Written by **Bob Adelmann** on September 21, 2020

Big Banks Are Optimistic About U.S. Economy, for Good Reason

Three of the world's largest investment banks — Goldman Sachs, Wells Fargo and Deutsche Bank — are optimistic about stocks in the coming months, and for good reasons: a strong housing market, the improved chances for a COVID-19 vaccine in the near future, the increasing likelihood of President Trump's reelection, a strong GDP number in the third quarter, economic momentum left over from 2019's amazing performance, and forecasts of the robust recovery extending into 2021.

Goldman Sachs analyst David Kostin told his clients last week to expect the S&P 500 index, currently trading around 3,260, to close the year at 3,600 and at 3,800 by next summer: "Despite the sharp sell-off [in stocks] we remain optimistic about the path of the U.S. equity market in coming months … [the] economic data show a continuing recovery."

Wells Fargo's chief investment officer, Kirk Harman, told CNBC on Tuesday, "What is interesting to me is the market has priced in a very good recovery in 2021 and, as long as that happens, I think the market, while a bit stretched [in valuation], is fairly valued."

And Deutsche Bank, headquartered in Frankfurt, Germany, views the recent behavior of a technical indicator — the put/call ratio — as a sign that the market will move higher.

Brian Brenberg, a professor of business and economics at The King's College in Manhattan, pointed out the remarkable performance of the U.S. economy in 2019 before the COVID virus hit: "2019 was a record-breaking year for the U.S. economy. Median income hit its highest level ever, and the poverty rate dropped to a 60-year low."

He added, "The gains were felt across the board. Hispanics, Blacks, Asians and women all saw their incomes rise at a faster rate than the national average. And Black and Hispanic poverty rates hit their lowest levels on record."

And Brenberg thinks the momentum will carry over into late 2020 and into 2021: "The better than expected comeback in jobs and spending over the past four months is an unmistakable sign that the economic momentum we carried into 2020 is still very much alive."

Richard Moody, chief economist for Regions Financial Corporation, expressed optimism that the recovery in the housing market will continue into the future. He said, "The single family [market] is a …

reliable indicator of housing market activity, and single family construction has a much larger economic impact than does multi-family construction…. With low interest rates, further increases in single family construction are to be expected."

The numbers are remarkable, according to Moody. There were 93,200 single-family housing starts in August, the highest since July 2007. And the 12-month total stands at 910,400 units, "on par with where that total stood prior to the pandemic, and a total that will rise further in the months ahead."

Permits are also setting new records, said Moody: "With 89,600 single family permits issued in August, the running 12-month total … rose to 897,000 … the highest such total since February 2008 … [and] rising."

And, despite recent volatility, the stock market, as a forward-looking indicator, is also anticipating a continuing economic recovery. Patrick O'Hare, writing for Briefing.com, said, "All things considered the stock market is in a good place. Actually, it's in a far better place [than] one might have reason to think it would be against the backdrop of the first global pandemic in 100 years."

The S&P 500 is in positive territory for the year despite losing a third of its value in response to that pandemic, and the Nasdaq is up an amazing 20 percent after its similar decline. And, according to financial data company FactSet Research, calendar 2021 revenues of American companies are expected to increase by more than eight percent and profits by more than 26 percent.

As O'Hare expressed it,

> The market narrative characterizes President Trump's re-election as a positive and a victory by former Vice President Biden as a negative, largely because of Mr. Biden's proposals that call for higher taxes on corporations and wealthy individuals, and high capital gains taxes….
>
> Real interest rates remain negative and that translates as a positive for stocks. This will continue to be the foundation for bullish-minded outlooks along with the added plank that the arrival of a COVID vaccine will carry the day for the economy and earnings.

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