AF CAPITAL MANAGEMENT
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Perspectives

The stock market gets more volatile before each presidential election, especially when the division between the candidates is as great as it is this year. In addition to this four-year cycle of fear stoked by both sides, the market is trying to decipher how much longer and to what degree the COVID-19 pandemic will affect the economy and what will happen in the weeks after the election when calls of voter fraud and voter suppression become the main talking points on the news if there isn't a landslide victory by either side.

Since the economic depths of the spring, we've seen a steady improvement in home sales, manufacturing, employment, and service sector revenue, but these are not forward-looking indicators. Economists can look back at how much the economy has improved while working to forecast how the next six and 12 months will unfold. The task of predicting the future is never a simple or reliable process and now is more muddled by the Coronavirus' continued spread, even through the White House.

We know therapeutics and vaccines are being tested, but we are far from having a worldwide cure that will push the economy back into a sustainable growth mode any time soon. The hopes and rumors surrounding treatments often give stocks a one or two day bounce and then the bulls halt their enthusiasm when the reality sets in that earnings will soften much more before we see the economic benefits.

We know that inflation is under control and the Federal Reserve says it plans to keep rates low for years. Lower rates allow businesses to borrow at lower costs which helps maintain profits. However, low rates might not be enough if consumers do not return in large numbers to restaurants and entertainment venues. Most economists believe it is simply a matter of time before we get back to "normal" while they still question how bad the damage to the economy will be by that point.

In Friday's weaker than expected jobs report, the data showed evidence of the downward pressure on the economy from the end of the last stimulus package. Each week that passes without a plan to help those who are unemployed or are working at reduced wages will make the recovery more difficult and slower. Multiple large corporations have announced planned layoffs or furloughs of tens of thousands per company. The effect of these job cuts will ripple through the economy.

When it comes back to the election and who will be better for the economy, neither side has a claim to a stronger historical record with the market. Stocks have gained and lost with both parties in charge with such regularity that the party in power has little, to no, bearing on the direction of the market. Prognosticators can look at the expected policies from the candidates as a guide to the future, but they fail to make a clear case for either side. This is one of the reasons Wall Street did not panic when the report of President Trump's Coronavirus diagnosis hit the wires. We are close enough to the election that the discounting for a change in leadership has already been factored into expectations.

Mr. Trump's tax policies gave the economy a boost and the expectation that Mr. Biden will reverse some of these policies should mean the opposite in theory. Biden is likely to be more generous with a new stimulus package to bridge the gap until this pandemic passes, but some businesses, regardless of the election results, will go bankrupt even if the financial spigots are turned on full blast. Corporate regulations will be weaker under Trump which helps earnings, but weaker regulations, when left unchecked, has led to malfeasance in the past. Trade policy and the general tone of the administration will be less erratic under Biden. Corporations can make money in most environments if they know what rules and regulations to plan around. Without moving targets and threatening tweets that cause plans to change with little notice, earnings should stabilize to create a smoother economy with fewer surprise events.

Index Chart & Analysis

The chart above shows the daily prices for the year-to-date through October 2, 2020, for the Dow Jones Industrial Average ETF, DIA, after closing the week at $276.80. DIA is trading more than five percent below its recent high from a month ago and 52 percent above its intraday low on March 23. The recent price drop removed some of the euphoria from the rally and caused the large-cap ETF to fall below its trend line of higher lows. Since then, this same trend line has acted as a point of resistance, limiting the range DIA can bounce off of its lows from the prior week of trading.

DIA's 100-day moving average acted as support to stop the price decline, but might come back into play soon as DIA could not hold above its 50-day moving average on the bounce. Every day DIA continues to waiver over its 50-day moving average, the more likely it is to falter to the downside. This weak side move will allow the 100-day moving to be retested and if it fails, the 200-day moving average could be the next area of support, four percent below Friday's close.

The Williams %R indicator showed buy signals for the 14 and 28-day periods to begin last week, but it might need to retest the lower range of DIA's trading channel to get the 56-day indicator to sync with the momentum trend. For now, the technical indicator stalled and does not give a clear signal for the coming weeks.

DIA has been in a broad sideways trading channel since late May and is unlikely to move outside of this range until after the election results are finalized and accepted by both sides. The downside support is close to $250 and the upside resistance is approximately $290. A $40 range gives traders room to make money on the swings, but buy-and-hold investors will have to be patient before we see a breakout in either direction

Summary of Indexes

Courtesy of Morningstar.com

Name	As of Date	YTD	1 Year	3 Years	5 Years
US Stock Indexes					
DJ Industrial Average	10/2/2020	-3.00%	6.15%	7.06%	10.94%
S&P 500	10/2/2020	3.64%	15.96%	9.81%	11.40%
Russell 2000	10/2/2020	-9.20%	1.27%	0.22%	5.72%
S&P MidCap 400	10/2/2020	-0.69%	9.07%	6.80%	9.16%
NASDAQ Composite	10/2/2020	23.43%	42.26%	19.34%	18.66%

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