CETERA® INVESTMENT MANAGEMENT

FOURTH QUARTER OUTLOOK

Fall Brings Cooler Perspectives

At-a-Glance

The global economy rebounded sharply in the third quarter, but it should be a slower recovery going forward.

The S&P 500 has hit new highs since bottoming in March, but high valuations are now posing volatility risks to stocks.

Bond markets also have their own risks, with yields at very low levels and high-yield markets not fully pricing in potential bankruptcies.

The worst of the COVID-19 related downturn appears to be over, but a continued recovery will see ups and downs, and slower growth can be expected.

Broad diversification in both equity and bonds is prudent, as is a focus on long-term objectives and not getting caught up in day-to-day fluctuations and noise.

Fall is officially upon us, and with it hopefully some sense of normalcy in a year that has been anything but. The leaves will turn colors, the mosquitos will retreat, and cooler temperatures will prevail. We also believe that the fall will bring cooler perspectives on the economy and markets.

The global economy will likely expand over 10% in the third quarter, after having contracted around 10% over the past two consecutive quarters. The fourth quarter should see global growth cool to around 5% as the recovery slows. The United States should also see future growth slow after the third quarter.

The U.S. lost over 20 million jobs since the start of the pandemic and has seen a sharp bounce back, but has only recovered roughly half the number of jobs lost. Industries like hospitality and travel will be slower to recover.

The S&P 500 has recovered and touched all-time highs again due to several factors. First, stock markets are forward-looking indicators. Secondly, policymakers in Washington and the U.S. Federal Reserve have acted to support asset prices and those who have lost their jobs. Finally, this index as a whole doesn't tell the full story. If you exclude the five largest stocks of this index, the S&P 500 is negative on the year and many other indexes have not fully recovered, including small cap, mid cap, and international indexes. Growth-oriented stocks are trading at valuations not seen since the dot-com bubble, and this gap between value-oriented stocks has widened.

While stock markets seem largely overvalued, the same could be said for bond markets offering very low yields across all maturities. Bond investors may be taking on a lot of interest-rate risk (bond prices fall when yields rise) in return for little yield. Additionally, the amount of yield offered in high-yield bonds does not seem to adequately compensate for the increased default risks.

The fourth quarter could see investors cool their expectations around the speed of economic growth. We are recovering, but the road ahead may be longer than what markets are currently pricing in. We don't expect stock markets to go back to March lows, but we do anticipate volatility in the fourth quarter with valuations seemingly stretched in both bonds and stocks. Flu season is back and there will likely be an uptick in COVID-19 cases. And let's not forget about the election in November. We wrote a separate commentary (Don't Vote with Your Portfolio) about the election that goes more in depth and highlights the risks around it.

Being diversified in both bonds and equities is very important. Valuations and stock market momentum can persist for long periods of time, and trying to time the market is very tough. Understanding your specific goals and objectives becomes even more important now. Your financial professional can help keep you on track and keep your sights on your long-term plans.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

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Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Glossary
The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.
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