"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."
Mark Twain

Of course, Elmira's most esteemed resident, and arguably America's most loved author, was a stupendously incompetent investor and businessman, losing fortunes in a series of failed businesses while turning down a chance to buy into Bell Telephone, despite the fact that he had one of the country's first residential phones. And while it's true that the two most spectacular market crashes in history both occurred in October, the fourth quarter has historically proven to be very rewarding for equity investors.

For the record, the worst month for stocks, historically, has been September, and this year saw the S&P 500 index decline just over 9% from its new high reached on September 2nd. Given the market's stunning 60% rise from the March lows, stocks were certainly ripe for some profit taking, but there were some fundamental concerns that served as catalysts for the selloff.

First, new COVID-19 case counts began to move above the averages of prior months in the U.S. and parts of Europe, renewing fears of lockdown efforts that could dampen or delay the economic recovery. U.S. case counts improved in August, but new numbers are instilling fears that new cases will grow as temperatures cool and schools reopen. We expect that outbreaks like these will re-occur in the months ahead until a vaccine is approved, widely available and effective, and we will just have to accept that fact. But it is highly unlikely that we will have to revisit what we experienced last spring. Steve Jobs was fond of saying that, "you can't connect the dots looking forward, only by looking backward. So you must trust that the dots will connect in the future. You must trust something – your gut, destiny, karma, God, something." In this case, we have more than our gut or karma, we have the science, as well as systems and institutions that have always figured out a way to deal with things. There will be setbacks, but the general direction remains toward a full economic recovery over the next couple of years.

Second, there are concerns that the U.S. election could produce an uncertain outcome and chaos, due to problems or delays in counting mail-in ballots. Sticking with the Mark Twain theme, he once said that "If you don't read the newspaper, you are uninformed. If you do read the newspaper, you are misinformed." We are not discounting the concerns over a disputed election, but one must account for the hype and the noise that sells air time on the 24-hour news channels. Hopefully, the results will disappoint those pundits spreading these fears. If not, the potential for short term volatility exists, as it existed during the disputed election of 2000, but the markets will also likely rebound when the uncertainty ends. Whatever the eventual outcome, it has historically not paid to add or remove risk to portfolios based on what party controls the executive or legislative branches of government. Periods of divided government or unified control by either party have generated similar equity returns over time.

Third, there appears to be growing disarray on the policy front as fiscal support measures begin to lapse. Talks between Congress and the President have been called off, though experience suggests that the talks may be back on by the time you read this. While the economic news remains generally positive, there is a growing unease about the sustainability of the recovery without further stimulus. The September non-farm jobs report came in below expectations, but the weakness was concentrated in education at the state and local government levels, as well as a drop in census workers. Private payroll growth was strong and the unemployment rate fell, but new unemployment claims and other indicators suggest that jobs growth is leveling off. Most analysts and economists, including the Chairman of the Federal Reserve, have warned that continued improvement in jobs and wages is dependent upon policy makers enacting further stimulus measures. U.S. household income fell sharply in August, solely due to expiring unemployment benefits. Airlines, hotels, theme parks, theaters and other travel and entertainment companies have announced hundreds of thousands of layoffs if another round of stimulus is not forthcoming. Undoubtedly, there will be more stimulus measures enacted regardless of which party takes office in January, but further delays will put the economy even further behind in its efforts to return to normal.

As we said earlier, even apart from these concerns, the market was ripe for a pullback after its historic rise from the March lows. But as has been the case throughout the market's rise, the index is not indicative of what is occurring in the broader market. We have discussed in previous *Outlooks* the disparate performance of a handful of the largest stocks in the S&P 500 Index relative to the rest of the market. By late September, Facebook, Amazon, Apple, Netflix, Alphabet and Microsoft had grown to represent 25% of the total capitalization of the S&P 500. Apple, alone, had risen to a market capitalization that was greater than all of the stocks in the Russell 2000 small cap index, combined. These stocks had risen anywhere from 46% to 77% this year, and together accounted for all of the market's gains for the year; the remaining 494 stocks are down an average of 5%. The weakness in September was not so much a correction, as it was a rotation into the more under-valued and under-represented sectors of the market, which we view as a normal and healthy development.

Finally, for those of you who watched the recent Presidential debate and were appalled (if you weren't appalled, you weren't watching), we would offer some perspective and assurance that the lack of civility and decorum that we witnessed is not new to our process. In the 1800 Adams-Jefferson election, a partisan newspaper described John Adams as a "hideous hermaphroditical character, which has neither the force and firmness of a man, nor the gentleness and sensibility of a woman." In addition to the shear mean-spiritedness of the characterization, it's evident that folks at that time weren't overly sensitive to gender stereotyping, either. And in the election of 1912, Theodore Roosevelt called President Taft, his former friend and hand-picked successor, a "fathead with the brains of a pig." We don't have the space to include the cruel and unmannerly taunts suffered by President Lincoln. Somehow, the country survived and prospered through such periods in the past, and this, too, will pass.

Joseph J. Tascone
Senior Vice President &
Senior Investment Officer
JTascone@chemungcanal.com

Michael D. Blatt, CFA
Vice President &
Senior Investment Officer
MBlatt@Chemungcanal.com

Peter M. Capozzola, CFA
Vice President &
Senior Investment Officer
PCapozzola@capitalbank.com

John E. Shea
Vice President &
Investment Officer
JShea@chemungcanal.com

Kevin W. Brimmer
Assistant Vice President &
Portfolio Manager
KBrimmer@chemungcanal.com

Shelby M. Fay, CFP®
Assistant Vice President &
Portfolio Manager
SFay@chemungcanal.com

Chemung Canal Trust Company

CAPITAL BANK