

# A View from the Tower

## Third Quarter Summary 2020



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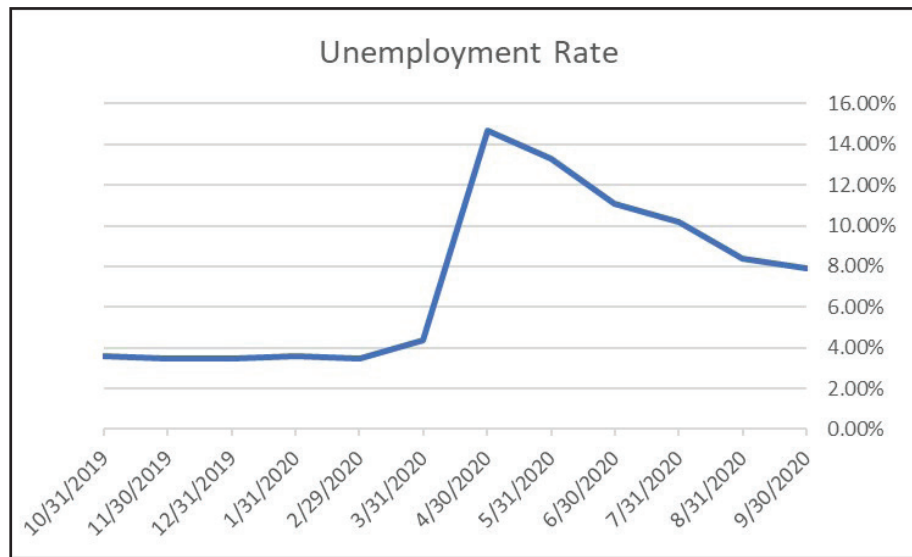
After a tumultuous period earlier in the year, the third quarter saw the financial markets, equities in particular, continue to bounce back with remarkable resilience. The primary storyline remained the ongoing battle with COVID-19, not only from a financial perspective in light of the previously mandated economic and social shutdown, but also certainly from a health related one as well. That being said, during the third quarter, the following were some key coronavirus specific related items:

- Testing, not only increasing in quantity, but also the production of additional, more expeditious mechanisms.
- Numerous vaccine candidates progressed at an unprecedented speed.
- Treatment options evolved and increased in number, including the use of a drug from Gilead Sciences (Remdesivir), the steroid Dexamethasone, antibody cocktails and the Mayo Clinic's experimental use of plasma containing coronavirus antibodies.
- Post initial re-openings, including schools of various levels across the country, case numbers spiked nationally. However, the level of severe cases, including mortalities, thankfully, did not seem to follow suit as the average age of those infected continued its downward trajectory.
- In late September, the governor of Florida announced the lifting of all restrictions on businesses statewide that had been imposed to control the spread of the virus.
- Across the globe, the concern is that a significant "second wave", a mutation of the virus and/or the impact of the normal flu season, will cause havoc before a well-tested, reliable vaccine becomes available, presumably initially to health care professionals and subsequently to the general community.

From a broader perspective and in addition to COVID, the markets seemed to be engaged in a tug of war, particularly toward the end of the quarter, in light of the ongoing politically charged environment preceding the upcoming U.S election and the Supreme Court vacancy due to the passing of Justice Ginsburg. The prospect that the Presidential election results may be delayed due primarily to the expected volume of mail-in ballots has added some “spice” to these items. Together, these facets have likely had an impact on the potential passing of the next fiscal stabilization package as well.

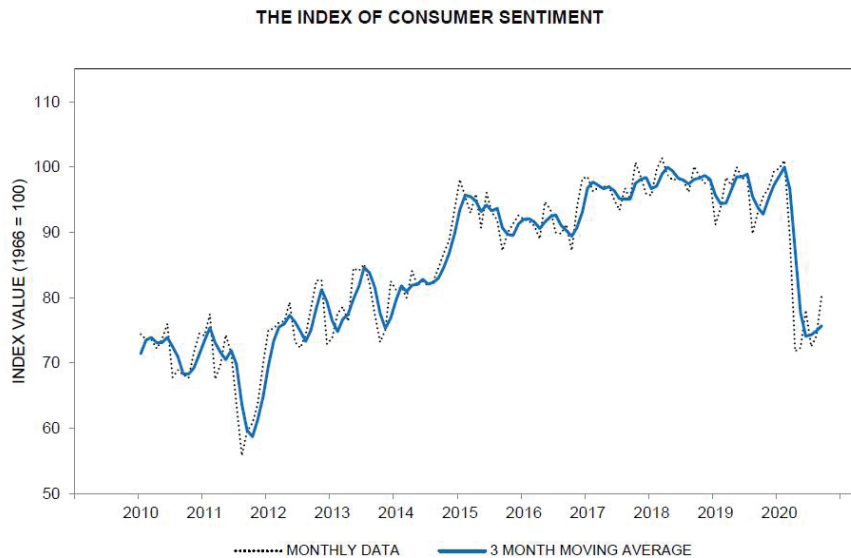
**On the economic front:**

- The third quarter saw a material bounce in economic activity, although this pace is widely expected to slow in the fourth quarter; largely due to the virus and politics as mentioned above.
- The “modern economy” has shown signs it can still be relatively robust due to technology.
- The small business sector continues to struggle with serious damage inflicted by the earlier, widespread lockdowns.
- Housing has been a particular source of strength (including sales of new and existing homes) as low interest rates on mortgages have attracted many.
- In general, the demand for goods has continued to outpace that of services.
- As shown in the graph below, the U.S. Unemployment Rate has fallen significantly from its April high which exceeded the 14% level, but remains materially above the sub-4% status achieved prior to the outbreak of the pandemic. It should be noted that at least some of this decline may have been driven by a drop in labor force participation.
- In the short-term, the virus and the world’s collective approach to it are considered deflationary. However, the volume of the policy actions may in the end result in inflationary pressures over the next decade.
- Trade tensions with China resurfaced, but in a turnaround from earlier in the year, seemed to take a back seat to other issues.



Source: Fred.stlouisfed.org

As we have mentioned in previous publications, as we move forward, the unemployment question has broad impacts on a variety of fronts, including all-important Consumer Sentiment. It has been well documented that the U.S. consumer has been the backbone of our domestic economy, encompassing nearly 70% of Gross Domestic Product (GDP). Although confidence and spending patterns took significant hits during the aforementioned shutdown, activity has increased as communities across the country have engaged in reopening phases. The higher the level of health safety, the greater likelihood of increased tailwinds on this front. Although the level of Consumer Sentiment, as seen on the next graph, has bounced off its recent lows, it still has quite a way to go to reach its early 2020 levels. Weakness remains present in TSA traveler traffic (i.e. airlines at -70%), U.S. seated restaurant diners, which has declined by over 40% (and one wonders if this will worsen during the winter with the lack of outdoor seating) and hotel occupancy at -32%. Recreational vehicle sales have consequently been robust by the way.



Suffice it to say, it would be an understatement to comment that a lot has transpired over the first three quarters of the year and it would once again seem safe to say there will be more peaks and valleys ahead. Although we are still not yet “out of the woods” from an economic standpoint, with the foundation the Federal Reserve and the U.S. government built to bridge the COVID-19 related economic gap (and continue to do so), we believe a return to as normal an environment as reasonably possible still depends on the trajectory of COVID-19 and medical breakthroughs needed to keep it as minimized as possible.

All of us at Country Club Trust Company/Tower Wealth Managers, along with the entire Country Club organization, hope that you and your families have been coping as well as possible and will continue to do so. Please be assured that we continue to work diligently in a social distancing mode, remaining fully capable to provide the level of service you have come to expect and deserve. We want to be of assistance in any way we can. Should you have any questions, we are always here for you.

Thank you and take care!

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