4 Factors Influencing Today's Stock Market

Date : October 6, 2020

Is it up? Is it down? What will tomorrow bring? The volatility of the U.S. stock market has left investors reeling in recent months, amid the uncertainty of a global pandemic. The Dow Jones Industrial Average, a stock market index of more than 30 companies that is meant to measure the strength and weakness of the stock market, fell some 30% in the first three weeks of March as COVID-19 began quickly spreading globally. It has since rebounded more than 50% to levels above 28,000 – but not without a few bumps along the way.

More than 3,000 student teams from around the world began trading in this year's Wharton Global High School Investment Competition on September 28, 2020, and many are tuned into the stock market activity like never before as they begin to build their investment strategies and analyze stocks for their team portfolios. In part, they must consider how the movements and trends in the national and global economies affect stock performance in the short and long-term.

"There's so much rich material right now as my students learn investing," notes Lauren Newman, a business education teacher from New Jersey who is also the advisor for a team in this year's competition. "They want to understand the connections between the stock market and the economy."

With that, here are 4 stock market observations that help explain what drives the movement of the stock market and how that might impact investment decisions:

The ups don't match the downs. Market watchers have noticed that even though the U.S. economy has been suffering amid job losses and business closings, the stock market has stayed relatively strong, at times rallying as much as 60% over those initial plunges in March. What gives? Why is the stock market not always aligned with economic trends? The stock market is meant to be forward-looking," said Wharton finance professor Itay Goldstein during an interview on the Wharton Business Daily radio show on SiriusXM. In other words, investors buy and sell stocks based not on what is happening yesterday or today, but on expectations for the future. "In general, the stock market is a bit different from the economy, in the sense that what you see right now in the economy is what is going on right now" such as production, employment and so forth, he noted. Even in "normal times," stock prices and economic output would not move in tandem. In fact, we may have situations "where the stock prices may predict something that is going to be different from what we see right now."

A flood of money from the Fed. The U.S. Federal Reserve has great influence on the stock market and has been part of the reason why the market has been strong during a weakening economy. What the Fed has been doing in recent months is "unprecedented," noted Goldstein. The Fed has continued on the trajectory of low interest rates since mid-2019, but also pressed on with its quantitative easing approach to inject liquidity into the financial system, which it had used in the aftermath of the 2008-2009 financial crisis. "In recent months, it is not only doing the traditional quantitative easing of buying treasuries and mortgage-backed securities, but also continuing to buy other assets like corporate bonds, which is something that the Fed has not done before." Congressional stimulus aid for individuals and businesses has also contributed to the market liquidity.

And the effects of November's U.S. presidential election? While election season may spark volatility, the Fed Effect will likely prevail. "I think the market…is looking forward to a really good 2021 no matter who is president," said Wharton's Jeremy Siegel during a recent appearance on CNBC. "There's a lot of repressed liquidity in the market, that once the vaccine and the pandemic fears fade in 2021, we're going to see a big boost in activity," Siegel added.

When it comes to current events with a global impact like the U.S. election, Peter Ammon, the University of

Pennsylvania’s chief investment officer, reminds individual investors to always think about the importance of the investment time horizon, the period when investments are held until they’re needed.

“If you really don’t have any need for the capital (like, say, using money you’ve invested in the stock market to buy a house in December) and you have a 20-year view or a longer time horizon, then the election is probably going to be noise along the path,” said Ammon during the Wharton Global High School Investment Competition’s first *Meet the Experts* interview for competitors on October 6. “We are very conscious of the fact that we can’t time markets; we don’t know if markets are going to go up or down. We’d be purely guessing. We do know that if we can’t tolerate them going down, then we shouldn’t be in stocks today.”

COVID-19 implications. A global pandemic that is still actively impacting the world is more than “noise along the path” for anyone engaged with the stock market and building portfolios with a long-term strategic mindset. Even when pandemic fears ease, changes and effects will linger for years. Ammon, whose team works with investment management companies around the globe to invest Penn’s endowment, suggested confronting COVID uncertainty from a company context. “The conversations we tend to have with our managers [include] three things:

- The balance sheets of companies. Do these companies have enough cash and do they not have debt or owe money to people? Do they have enough cash that they can survive for a long period of time, for a couple of years if the economy remains on mixed footing and things are really uncertain?
- What are the characteristics of companies that will come out of COVID as winners? Some businesses have actually had tailwinds from COVID. For example, online delivery like Doordash. Those companies have seen big growth and revenue from COVID as people have shifted online. The market actually prices that in very quickly. So, then you have to ask yourself: which of those tailwinds are going to be sustainable over time?
- Which companies will be able to take marketshare from their competitors because their competitors have weaker balance sheets and don’t have capital to grow? Companies that can invest and grow and take share from their competitors during a disruption like COVID can be incredibly powerful long-term.”