IdahoTrustBank

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

Major stock indices continue to rebound from the sharp decline experienced in the beginning of the year as investors anticipate a successful approval of a vaccine as well as a sharp increase in economic activity. Some areas are experiencing an uptick in Coronavirus cases and the economic recovery has been very uneven. Although there is much optimism surrounding a vaccine (with several in the final approval stages) for the virus, the timeline for the rollout of the vaccine is uncertain as many logistical challenges remain.

Economic Activity

The third quarter (3Q) Gross Domestic Product (GDP) grew at an annual rate of 33.1%. This exceptionally high number is likely not representative of a material long-term change in growth rates but, rather, reflects a snapback in activity following the lifting of covid related restrictions. However, as infection rates have begun to increase in recent weeks, many regions have imposed virus related restrictions, which could slow the rebound. Notwithstanding the exceptionally strong rebound last quarter, the U.S. economy was still 3.5% below its previous peak in 4Q2019. Although forecasting remains difficult, 4Q2020 GDP is likely to advance in the 2% to 5% range.

Meanwhile, evidence is promising that COVID-19 vaccines currently in trial are

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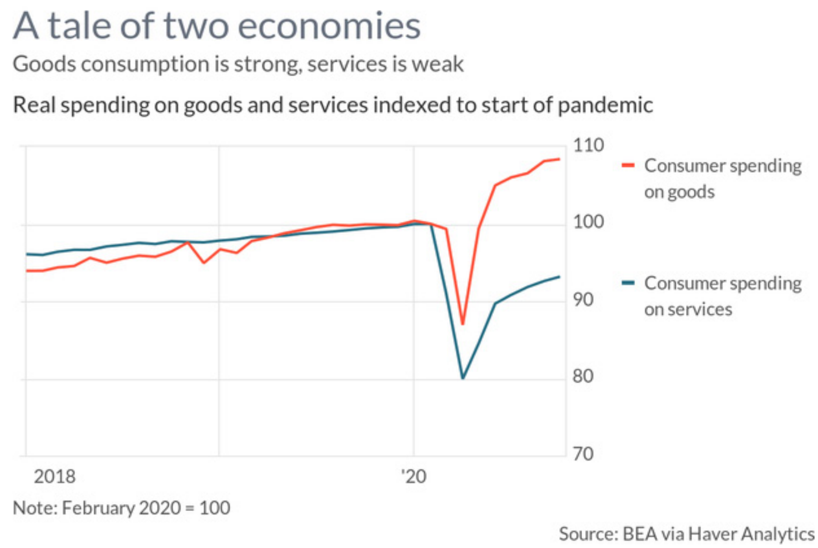
effective and that production capacity is sufficient to deliver doses in early to mid-2021. With the additional likelihood that any lockdown measures will be temporary, there is increased possibility of the economy reaching pre-COVID-19 output levels by the end of 2021.



The November jobs report indicated a significant slowdown in hiring. The job market added 245,000 jobs, well below expectations for half a million. The unemployment rate declined to 6.7% from 6.9%, however the participation rate declined. Although the overall jobless rate has come down sharply from 14.7% in April, it remains well above the pre-covid low (3.5%).

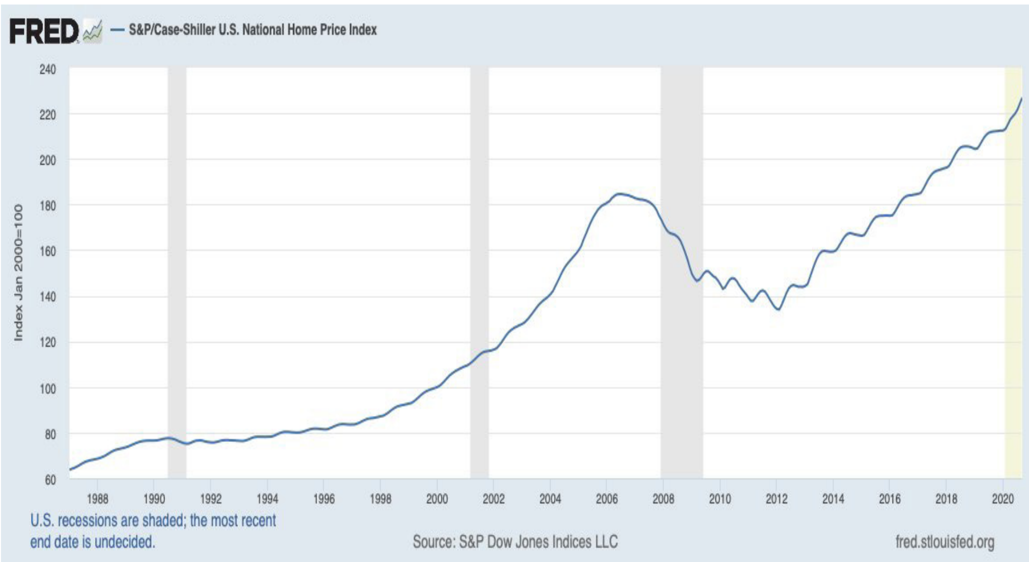
The recession that started last winter was driven by a sharp decline in service related activity rather than a decline in demand for goods. (see chart above) So long as the pandemic threat exists there is likely to be an overhang on service related activity on the economy. Consumer spending on goods has fully recovered and is now 8.4% above pre-pandemic levels. But spending on services is still 6.8% below February's levels.

The American consumer spending accounts for a large portion of domestic economic activity. After plunging by an unprecedented 18% from January to April, total consumer spending has since recouped about 85% of that loss. However, the rebound has been concentrated in goods consumption—big-ticket durables such as cars, furniture, and appliances, plus soft-good nondurables such as food, clothing, fuel, and pharmaceuticals that have more than made up for what was lost during the lockdown-induced decline. The bounce back benefited significantly from a surge in online buying by stay-at-home consumers, as e-commerce went from 11.3% of total retail sales in the fourth quarter of 2019 to 16.1% in the second quarter of 2020.

But services consumption, which makes up over 61% of total consumer spending, has not experienced as much of a rebound. Services accounted for a large portion of the collapse in total consumer spending from January to April, but have only partly bounced back, recouping just 64% of the lockdown-induced losses earlier this year.
With the threat of COVID-19 still looming, vulnerable American consumers remain reluctant to re-engage in the personal interaction required of face-to-face services activities such as restaurant dining, in-person retail shopping,

travel, hotel stays, and leisure and recreation activities. These services collectively account for almost 20% of total household services outlays.

The economic recovery has slowed as consumers, workers and businesses remain extremely cautious. This suggests that the economy will likely remain sluggish for the remainder of the year. The labor market has a long way to go before it will be considered fully recovered. The latest jobs data marks a sharp moderation from the initially strong recovery experienced as many areas begun to reopen from the coronavirus induced shutdowns. Early estimates are that the Gross Domestic Product (GDP) will rise by approximately 5% in 2021.



The next six to 12 months will likely still see the impact from the prolonged dislocation in the labor market. The latest data show that most of the job gains since April have come in the heavily impacted sectors, such as food services, hotel accommodations and retail. Growth in manufacturing jobs stalled in July with the exception of the automotive sector. The biggest headwind in the next few months will be a large drop in personal income, due to the expiration of massive federal relief. Even if Congress does agree to another round of extended employment benefits or direct payments, it won't replace all the income support that was used to prevent widespread economic disruptions last spring.

Conclusion

Given the large number of unknowns surrounding coronavirus, it is likely that volatility levels will remain high going into the spring. The economic outlook is very challenging for many areas of the economy, such as the Travel & Leisure industry. The ultimate path of the COVID-19 spread remains unknown in the coming months and the path to vaccinate the population has logistical challenges. Therefore, markets could be volatile in the near-term. However, we believe that the long-term investment outlook has improved with a stronger economic picture next year.

S&P 500 Index

3 Month	3.68%
Year-to-Date	14.01%
1 Year	17.44%
3 Year	13.15%
5 Year	13.96%

MSCI EAFE Net Index

3 Month	7.97%
Year-to-Date	3.03%
1 Year	6.37%
3 Year	3.26%
5 Year	6.18%

Barclays Aggregate Bond Index

3 Month	0.71%
Year-to-Date	7.36%
1 Year	7.28%
3 Year	5.45%
5 Year	4.33%

As of 11.30.2020

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