



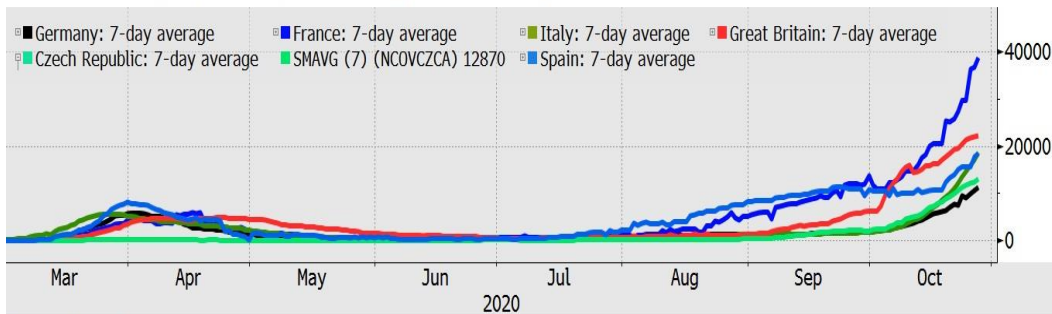
Economic and Market Update – IMPATIENTLY WAITING (10/31/2020)

Latest Developments and Economics

Recognizing that we all have been inundated with constant news about the election we can take some measure of relief that this cycle is nearing its end. Despite a more civil second debate and the President’s COVID diagnosis there is really no material change to highlights since last month’s letter about being ‘on hold’. As a record 90+ million ballots have reported to have been cast already (out of about 250 million voters), either through mail in or early voting, all we can do now is wait for the results. Those results may require patience as it is expected that the final count will not be available on election night given the different state rules about when counting can begin. There is also no change in the negotiations on another relief package since last month. The two sides have continued to talk and sounded optimistic in the direction of negotiations but, while the administration’s revised \$1.9 billion plan was much closer to the House’s current \$2.2 billion the purposes and methods of spending kept the two sides apart. In addition, the Senate Republican’s tried to float a targeted \$500 billion plan, but it was blocked by Senate Democrats. So, there will be no additional stimulus bill before election day as the Senate is on break and, once again, the country will have to be patient about when and how the next package will be passed as well as how much it will be in total.

Flare-Up

New coronavirus cases surge in Europe

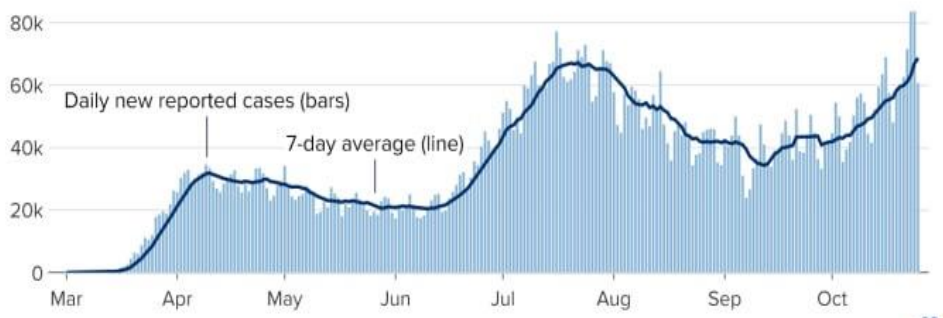


Source: Bloomberg
NCOVDECA Index (Coronavirus (2019-nCoV) Germany Confirmed Cases) GERMANY Virus c Copyright© 2020 Bloomberg Finance L.P. 01-Nov-2020 13:21:35

There is news to report on the virus but not in the direction we hoped. The cooler weather and more indoor activity (as well as possible virus fatigue) has resulted in a spike in Europe. This has caused Germany, France and the U.K. to shut down once again for the next four weeks. Spain and Italy are expected to follow with their own restrictions shortly. This will most likely have repercussions on the near-term recovery in Europe.

The same infection spike is affecting most states in the U.S. as well. The reported daily total is nearing 100,000 cases per day recently and the 7 day trend is rising but, some good news is that the survival rate continues to improve. This calls into question the possibility of new restrictions by state as well. There is also news on the vaccine front. Many of the forward progressing companies are deep into their trials and will be reporting results soon. Eli Lilly already halted their trial as it was found that their experimental drug was found to have little effect on people who are hospitalized. Gilead’s Remdesivir was approved by the FDA as a treatment for COVID-19 even though it has been used under emergency procedures for the last several months (including President Trump). In addition Moderna and Pfizer expect results from vaccine trials in November and possible emergency use

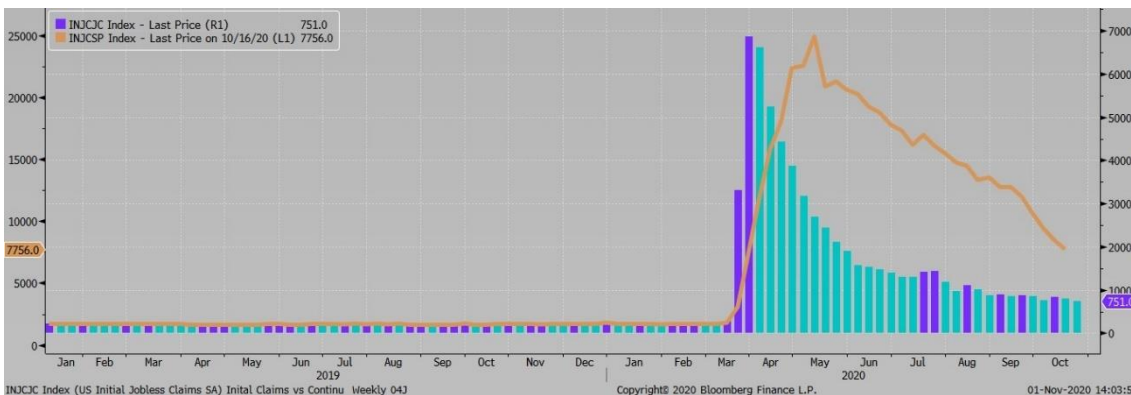
Daily new coronavirus cases in the U.S.



SOURCE: Johns Hopkins University. Data through October 25, 2020. CNBC

authorization in December. Vaccine trials by AstraZeneca and Johnson & Johnson have been cleared to resume after pauses, due to safety concerns, caused by single patient adverse reactions in each trial.

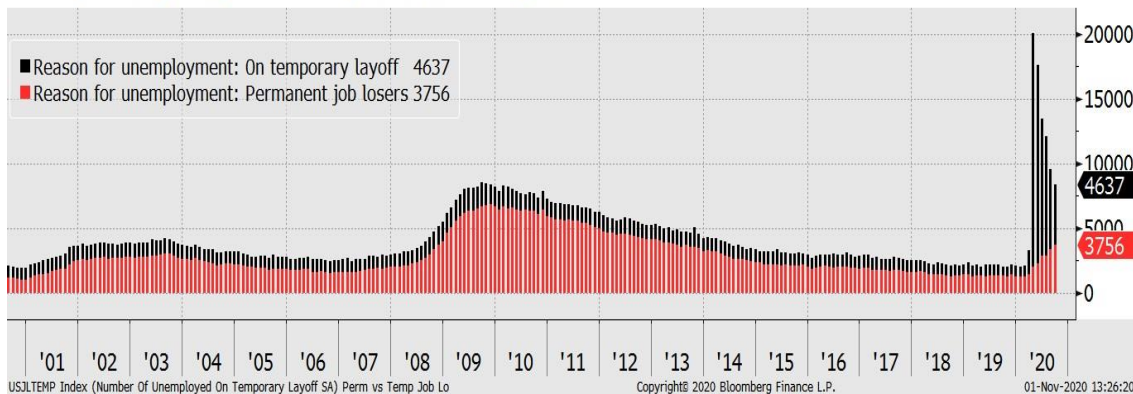
The virus trend and potential restrictions could impact the future path of recovery into 2021. Currently, the economic data, while slowing, still shows a recovery in progress. The latest economic data is mixed. Employment data in aggregate seems to be improving as the latest initial unemployment claims continue to drop from



historic levels (751,000 latest figure) and continuing claims are also dropping rapidly to the most recent 7.7 million. At the peak the U.S. had shed over 22 million jobs earlier this year and have recovered about 11 million. But the aggregate data in jobs may be masking something more concerning. As the virus impact continues more of the job losses are permanent rather than temporary.

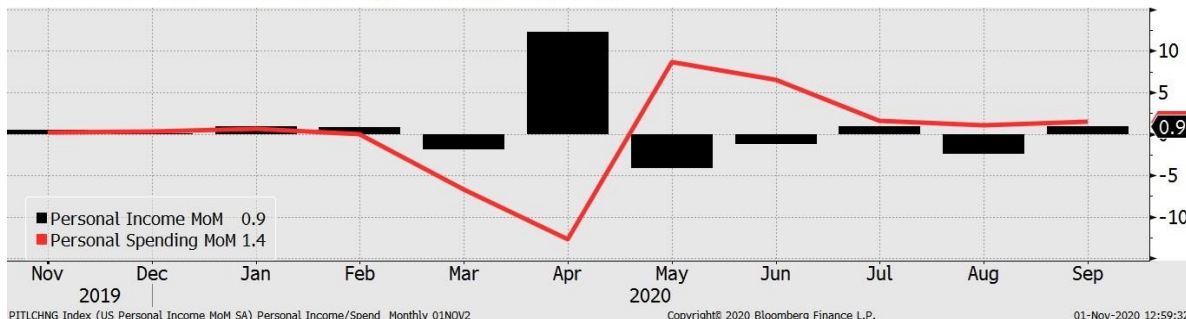
Permanent Job Losses Increase

Temporary layoffs vs permanent job losers



Consumer Picture

Personal income and spending tick up

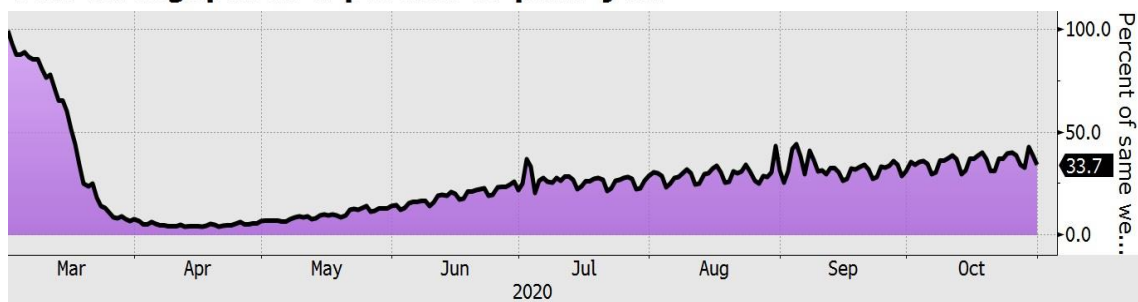


The U.S. consumer has rebounded well so far. Personal income was up, due in large part to the stimulus payments, and consumers were in a mood to spend. Consumer confidence rose, and they increased their spending by an unexpected 1.4% in September.

Consumer activity, like flying, continue to rise as well. Retail sales increased 1.9% in September, which results in overall retail sales 5.4% higher than one year ago. Home sales continue to be robust with existing home sales rising to an annualized 6.5 million, units - above mid-2006 levels.

Fliers Slowly Returning

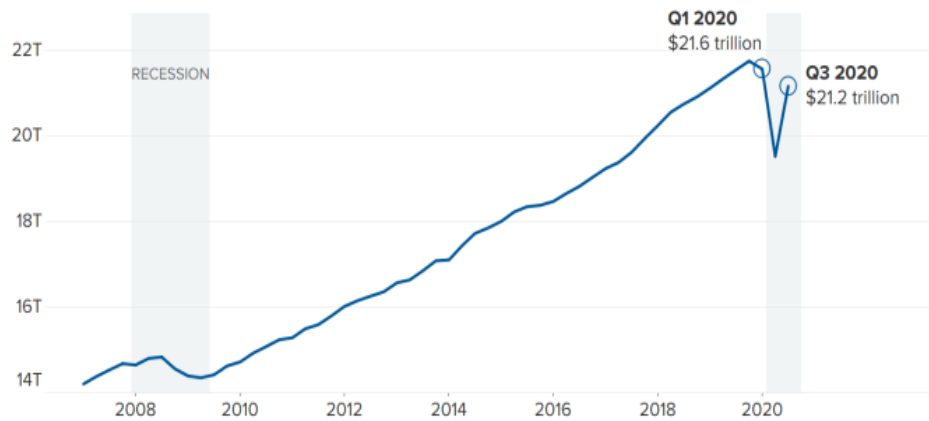
TSA throughput as a percent of prior year



The increased economic activity wasn't limited to the consumer either. Durable goods orders increased 1.95% (vs.

U.S. gross domestic product (GDP)

Total value in current U.S. dollars, seasonally adjusted



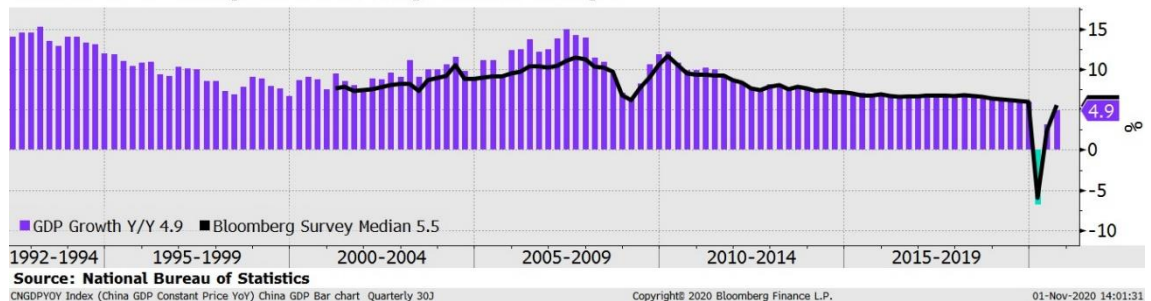
SOURCE: Bureau of Economic Analysis. Data is seasonally adjusted.



consensus expectation of 0.50%) even with the headwind of reduced military aircraft orders. A large component of this was business spending for new equipment. All of this positive momentum resulted in a historic rise in Gross Domestic Product (GDP) in Q3's first read. This, of course, comes after the most significant decline in GDP in the second quarter. The Q2 drop of an annualized 34.1% was met by an increase of an annualized 33.1% in Q3. This was driven by the consumer residential spending as well as the business spending mentioned above. As you can see in the chart this still leaves the economy well below its 2019 level.

Looking internationally China's economy is also recovering and faster than developed economies. After a similarly sharp decline earlier this year of 6.8% the rebound has been rapid. China reported economic expansion of 3.2% in Q2 and 4.9% in Q3.

Rebound Continues China's V-shaped recovery takes shape



Source: National Bureau of Statistics

CNGDPY0Y Index (China GDP Constant Price YoY) China GDP Bar chart Quarterly 30J

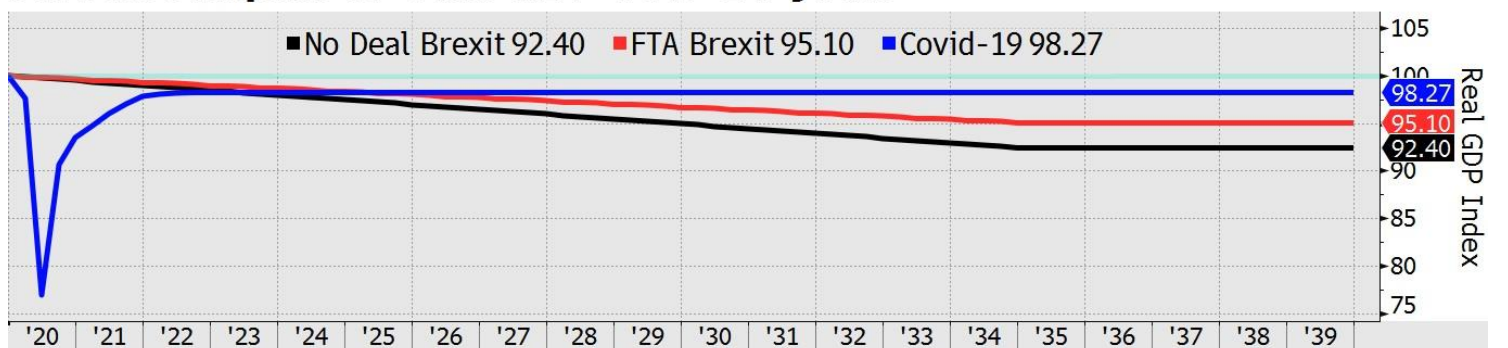
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China is expected to end the year with annual growth of +1.9% - far below pre-virus expectations of 6.0% but positive nonetheless. This compares to 2020 GDP expectations of an annual decrease of over 4.0% for the U.S. and 8.3% in the Eurozone as reported by the International Monetary Fund (IMF).

Particularly hard hit once again is the U.K., not only by the virus but by the BREXIT negotiations as mentioned last month. There are only about 60 days left before \$900 billion in trade between the U.K. and the Eurozone is impacted one way or another. Talks are continuing in Brussels with a level playing field and fisheries being particularly critical issues (European countries currently fish in U.K. waters). The impact of BREXIT on the U.K. economy is much larger than the long-term impact of the COVID virus. The chart below illustrates the potential decline in real U.K. GDP over the next 20 years.

No-Deal vs. Pandemic Impact Forecast impact of U.K. GDP over 20 years



Source: U.K. in a Changing Europe and London School of Economics modeling

.NDBREX G Index (no deal brexit forecast) uk growth scenarios Quarterly 31DEC20

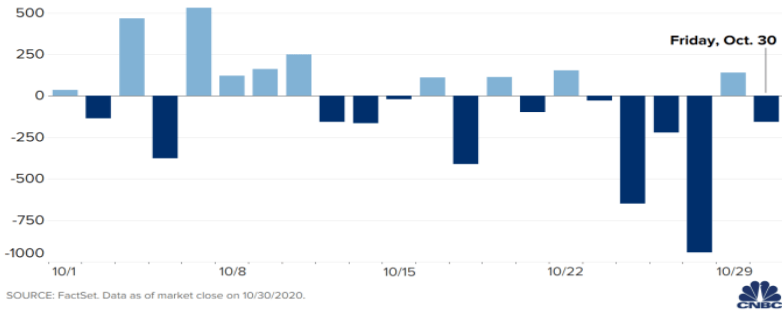
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Financial Markets

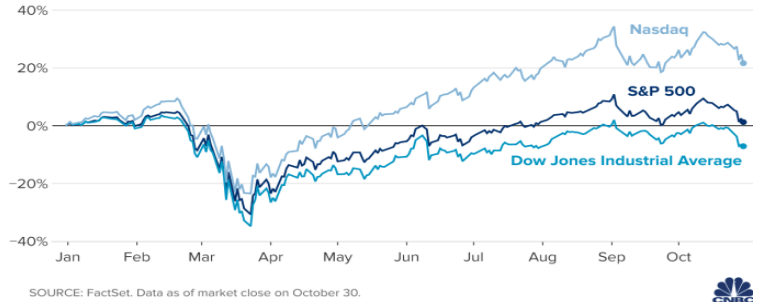
Dow daily point moves in October

Daily point change in the Dow Jones Industrial Average for October 2020



Stock market performance in 2020

Year-to-date returns for the three major indices



The virus and election uncertainties have combined to make October a volatile month in equities and, to a lesser degree, fixed income. The last weeks of the month was particularly negative for the domestic large company stocks with the worst

Growth Stocks Strongly Outperform Value

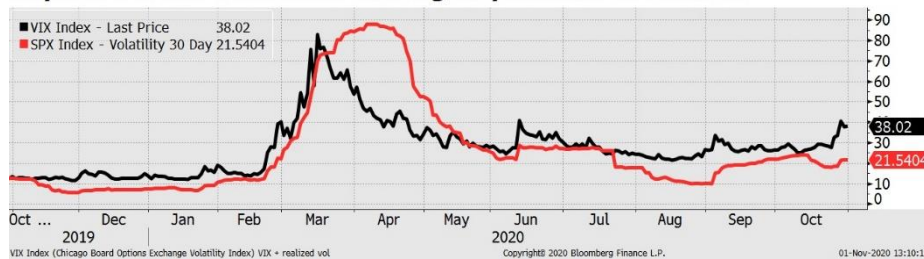


weekly decline since March. In addition, historically investors tend to raise their cash position somewhat before election day. The decline leaves the DJIA and S&P 500 about even for the year while the tech heavy NASDAQ is still clearly in positive territory. As you can see in the chart to the left the style has made a difference even since 12/31/19 with growth, led by tech, solidly ahead while

value has yet to recover end of 2019 levels. In addition, the market has been increasing its expectation of continued near-term volatility as the Volatility Index (VIX) has been trending up and trading more expensively relative to actual volatility (i.e.: protection is getting expensive). Elections can cause this as Dow futures were down 750 points late into 2016 election night and ended the next day up 256 vs. the prior day.

Bracing

Implied vol has been trading at premium to realized



Should you have any questions please contact us.

Image sources: Bloomberg and CNBC unless otherwise noted

Buffalo Office

1114 Delaware Ave.

Buffalo, New York 14209

PHONE: 716-883-9595

Jamestown Office

214 West Fifth Street

Jamestown, New York 14701

PHONE: 716-484-2402

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