

Money Talks

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Market Comment

It is hard to believe the fall is upon us. At the moment, the market, as measured by the *S&P 500*, has managed to maintain the strong gains it experienced over the summer. At the time of this writing, it experienced a slight pullback as technology stocks faced a bout of profit taking, but has been able to find some support, for now.

Following lockdown measures, financial markets have been buoyed by global central banks' efforts and fiscal stimulus worldwide. Although, recent initiatives by the Fed have given risk assets an added boost. At an annual meeting in Jackson Hole, Chairman Jay Powell announced that it would tolerate inflation above 2% and target an inflation rate that averages 2% over time. In essence, the Fed stated that they are in no hurry to raise rates from their historically low levels, even if employment rises to pre-COVID levels:

This change may appear subtle, but it reflects our view that a robust job market can be sustained without causing an outbreak of inflation, said Mr. Powell.

Indeed, it follows comments from the Chairman from a press conference in June, where he stated, "we [the Fed are] not even thinking about thinking about raising rates." The Fed's message is clear – they will remain accommodative until the economy gets back on track and unemployment levels fall, even if it means tolerating higher levels of inflation.

Why is this good news for stocks? Interest rates play a big part in determining stock prices from many different aspects. From a valuation perspective, stocks receive a higher valuation when interest rates are lower since their future

cash flows are worth more when a lower rate is used to discount their values back to the present.

In addition, many stocks rely on a strong economy for their profits. These companies are typically known as *value* companies, which have suffered during the pandemic. By leaving rates low for an extended period of time, the economy can recover and value stocks can enjoy tailwinds from its rebound. Many investors have been waiting for this turnaround as growth stocks have vastly outperformed value stocks in the last several years.

Finally, lower rates stimulate credit creation and fuels financial activity in all areas of our society both corporate and civil. Following the pandemic, all industries face challenges, access to credit at low rates can begin the healing process. Housing has seen a boost as of late as homeowners refinance and new homebuyers take advantage of historically low rates. Corporations are also taking advantage of the lower borrowing costs by refinancing their debt, as well. In time, municipalities and small businesses hopefully will also see some of these benefits.

Understandably, some have questioned the disconnect between the strong performance in equity markets and the struggling economy. However, with the Fed strongly committed to supporting the credit markets and the economy, it is difficult for investors not to own assets that benefit from their initiatives, namely stocks. In the investment community, this belief is known as "not fighting the Fed," which has been a big support for risk assets for some time.

Nevertheless, change is afoot. It is not just that the mums are out and soon Halloween decorations will be on folks' lawns. For investors, this year October may offer its own share of spooky surprises, with the election around the cor-

ner. While market participants tend to place emphasis on political rhetoric as the election nears, the focus this year is on the election results and whether the results will be contested.

Nobody knows how things will turn out. However, that does not stop market prognosticators from coming up with scenarios and probabilities for these outcomes. The reality is that the only thing that is certain is that there is uncertainty. Thus, there is likely to be periods of heightened volatility until the election and the results from the election become clear.

With the stock market trading at elevated valuation levels, it behooves investors to proceed with caution. In addition to the election, other challenges will be on investors' radar as the year draws to a close including public health officials ability to restrain and treat the virus, vaccine developments, geopolitical tensions with China, and Brexit negotiations.

Given what lies ahead, the end of the year may appear difficult to face, although it need not be. The good news is that time allows for healing. In time, the public will eventually have a vaccine, election results will be known, and Brexit will finally have a resolution. How these outcomes play out in financial markets may be bumpy, but, in the long-term, the underpinnings of stock prices, namely corporate profits, have proven resilient.

Nevertheless, we understand it will not be easy to get through these challenging times. We feel the same concerns. Therefore, we are working diligently to make sure we are abreast of the rapidly evolving landscape, both from a public health and financial per-

(Continued on page 2)

Investments in stocks and bonds are subject to investment risk, including market and interest rate fluctuations. Global/International investing involves additional risks not typically associated with U.S. investing, including currency fluctuations, political instability, uncertain economic conditions and different accounting standards.

STOCKS FOR DIFFERENT OBJECTIVES

INCOME STOCKS

	<u>09/09/20 Closing Price</u>	<u>Yield</u>	<u>Est EPS Next Year</u>
<u>SPDR Wells Fargo Preferred Fd</u> (PSK) <i>Preferred securities ETF</i>	43.32	5.30	N/A
<u>AT&T</u> (T) <i>Worldwide telecom & media company</i>	29.37	7.08	3.21
<u>Vanguard Real Estate Fund</u> (VNQ) <i>Real Estate REIT ETF</i>	81.70	3.80	N/A
<u>Verizon</u> (VZ) <i>Leading wireless telecom provider</i>	60.04	4.10	4.78
<u>Prudential Financial</u> (PRU) <i>Large life insurance co</i>	68.28	6.44	9.37

GROWTH STOCKS

	<u>09/09/20 Closing Price</u>	<u>Est P/E</u>	<u>Est EPS Next Year</u>
<u>The Walt Disney Co.</u> (DIS) <i>Media networks and resort destinations</i>	133.36	78.5	1.70
<u>JPMorgan Chase & Co.</u> (JPM) <i>Global financial services firm</i>	100.87	16.9	5.96
<u>ABB Ltd.</u> (ABB) <i>Industrial equipment and systems</i>	26.39	33.0	0.80
<u>Apple, Inc.</u> (AAPL) <i>Multinational technology company</i>	117.32	36.3	3.23
<u>Comcast</u> (CMCSA) <i>Global telecommunications conglomerate</i>	44.60	18.5	2.41

GROWTH AND INCOME STOCKS

	<u>09/09/20 Closing Price</u>	<u>Yield</u>	<u>Est EPS Next Year</u>
<u>Pfizer</u> (PFE) <i>Global biopharmaceutical company</i>	36.18	4.20	2.89
<u>Procter & Gamble</u> (PG) <i>Worldwide mfr of consumer goods</i>	138.15	2.29	5.40
<u>Kimberly Clark</u> (KMB) <i>Global health and hygiene products</i>	151.45	2.83	7.69
<u>Johnson and Johnson</u> (JNJ) <i>Manufacturer healthcare products</i>	149.70	2.70	7.85
<u>Walmart</u> (WMT) <i>Retail giant</i>	139.89	1.54	5.28

AGGRESSIVE GROWTH STOCKS

	<u>09/09/20 Closing Price</u>	<u>Est P/E</u>	<u>Est EPS Next Year</u>
<u>Salesforce.com</u> (CRM) <i>Enterprise software for client relationship mgmt</i>	250.43	131.3	1.91
<u>PayPal</u> (PYPL) <i>Worldwide on-line payment system</i>	194.60	70.7	2.75
<u>SS & C Technologies</u> (SSNC) <i>Software services to financial service providers</i>	60.17	15.5	3.88
<u>Alphabet Inc.</u> (GOOGL) <i>Internet search engine, cloud computing, delivery svcs</i>	1,547.23	34.6	44.74
<u>Check Point Software</u> (CHKP) <i>Internet security solution provider</i>	119.79	20.3	5.92

(Continued from page 1)

spective. In a world full of unknowns, you can be sure that we are here for you to provide any support you need during this time.

Stock Update:

Salesforce.com (CRM): Salesforce handily beat earnings estimates in its recent third quarter earnings report to investors. The world's leading customer relationship management software firm also raised its fully year guidance, boosting its stock price on the news. In addition, in late August, Salesforce was added to the popular *Dow Jones Industrial Average*.

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