Economic Outlook
3rd Quarter 2020

Market Overview

The Covid-19 pandemic continues to dominate the outlook for the U.S. economy. Measures that were taken in March to lockdown economies in order to slow the spread of the virus led to immediate and debilitating slowdown in economic activity. Economists surveyed by Bloomberg expect economic growth to decline by 4.4 percent in 2020 compared to an average growth of 2.3 percent before the pandemic. In May through June, as the spread of the virus slowed, states began to remove restrictions on economic activity. Thus far, initial indicators point to a surprisingly solid pace of economic recovery. We have observed improvements in the labor markets, housing, autos, manufacturing, and consumer spending. Certain high frequency data indicators are also showing surprising resilience despite the economic headwinds. Equity markets have recovered from their March low point. The S&P 500 index is up 6.3 percent and the bond market is up 7.0 percent for the year as of September 30.

On August 27, Federal Reserve Chairman Jerome Powell announced a major change to the Fed's monetary policy framework during the Jackson Hole Economic Policy Symposium. He stated the policy change reflects the Fed's view that a "robust job market can be sustained without causing an outbreak of inflation." The Fed now seeks a strong labor market and inflation that averages 2 percent over time. Investors viewed this change as a signal that the Fed has essentially adopted a lower-for-longer stance.

At their September 16 meeting, the Federal Open Market (FOMC) voted to keep the fed funds target rate unchanged at 0-0.25 percent. The updated Fed dot plot shows the majority of FOMC participants project the target rate to remain at 0-0.25 percent through end of 2023. Bottom line, by keeping interest rates near zero and continuing to participate in unlimited asset purchases in addition to the new average inflation targeting strategy, the Fed is affirming its commitment to do whatever it takes to buttress the economy.

As we approach year end, markets will likely continue to experience volatility due to uncertainty related to the upcoming U.S. elections and potential for resurgence of the COVID-19 virus. In the long term, we believe the virus will be a continued source of anxiety and volatility in the year ahead for spending, earnings, the economy and the return potential across most asset classes.