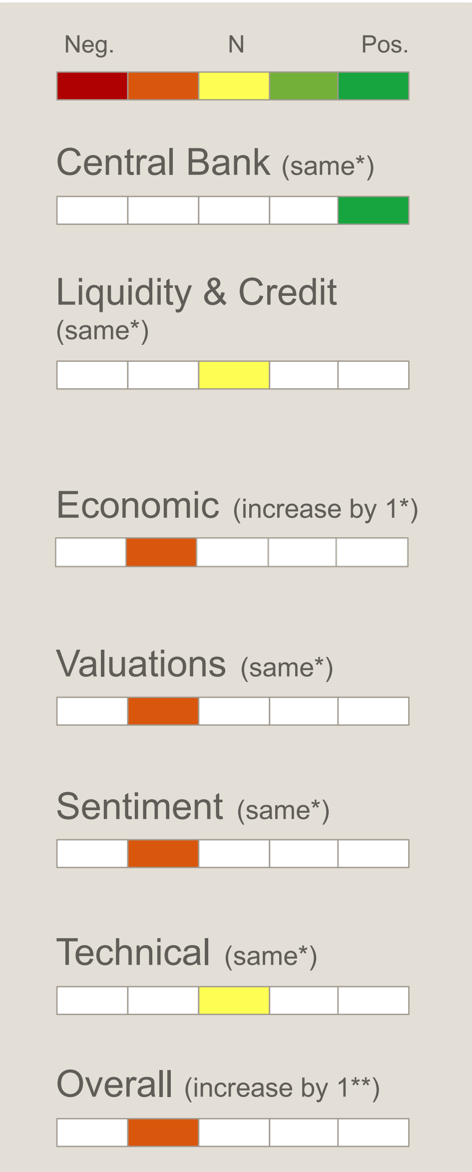
Macro and Market Outlook – as of 30 September 2020

(12-month outlook, updated quarterly)



- Central banks are doing everything possible to support the financial markets, including encouraging additional fiscal stimulus.
- The US Fed has explicitly stated that it has tolerance for higher inflation and that it intends to keep its key short-term interest rate near zero through 2022.

- The low level of interest rates is encouraging governments and corporations to issue additional levels of debt, which buyers are happily funding.
- Financial conditions have increased to neutral but could decrease if additional stimulus slows.
- Yields are off their lows and spreads have narrowed. Both are still indicating a higher level of risk than pre COVID.

- While economic activity has been stronger than expected, stimulus and prospects of a vaccine have become the most important drivers of the financial markets. Without additional stimulus, economic activity will slow.
- Unemployment is reducing but is still significantly higher than pre-COVID.
- A second wave of outbreaks is unlikely to lead to broad based lockdowns. More focused measures are likely and will impact consumer sentiment.
- A no-deal Brexit appears more likely.

- Technology companies have benefited from the shift to working and playing at home, providing strong earnings to this sector, and *dot-com* era valuations.
- If economic activity becomes self-sustaining, there will be rotation out of tech, and valuations will become more balanced. The low level of interest rates are supportive of current multiples.
- Beyond the US, there are pockets of relative value, including Europe and China.

- Virus concerns are offsetting stimulus and COVID containment gains from prior months. Volatility, as measured by the Cboe Volatility Index (VIX), remains elevated.
- Institutional investor confidence is trending lower and those hoarding cash are waiting for better entry points.

- The short- and medium-term technical outlook in the US remains modestly positive. If a new all-time high is achieved (3,588) on a monthly basis, a breakout is occurring, with higher upside likely.
- European shares are at resistance but indicating a possible test of support levels about 10% below current levels.

Conclusion: Our outlook remains cautious. The path of the virus, success with a vaccine, additional fiscal stimulus, the US presidential elections and increasing geopolitical tensions have created an environment of higher uncertainty. This is adjusting the risk-return equation to higher risk for lower return. Remaining patient is prudent.

ARGUS Wealth Management

*Change from the previous 12-month outlook.
**The weights to calculate the Overall rating are determined by Argus Wealth at its discretion based on market conditions.

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