THE DANA VIEWPOINT

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Fall

Fall is one of the best times to be in Wisconsin. The kaleidoscope of changing maple, oak, and elm leaves, Packer football, and deer hunting season are just some of the things that give a natural rhythm to our lives here. These seasonal highlights serve as a respite from the evolving fears of a persistent virus, a highly polarized political season, and investment markets that seem to defy logic. Weekend sports seem to be one of the few breaks from the toxic news cycle, whether it is watching youth soccer, or professional sports. Like many, we are ready for this election to be over.

Economic activity continues to be in a recovery despite the persistence of the coronavirus. Retail sales have settled back to a normal range after two months of severe contraction and two months of strong recovery. Automobile sales are back above a 16 million annualized rate after falling below a nine million annualized sales rate in April. Housing has been on a tear. After averaging 700,000 new homes sold per month in 2019, the sales rate approached one million in August. The annualized sales rate of existing homes is now almost 20% above the 2019 rate. The equities of companies in these areas have responded as well, with the S&P Home Builders Index up 28% this year. Retail sales have followed a similar V shape, and over half of the twenty-five members of the S&P Retail Index are up for the year. Even the S&P Consumer Services Index, which contains some of the businesses hardest hit by the pandemic, is above its level on March 1st. The consumer services index is comprised of restaurants, hotels, and cruise lines.

If the markets are forward looking, they are still optimistic. The S&P 500 Index is only 7% below its early September high. Maybe the markets believe Trump will win and maintain his pro-growth policies. Maybe the markets believe Biden will win and pass a large stimulus package that will bridge the economic gap created by the pandemic. About 25% of S&P 500 Index companies have announced third-quarter earnings, and the results have exceeded expectations at a greater rate than the last few quarters. The Russell 2000 Index of small capitalized stocks has outperformed the S&P 500 Index since June 30. This is the formula for a strong market. Price earnings ratios (P/E) always spike when coming out of a trough, and that was true this summer. The good news is that the market P/E has not increased over the last four months, as expectations for forward-earnings growth has been as great as market price increases.

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In the fixed income markets, yields on longer Treasuries have been creeping up and are now near seven-month highs. As long as this happens in an orderly fashion, we view it as a good sign that market participants are returning to risk taking and feel that growth will continue. Our bond portfolios are underweight Treasuries. Another sign of positive risk taking is that yields on corporate securities have not gone up any faster than Treasury yields, indicating a continued confidence in corporate debt.

We understand this Viewpoint is shorter than in the past, but we will have more to say in a few weeks when we have election results and third-quarter earnings.

We wish the best for everyone, and please exercise your duty and your right to vote.

Random thought: "We do not have government by the majority. We have government by the majority of who participate." - Thomas Jefferson

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