



Market Update

September 21th, 2020

Markets are continuing their slide today with turmoil and uncertainty brewing across the globe. Several recent news items may be contributing to the recent sell-off.

Over the weekend, Supreme Court Justice Ruth Bader Ginsburg passed away. Her death leaves an open spot on the US Supreme Court which many Republicans are looking to fill before the election. This has led to even more political uncertainty in an election year that has already been full of partisan issues. Should Republicans confirm a new Justice, it would give conservatives a 6-3 majority in the court. Democrats will strongly try to hold off confirmations until after the election which may further add to the political stalemate in Washington D.C.

There was more bad news this weekend as a report from BuzzFeed regarding several major international banks hit the tape. According to the report, over the last two decades, some of the major global banks have moved large sums of allegedly illicit funds. These funds were moved despite SARs (suspicious activity reports) being filed by the banks. All the major banks are trading down on this report. Along with this news, the Fed announced on Friday that they are considering keeping restrictions in place through the 4th quarter on capital distributions to bank shareholders. This was disappointing news for both banks and equity owners as some banks are in position to reinstate share repurchases as early as the 4th quarter. A final decision will be determined by September 30th.

Europe is seeing an uptick in new COVID-19 cases, leading to more lockdown protocols. This has given concern to investors about a potential second wave sweeping the globe and the repercussions to the global economy if lockdowns, similar to March's, are reinstated. We have already witnessed new restrictions placed in Denmark, Spain and Greece. In addition, the UK may be on the verge of implementing lockdowns as new cases continue to rise. As more nations consider varying levels of response, the economic impacts could be dramatic.

There appears to be a stalemate in the US government as Democrats and Republicans cannot come to an agreement on additional rounds of fiscal stimulus. During the summer months, consumer spending outpaced expectations as most economic data surprised to the upside. This was a result of the Federal government directly injecting money into the hands of the people through the CARES Act. Without another round of stimulus to help consumers, we believe further gains in the recovery will be muted. The flash PMIs (Purchasing Managers Indexes) for September will be released on Wednesday and will be an important gauge of how the recovery is managing following the removal of Federal aid. Federal Reserve Chairman Jerome Powell will be speaking three times this week, and investors will be listening for any additional monetary stimulus to help spur economic growth. However, as Chairman Powell has said multiple times, fiscal policy is much more effective at stimulating growth so expectations for new policies are low.

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There is much to digest from an investor's point of view. We have seen a historic rally in the equity markets from the March 23rd low, taking us to extremely overbought conditions heading into September. A pullback was inevitable; now, the question is how long and deep will it be. We have continued our cautious approach throughout 2020 and are holding higher levels of cash to take advantage of the next drawdown in the market. If the opportunity arises, we will be putting that cash to work. We expect volatility to pick up over the next few months with the overhang of the election and the pandemic. We are here to guide you through these times, and to answer any questions or concerns you may have. Thank you for allowing us to help you reach your financial goals.

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