



# Hamilton-Bates

## Market Update

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### September Swoon

The market correction we wrote about in the last Update a month ago pretty much developed as expected. After a rip-roaring rally in July and August the market was very over-extended, and loaded with speculative sentiment.

So far in September the market pulled back about 10% at its worst last week, and is attempting a rebound as we write this note. While we find it difficult to get too bearish here, we believe its still too early to expect that the correction has run its full course. The election is 5 weeks away and the outcome is too close to call. There is also a possibility that the result may not be known for some time after election day, adding even more uncertainty.

We remain bullish longer-term, but the next few weeks could be challenging. We look for the market to fall it bit further in October, or perhaps just after the election. We therefore expect better opportunity to put cash to work in the weeks ahead. Even after the recent pullback, the market has gained about 8% in the third quarter.

### The Fed, the Economy, and the Election

One of the reasons we find it difficult to get too bearish is that the Fed remains on our side, preferring inflation and rising assets prices and willing to support the market and economy if need be. For now the Fed still has the ability and firepower to move markets if they wish, so we don't want to be against the Fed here.

The economy remains lower than where it was pre-pandemic, but it has clearly stabilized and started to turn back up. Investors are clearly anticipating better things for 2021 and earnings are likely to rebound quickly as a vaccine is distributed and more sectors of the economy come back online. The pace of the recovery will be dictated by when and how long it takes to develop an effective vaccine.

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The Election remains a wild-card, and the complications from the pandemic and mail-in voting could make the 2000 election circus look tame. Delayed results and lawsuits could make things messy. The questions are how much does the winner matter to the market? And can the Fed offset any negatives from the result? Attend our October Webinar for answers to these questions and more.

### Managed Accounts

Managed portfolios have recovered with the market over the quarter, and show solid gains quarter and year-to-date. We have a bit more cash than usual right now, and expect to put it to work in coming days.

### S&P 500 Chart (below)

The stock market peaked at the end of August with very stretched conditions—the S&P 500 was 12% above its long-term trend (the red line), and was due to snap back toward it. And that is exactly what has happened. A decline closer to the 200-day average (in red) would be very healthy, and provide an excellent buy point.

