



## The Path Forward

From a market perspective, 2020 has certainly seen its share of ups and downs. Even an average year in the market can seem like a roller coaster, but this year has been an especially wild ride. Adding significant anxiety to the ride is that this turbulence isn't due to the usual turn in the economic cycle, but instead Covid-19, a serious illness that's taken more than 200,000 lives in the US alone.

Yet incredibly, here we are, with many markets having recovered most of their losses, and others even recently making new highs despite the incredible economic toll that has been taken in lost jobs and shuttered businesses. The rebound has come on the back of a massive fiscal and monetary response from the government meant to fill the gap in lost wages and consumer demand until businesses can reopen and bring back workers. So far, most would agree the actions were warranted and have been successful in avoiding the more dire economic outcomes that might have taken place. But further action will likely be needed, and Washington is now mired in an election season, which only serves to heighten the already existing dysfunction. If the economy has to go without additional fiscal stimulus, then a continued recovery in the market will likely have to hinge on several factors that will play out over the next several months.

So, the question on the minds of many investors is: is this rebound sustainable? We know that markets should ideally be focused on the long-term earnings and cash flows of businesses, but in the short-term, have they gotten too far ahead of themselves? While forecasting the direction of the market over the next several months is all but impossible, there are several things to keep an eye on that may provide insight as to the path ahead.

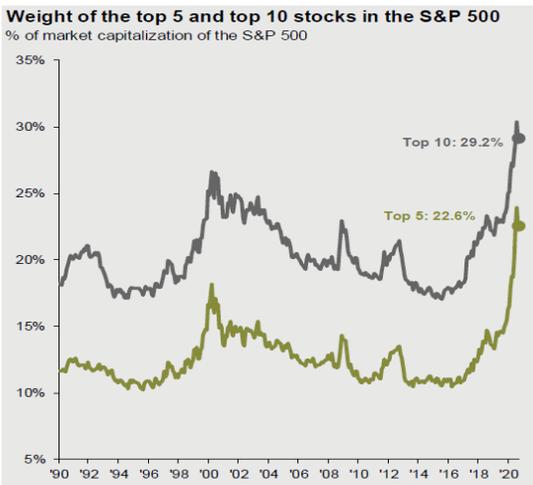


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*Brian is a member of CNB Wealth Management's Investment Committee, where he is responsible for providing the research and analysis necessary to oversee the firm's investment portfolios. Additionally, Brian coordinates the firm's due diligence process, which monitors and evaluates all existing and prospective investment managers.*

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Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management

### **A Broader, More Inclusive Rally**

While all areas of the equity market have rebounded strongly from their March lows, a significant portion of the rally has been driven by a relatively small number of sectors and firms. Right now, approximately 23% of the S&P 500 market capitalization is made up of 5 stocks, all of them technology firms. Without these names the S&P's return would look far different, and many are concerned about such a heavy reliance on a very narrow list of outperformers. For equity markets to continue their push forward, we'll need to see a broader rally that includes more than mega-cap tech names and other growth-oriented firms. Value stocks, including those in more cyclical sectors like energy, financials and consumer discretionary will need to join the party. This rotation will likely take place when investors are more certain that a sustained economic recovery is underway, something that may only take place when a viable vaccine is on the horizon.

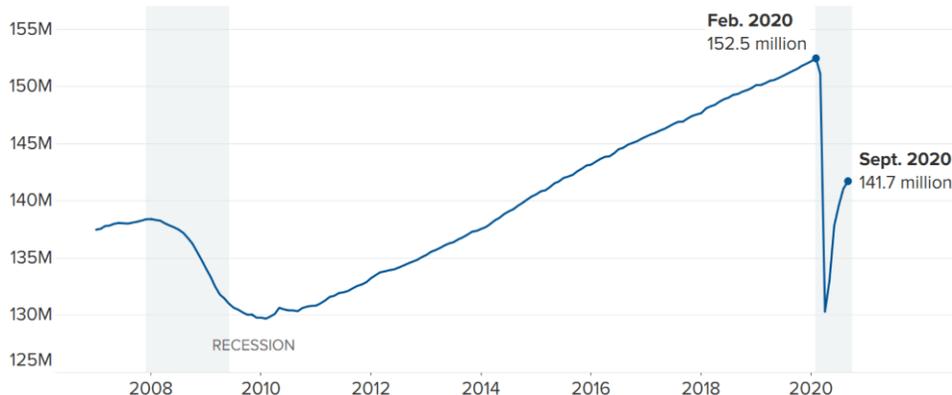
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## A Safe, Effective Vaccine in the Coming Months

Most parts of the economy have reopened, and businesses are bringing back workers, but of the roughly 22 million jobs lost in March and April, only about half of them have been rehired. With several sectors of the economy still running at limited capacity, mainly in travel, leisure and hospitality, pushing the unemployment rate lower will be difficult until consumers feel it's safe to resume normal activities.

### Total U.S. employment

Cumulative nonfarm payrolls, seasonally adjusted



Source: CNBC, Bureau of Labor Statistics

Markets are trading on the assumption that a safe and effective vaccine will be available early in the first quarter of 2021 and will be widely distributed by the end of the second quarter. This is the catalyst that will allow businesses to fully reopen at normal capacity and continue to bring back workers. If a vaccine is delayed, or if its distribution takes much longer than expected, investors will lose confidence in the speed of the recovery, potentially leading to renewed market volatility.

## Continued Strong Recovery in Earnings

Earnings for the S&P 500 were \$164 per share in 2019 but estimates for 2020 have dropped to \$120 - \$130 per share. For the market recovery to continue, we will need to have a strong rebound in corporate earnings going into 2021. As it stands, the price component of the P/E equation has recovered significantly, but the depressed earnings side leaves the current P/E multiple well above historical norms. If the market is going to move higher, it will likely need strong double-digit earnings growth as continued multiple expansion is unlikely given already elevated levels.

## Looking Ahead

Conspicuously absent from the above is any real mention of the upcoming presidential election. Not that it won't factor into market performance over the next several weeks, or longer if the decision is drawn out past election day, but it is unlikely to materially affect the economic recovery. While policies may change depending on the outcome, free markets and capitalism have a long track record of finding a way forward. In the near-term, the timing may be uncertain, but the recovery will take place, and as economic stability strengthens, markets will price in expectations for growth. With this in mind, long-term investors with well thought out, diversified portfolios will be best served by staying the course.

At Canandaigua National Trust Company, our knowledgeable and experienced team stands ready to assist you with any of your investment and financial planning needs. Please reach out to your Relationship Manager with any questions that you may have.

**1180**  
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**2020 Shows**  
**November 28**

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