

Investors Show Skittishness
September 23, 2020



Stocks suffered the sharpest daily drop in two weeks. The S&P 500 lost 79 points, or -2.37% closing at 3,237. The Dow Jones Industrial Average tumbled 525 points, or -1.92% to close at 26,763 and within a whisker of a technical correction of 10%. The Nasdaq Composite dropped 331 points, or -3.02%, closing at 10,633. Finally, the Russell 2000 fell 46 points, or -3.04% to close at 1,451. The selloff came in the face of Johnson and Johnson announcing the beginning of their phase III trial of its single dose vaccine. Johnson and Johnson is the fourth company with an experimental vaccine candidate to enter final-stage testing.

On the policy front, Federal Reserve Vice Chairman said that the policy makers will not contemplate raising interest rates until inflation is clearly back to 2%, and perhaps even beyond. Fed Chair Jay Powell has been consistent with his message that continued support will be required to sustain a robust recovery. The rhetoric from Washington DC with respect to filling the Supreme Court vacancy created by Justice Ginsberg’s death has resulted in less movement on any further stimulus bill.

The IHS Markit **US Services** PMI fell to 54.6 in September 2020 from a 17-month high of 55.0 in August. While still reflecting an “expanding services sector”, this was slightly below market expectations of 54.7. New business growth was the strongest for 18 months and services employment continued to increase solidly, albeit at a softer pace than in August. On the prices front, service providers increased their selling prices steeply in September alongside a sharp rise in costs. However, the outlook for the services sector weakened as business confidence moderated given election and COVID-19 uncertainty.



Conversely, the HIS Markit **US Manufacturing** PMI increased to 53.5 in September from 53.1 in August beating expectations of 53.1. This report again reflects an expanding manufacturing sector and shows the strongest expansion in factory activity since January 2019. Acceleration of new orders and resumption of operations at manufacturing facilities contributed to the improvement. New business rose at a solid clip. However, like the

services sector, manufacturers were also less confident looking into the future.