

# MORSE ASSET MANAGEMENT, INC.

805 Third Avenue, Suite 1120, New York, NY 10022

## 2020 Q3 Investment Outlook-

The market continued its recovery in the third quarter. The S&P 500 ultimately made new all-time highs in September before an average intra-year correction established a reasonable trading range ahead of the election. This pause was needed to calm overheated sectors and provided the time needed for strength to broaden as fundamental data and earnings expectations continue to improve. Focus now shifts to the US elections. Uncertain outcomes could shake confidence in the short term, so we are prepared for volatility. The weight of the evidence is positive, and we continue to be cautiously optimistic.

Our investment playbook continues to focus on overweight secular trends, durable businesses, and above-average growth potential. As the market strength has broadened, we have selectively added exposure to recovering cyclical sectors, primarily industrials. We remain flexible and patient for the right opportunities.

As we saw in the second quarter, corporate earnings estimates had been lowered too far and were overly bearish. According to Factset's *Earnings Insight* on October 16<sup>th</sup>, the S&P 500 is expected to report a year-over-year decline in earnings of -18.4% for the third quarter. This estimate has already been raised from an expected decline of -21.0% as of September 30<sup>th</sup>, and a majority of S&P 500 companies are thusfar beating EPS and revenue estimates by an above-average margin. The pace and magnitude of intra-quarter EPS revisions has historically been a strong leading indicator for the market. The S&P 500 is projected to report year-over-year earnings growth starting in Q1 2021 and accelerating throughout the year, exceeding 2019 highs by this time next year. (Chart 1)

The Conference Board's CEO Confidence Index September follow-up survey surged to the highest level since 2018, which indicates stronger capital expenditure plans and expected economic conditions. Institute for Supply Management's Manufacturing and Services indices are both indicating strong expansionary growth, albeit off sharp recent contractions.

The Federal Reserve remains accommodative but has for the most part been on hold since June. They have strongly stated, and we agree, that further support should be fiscal policy. A failure to compromise on both sides of the aisle has delayed much needed federal stimulus for the industries most damaged by the economic shutdown. If partisanship is put aside and support is passed, it should lift the markets. If not, the market has thus far been tolerant, but the extent of the damage remains unclear. Surprisingly, the United States Census Bureau's Business Formation Statistics show almost +40% growth in new businesses year-over-year; the fastest pace since before the 2008 financial crisis. (Chart 2).

We believe there is a bullish case to be made regardless of who wins the coming elections, although shifts in portfolios will be necessary once resolved. Presidential elections and market reactions are too unpredictable to drive significant portfolio changes in advance of November 3<sup>rd</sup>. Our biggest concern is an inconclusive outcome causing unrest and requiring weeks of recounts and challenges. But once settled, we believe the path of least resistance for the markets will be higher. (Chart 3)

We are disciplined, focused on the facts, fundamentals, and long-term trends most relevant to your investments.

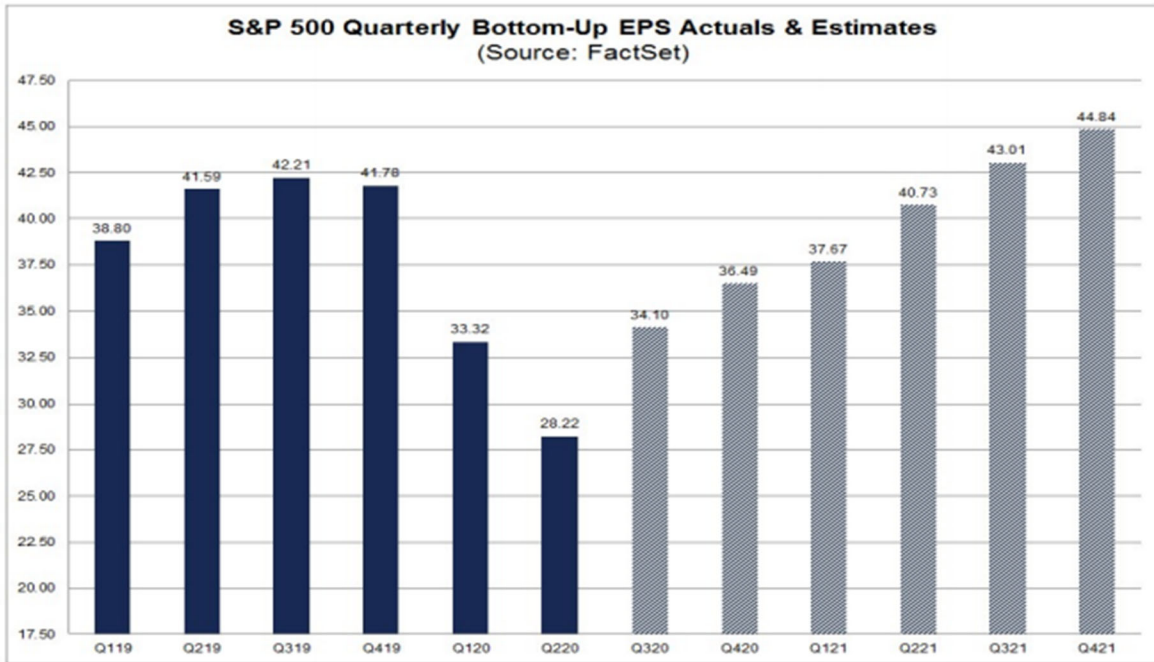
Morse Asset Management Investment Team

Robert B. Morse, Jian Wang, James Cushing

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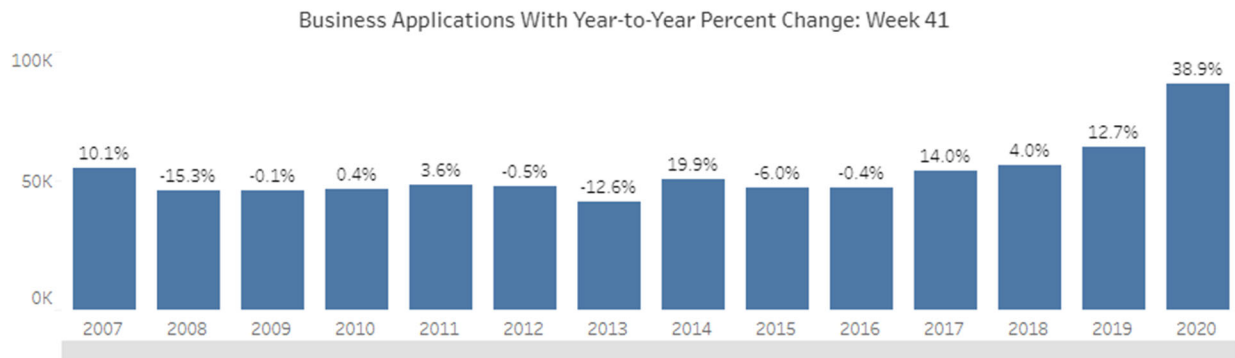
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## 1. S&P 500 Quarterly Bottom-Up EPS as of October 16, 2020.



Source: FactSet

## 2. Business Applications as of October 10, 2020.



Note: Week 53 figures are excluded from visualization.  
K=thousands



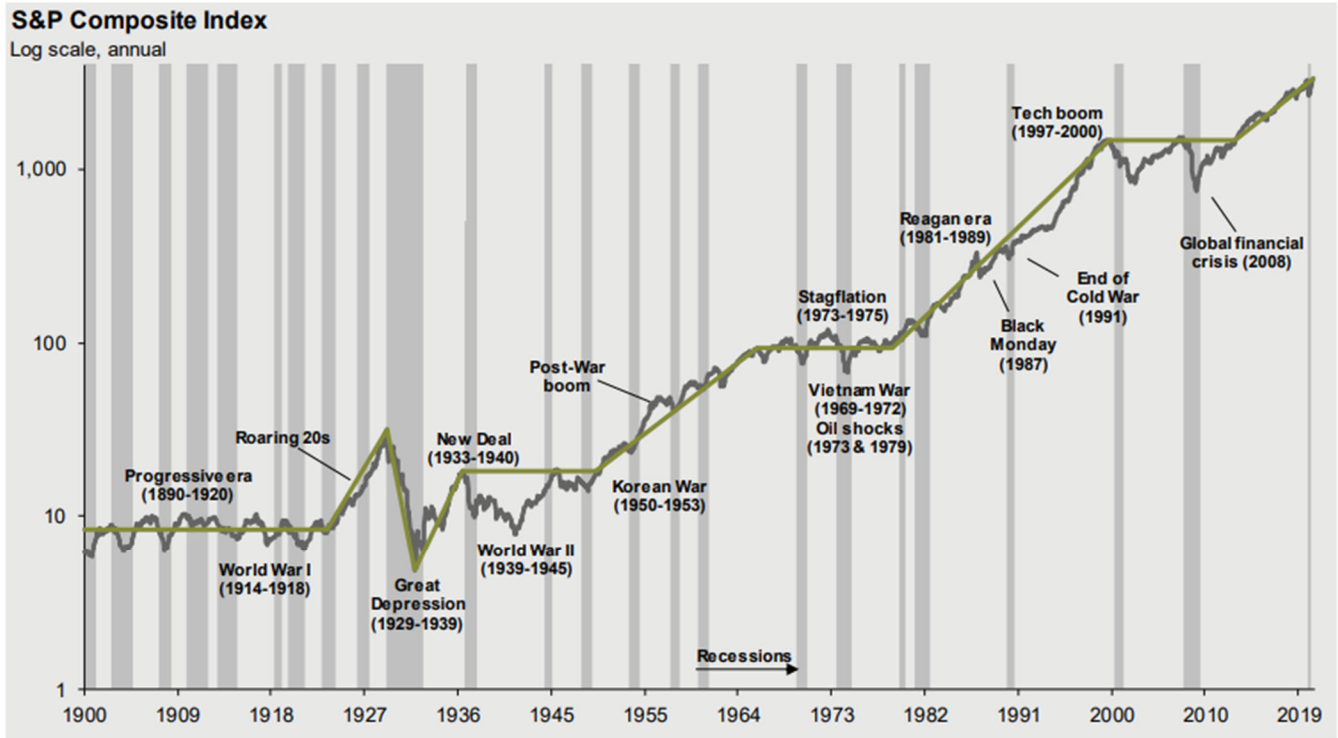
Source: Business Formation Statistics

Source: United States Census

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## 3. S&P 500 Composite Index (Log Scale) as of September 30, 2020.



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.  
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.  
Guide to the Markets – U.S. Data are as of September 30, 2020.

Source: J.P Morgan