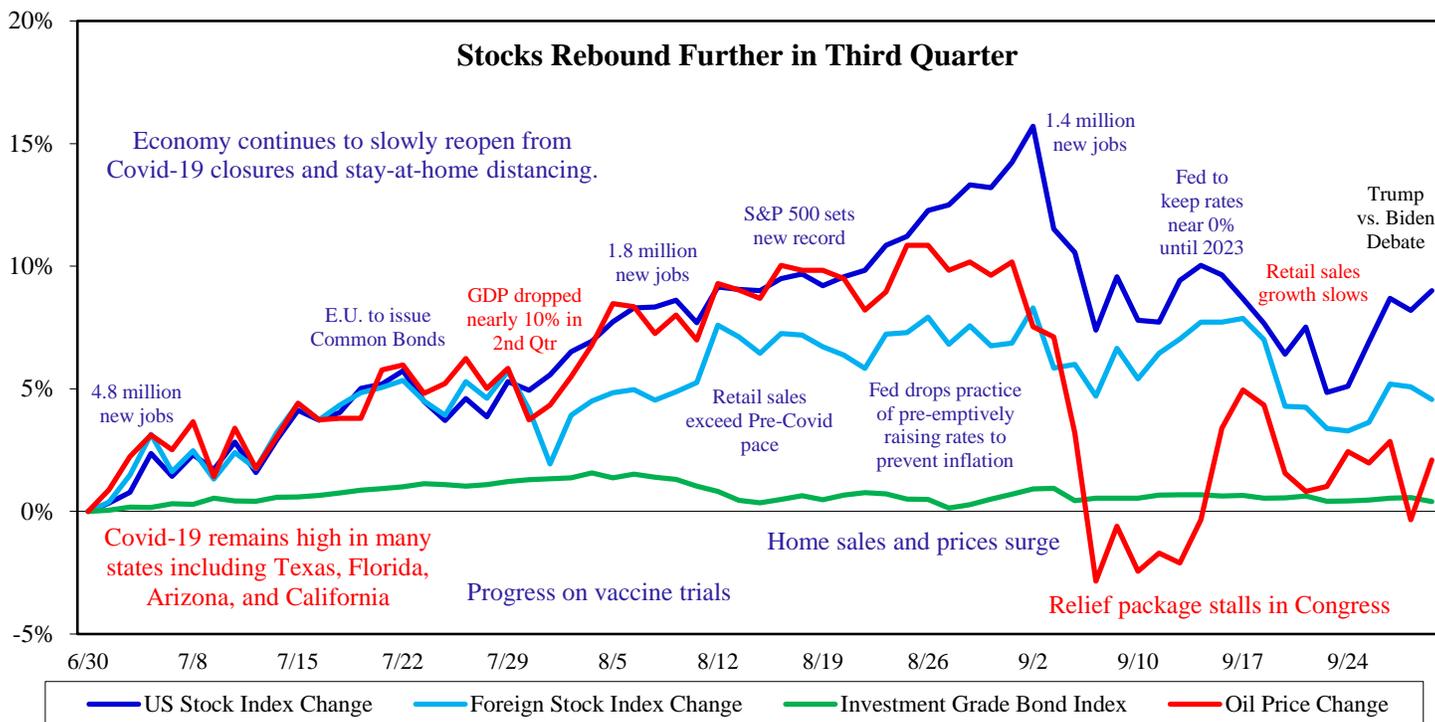


“U.S. stocks turned in a second consecutive quarter of dramatic gains, continuing a historic stock market recovery that few predicted in the depths of the March downturn. The S&P 500 and Nasdaq Composite hit a string of records in the third quarter, a journey that confounded many investors with its sheer velocity and strength. Despite a stretch of volatility that damped momentum in September, the S&P 500 and Dow Jones Industrial Average gained 8.5% and 7.6%, respectively, over the past three months.” (Quoted from “Stocks Defy the Pandemic in Bullish Quarter”, *The Wall Street Journal*, 10/1/20, page A1).

As described in the article, the resilience of the stock market has been confounding considering the ongoing battle with Covid-19, still high unemployment, trade conflicts with China, and the uncertainty of the rancorous election. Large-cap growth stocks like Apple and Amazon led the market again and are viewed as winners whether the pandemic continues or ends. Foreign stocks gained about half as much as U.S. stocks and the dollar declined in value against foreign currencies partly due to the Federal Reserve’s commitment to keep interest rates low. Bonds had modest returns as interest rates stayed in a narrow range.

The liquidity provided by the Federal Reserve continues to prop up the economy and stock market especially since another relief package is stalled in Congress. The Fed changed its strategy of raising interest rates to prevent inflation from getting out of hand when the economy is booming. They will allow inflation to exceed their 2% target at times and projected that interest rates will be near 0% until at least 2023. Low mortgage rates and people wanting more space are causing the housing market to boom.



The fourth quarter will be buffeted by the election and Covid-19 especially with President Trump being infected with the coronavirus. If counting mail-in ballots and lawsuits about voting cause delays in the winners being declared, the markets could be volatile due to the uncertainty. Generally, the markets prefer a divided government over one party rule. (More compromises have to happen with a divided government.) The next few months will be greatly affected by the spread of the coronavirus and the results of the vaccine trials. If one or more vaccines prove to be effective, people will be more confident about the economy reopening in 2021.