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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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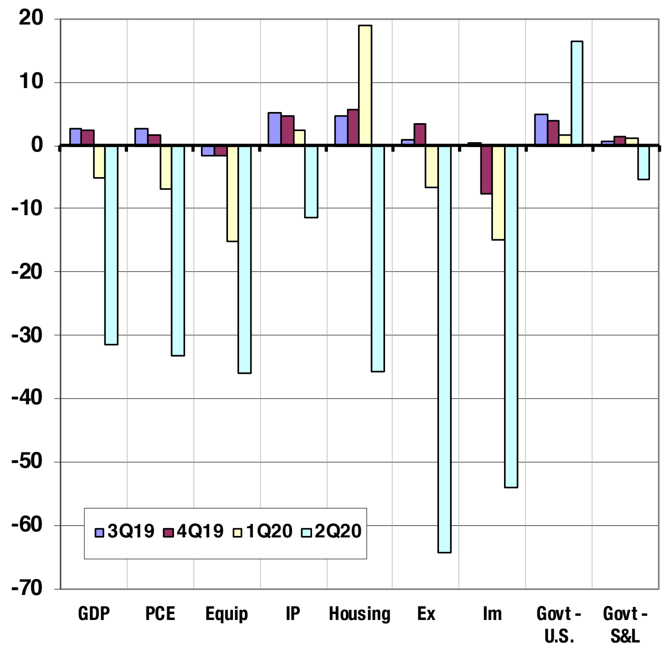
FINAL 2Q GDP READING: -31.4%

The U.S. Department of Commerce announced that its third estimate of 2Q20 GDP growth was an annualized -31.4%. This was in line with previous estimates and the consensus outlook. The GDP report also includes an inflation gauge, the PCE price index. This index, excluding food and energy, decreased at a deflationary 0.8% pace. That's well below the Federal Reserve's inflation target of 2.0%. The second quarter should be the bottom, in our opinion, and GDP reports going forward should signal recovery and ultimately growth. But the economy must still climb out of a deep hole. Personal consumption expenditures, the core of the economy, declined at a 33% rate in 2Q, including a 42% drop in spending on services. Domestic investment fell at a 47% rate, including declines of 36% in both residential investment and investment in industrial equipment. Even investment in intellectual property, such as software and entertainment, fell 11%. The one growth area was federal government spending, which rose at a 16% rate. That support may be fleeting if Congress is unable to pass another rescue package.

GDP GROWTH DRIVERS (%)



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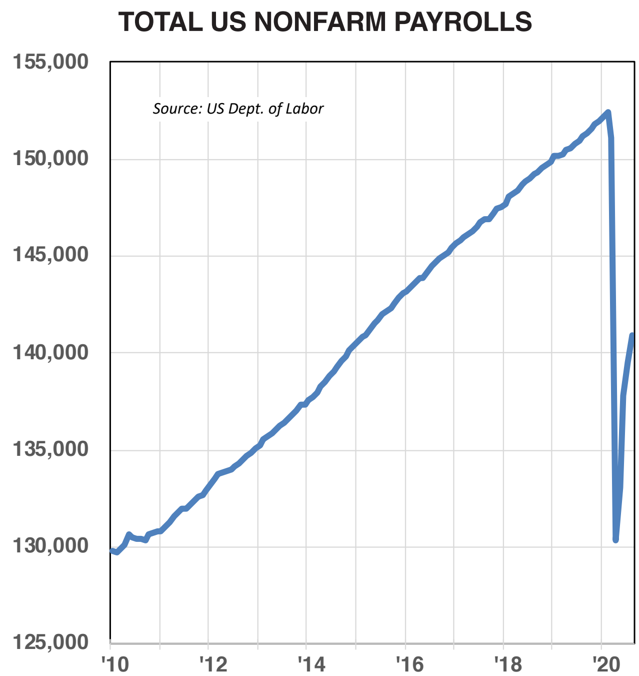
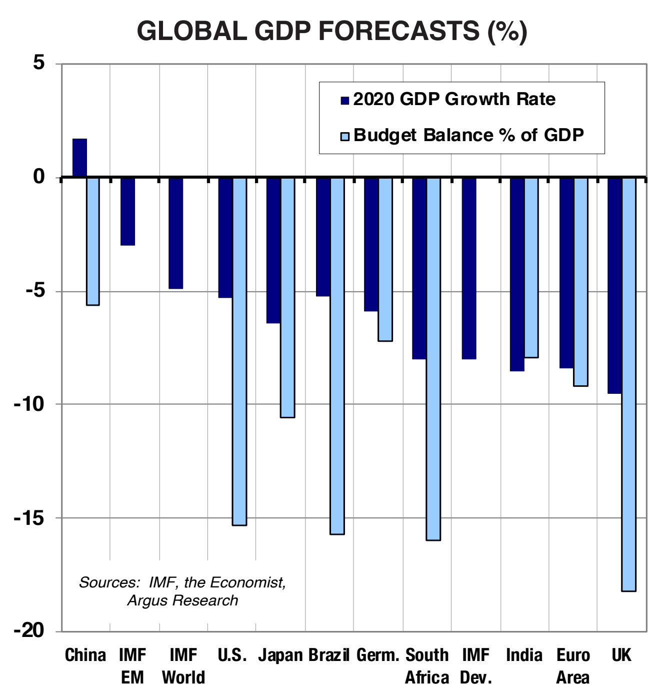
UNEMPLOYMENT RATE DOWN TO 7.9%

The U.S. economy added back 661,000 jobs in September -- a bit below Street expectations -- as companies continued to bring employees back to work. The unemployment rate dropped to 7.9% from 8.4% in August. Employment rose sharply in Leisure and Hospitality (almost one-half of the month's total gains), Retail Trade, Healthcare, and Professional & Business Services. The Government workforce was down more than 200,000, however, largely due to a reduction in educational employment. In addition, the Labor Department reported that another 837,000 people filed unemployment claims, and that continuing claims totaled 12.7 million. Those figures indicate that the employment environment, while improving, is still under stress. According to the Labor Department, the economy has added back more than 10 million jobs since April. But the prepandemic employment high in February is still more than 11 million jobs away. We expect the unemployment rate to remain high through 2020 as the U.S. economy slowly recovers — a recovery that will depend on the course of the pandemic, progress on vaccines and other treatments, and additional fiscal stimulus.



ONLY CHINA EXPECTED TO GROW IN 2020

The International Monetary Fund (IMF) projects a global GDP decline of 4.9% in 2020. Prior to the pandemic, the IMF had been forecasting growth of 3.2% for the year. The IMF expects that industrialized economies will decline the fastest and expects a GDP drop of 8% for these countries. Emerging markets are not expected to fall as fast, but the IMF still expects a decline of 3%. Only China is expected to grow in 2020. The IMF expects a sharp rebound in 2021. It projects global growth of 5.4%, with industrialized nations growing 4.8% and emerging markets growing 5.9%. China and India are expected to lead in 2021, with forecast growth rates of 8.2% and 6.0%, respectively. The baseline projections rest on key assumptions about the fallout from the pandemic. In economies with declining infection rates, the recovery path assumes persistent social distancing into the second half of 2020, and a hit to productivity as surviving businesses ramp up workplace health and safety measures. These assumptions are subject to significant revision.

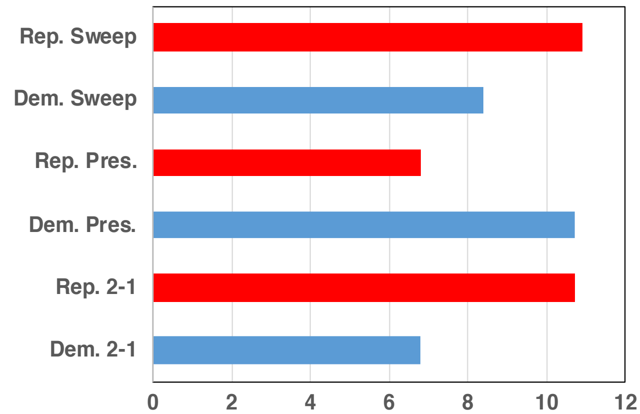


FINANCIAL MARKET HIGHLIGHTS

DC GRIDLOCK IS OVERRATED

Investors often believe that when one political party has hegemony -- controlling the presidency, House, and Senate -- ideology supplants pragmatism and compromise; expensive and impractical legislation is passed; and the market suffers. Our analysis of S&P 500 performance since 1945 does not substantiate that widely held perception. Our work suggests that the market has actually outperformed in years in which one party prevailed, though the results fail to establish a clear pattern. We start with the base-line annual average market performance since 1945 of 10%. Political scenarios that topped this average included a Republican president and Congress (+11%), and Republicans controlling the White House and either the House or the Senate (+11%). But in years in which the White House was occupied by a Democrat, stocks also outperformed (+11%).

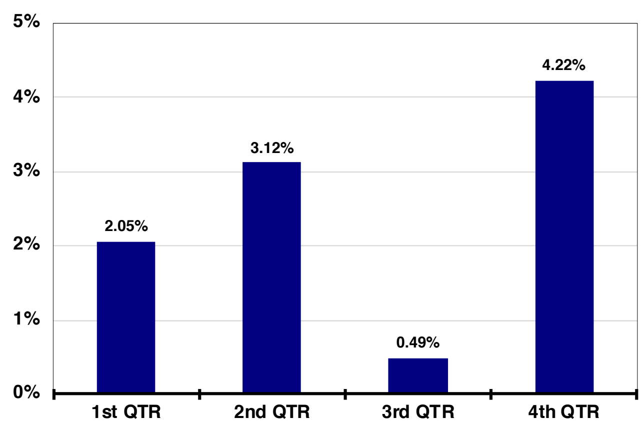
STOCK PERFORMANCE IN POLITICAL SCENARIOS (AVG ANNUAL S&P 500 % CHANGE)



COAST TO THE FINISH FROM HERE?

By our calculations, the 4Q has generated average gains of 4.2%. The fourth quarter is consistent as well, with a “win percentage” of 80%. To be sure, the 4Q has posted its share of clunkers. In 1987, which included Black Friday, stocks fell 23% during the period; in 2008, they dropped 18% as Lehman Brothers collapsed and the U.S. economy plunged into a deep recession. As recently as 2018, stocks slid 14% in the final quarter as trade disputes deepened and the Fed raised rates. This time around, it is not unreasonable to expect volatility, given the pandemic, the recession, and the election. The fourth quarter of election years historically has been in the red. We recommend that clients focus on quality companies with clean balance sheets and experienced management teams.

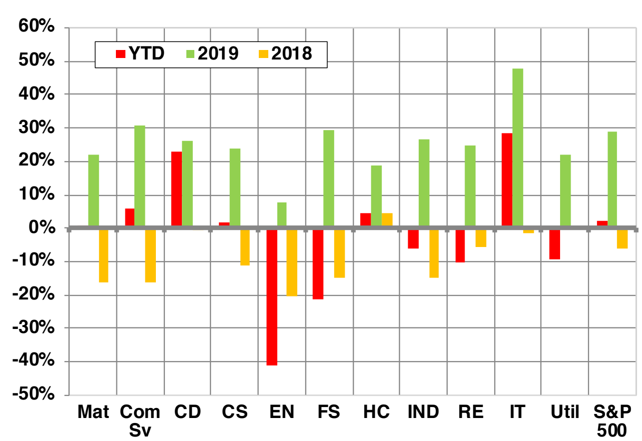
AVERAGE QUARTERLY STOCK MARKET APPRECIATION



MIXED SECTOR PERFORMANCE IN 2020

Through 3Q, six of 11 GICS sectors had positive year-to-date performance results. Leading sectors included Technology (+29%) and Consumer Discretionary (+23%). Badly lagging sectors included Real Estate (-10%), Financials (-21%), and Energy (-41%). The Tech sector has outperformed three years in a row, while the Energy sector has lagged badly for three years. Will the trends reverse next year? We doubt it. Investors are eager to allocate capital to innovative IT companies that are connecting people and making corporations more efficient. Meanwhile, the Energy sector is facing “peak demand” forecasts at some point in the next 2-3 decades, suggesting that the long-term growth outlook is capped. In addition to Technology, the other sectors we favor for “secular” long-term EPS growth include Healthcare and Financial Services.

SECTOR PERFORMANCE (CHANGE PER PERIOD)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Oct	Consumer Price Index	September	0.4%	0.2%	0.2%	NA
	CPI ex-Food & Energy	September	0.4%	0.2%	0.2%	NA
14-Oct	PPI Final Demand	September	0.3%	0.2%	0.2%	NA
	PPI ex-Food & Energy	September	0.4%	0.2%	0.2%	NA
15-Oct	Import Price Index	September	0.9%	0.3%	0.3%	NA
	Empire Manufacturing	Ocotber	17.0	15.0	14.0	NA
	Philadelphia Fed BOS	Ocotber	15.0	15.0	15.0	NA
16-Oct	Retail Sales	September	0.6%	0.6%	0.6%	NA
	Retail Sales ex-Autos	September	0.7%	0.6%	0.4%	NA
	Business Inventories	August	0.1%	0.8%	0.4%	NA
	Industrial Production	September	0.4%	0.6%	0.6%	NA
	Capacity Utilization	September	71.4%	72.0%	71.9%	NA
	U. of Michigan Sentiment	October	80.4	82.0	80.5	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Oct	New Home Sales	September	1011K	NA	NA	NA
27-Oct	Durable Goods Orders	September	0.5%	NA	NA	NA
	Consumer Confidence	October	101.8	NA	NA	NA
28-Oct	Wholesale Inventories	September	0.8%	NA	NA	NA
29-Oct	Real GDP	3Q	-31.4%	NA	NA	NA
	GDP Price Index	3Q	-1.8%	NA	NA	NA
30-Oct	Personal Income	September	-2.7%	NA	NA	NA
	Personal Spending	September	1.0%	NA	NA	NA
	Chicago PMI	October	62.4	NA	NA	NA
	Employment Cost Index	2Q	0.5%	NA	NA	NA