TRICORD INVESTMENT ADVISORS, INC.
Office: 404-890-5588
mcdonald@tricordadvisor.com
www.tricordadvisor.com

MONTHLY MARKET INSIGHTS
SEPTEMBER 2020

Although the August data is nothing but encouraging, as I write this on September 4th a correction appears to be underway. Not at all unexpected, as the markets have been on a tear recently and valuations need to be reset. In keeping with the "fine tuning" theme of this month's newsletter, check out the update on the IncomeX model for details on some adjustments made in August.

The insights right now are focused on three main areas:

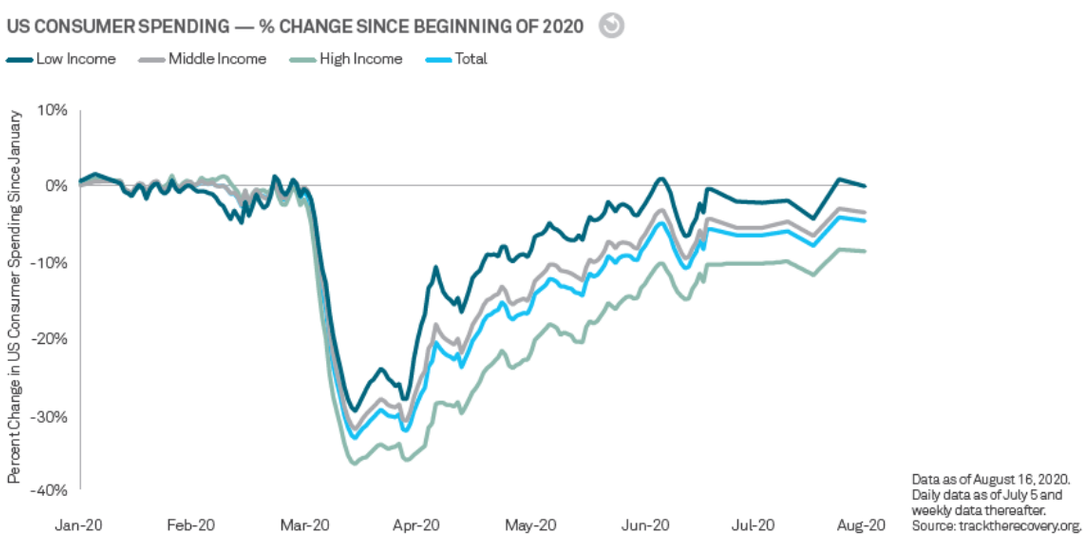
1. Government stimulus
2. Consumer spending/sector recovery
3. Inflation

STIMLUS

The US economy was resilient in August despite less stimulus; however, the biggest risk is that policy ends before the labor market has healed. The big takeaway is that absent of further stimulus we will face significant headwinds to a broad economic recovery. Once again, massive government spending is the only thing keeping us from a deep recession, and we can't be fooled by how well the stock market has performed into thinking that all is well. The pandemic is still a major threat, and prudence is still the mantra.

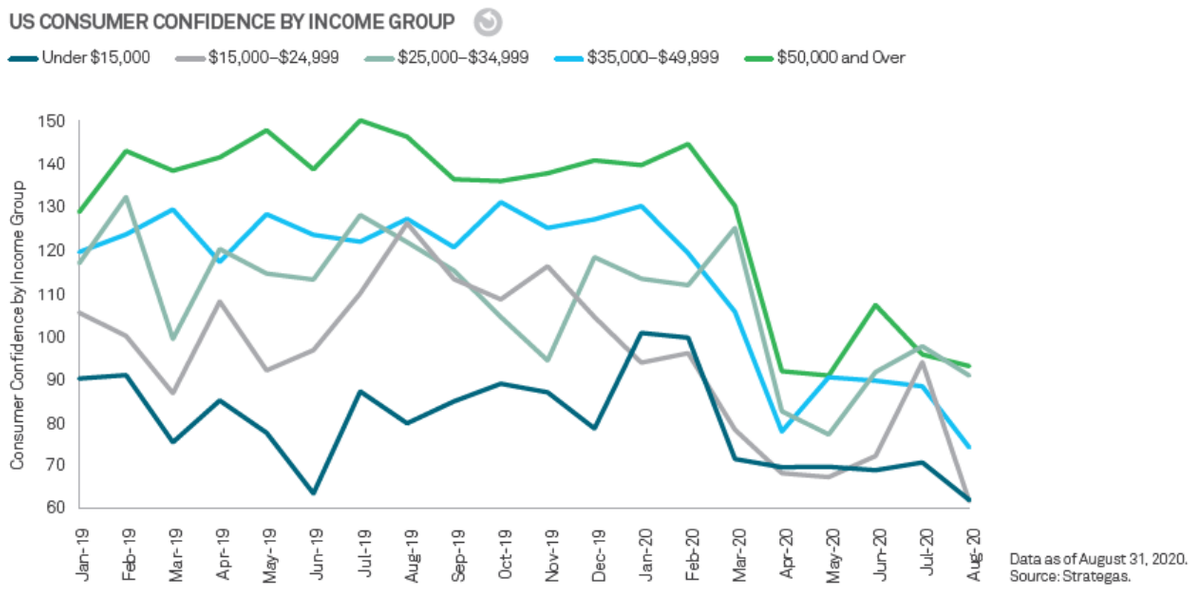
CONSUMER SPENDING

Globally the goods sector continues to lead and exhibits a V shaped recovery while many services lag. Beyond services, key issues remain in small businesses, commercial real estate, leisure/hospitality, travel, and retail. Consequently, the outlook for consumer spending is, at best, anemic. There is a large-scale effort to try and manage the upcoming tidal wave of evictions and foreclosures as people have not been able to pay their housing obligations. Relief, although admirable, only rolls uphill as the impact on landlords has been, and will continue to be, significant. As the graph indicates, spending has recovered remarkably, but only because of the stimulus.



TAKEAWAY:
Fiscal stimulus has patched the income gap enabling overall spending to recover. However, higher income consumers have kept savings more elevated.

Moving forward, especially into the holiday season, consumer confidence is trending lower as uncertainty about the future looms heavily on workers.



INFLATION

Since 2000, inflationary trends have been trending lower to virtually historic lows. If you apply nothing but the law of large numbers, we will, at some point, see a reversion to the historic mean of closer to 3%. So far, the massive amounts of stimulus since 2009 has everyone baffled as to why we have not seen an inflationary result, but economics 101 principles remain. Couple the possibility of inflation with the current incredibly-low interest rates (the current target ranges for the Fed Funds rate is 0 - .25%) and the possible outcomes are anything but predictable.

TAKEWAY

We will take the recovery, and at the same time stay positioned to weather any coming turbulence. Add in the election in the U.S. and the final four months of 2020 will be more volatile and unnerving. The recent model adjustments will help to keep us poised to take advantage of any investment advances as well as temper the downside and keep the dividend income stream alive.