

PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager, October 2020

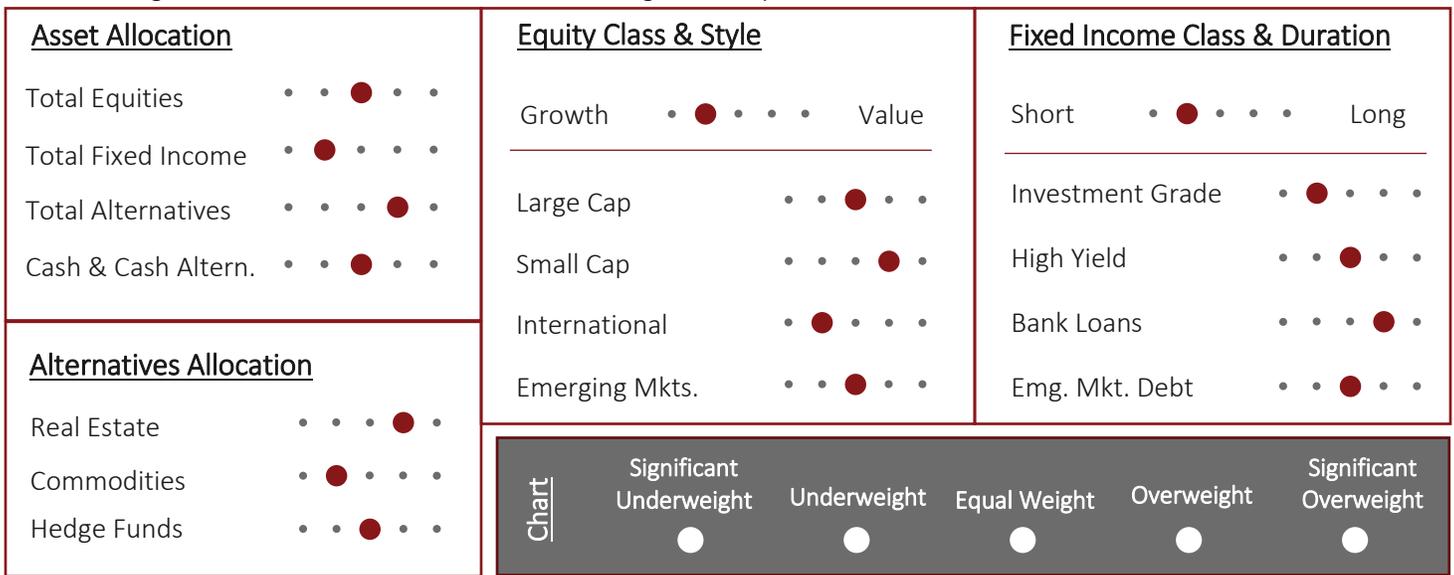
This is a summary of our views on the economy and markets as shared with clients.¹

ECONOMIC AND MARKET OUTLOOK

- U.S. GDP Growth – We expect to see a continued rebound in GDP growth coupled with market volatility for remainder of the year. However, lingering effects of the pandemic will remain throughout the next few years.
- Inflation – Headline inflation (including energy) fell in 2nd quarter but staged a slight rebound in the 3rd quarter. Inflation for food and shelter increased during the quarter – very little pricing pressure in the economy at this time due to unemployment and lack of consumer spending – we expect to remain subdued through 2021.
- Employment/Wages – Unemployment rate jumped significantly at the beginning of the 2nd quarter, but has made progress every month. However, there is a lot of room for improvement in the coming months.
- Consumer Spending/Confidence – As the savings rate has come down, the spending rate has increased. This effect has fueled the rapid rebound in GDP growth in the 3rd quarter. We expect to see savings rates return to the longer term average as local economies reopen and people get back to work.
- Interest Rates – Federal Reserve dropped interest rates to the range of zero to 25 basis points in March, and we expect it to stay there through 2021 and into 2022.
- Fixed Income – We added to bank loans and selectively to high yield as spreads widened earlier in the year. As expected, renewed economic growth caused credit spreads to tighten and provide positive returns to investors.
- Equities – Driven by the broad-based reopening of the economy, stock returns across the globe posted positive returns. The weakening of the dollar in the quarter provided a tailwind to emerging market stocks and they made up some ground on large cap domestic stocks.
- Alternatives – Real estate rebounded in the 3rd quarter after a negative 2nd quarter. Hedge funds have lagged in performance to stocks during bull markets, thus lagging equity returns in the 3rd quarter. Commodity returns posted positive results in the quarter, but are negative over the longer term due to a decline in energy prices.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



If you would like to receive more detailed information on our discretionary consulting services, please contact Tom Woolwine, President; DMS, LLC; a DeMarche affiliate; at twoolwine@demarche.com or 913.384.4994.

¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC