MONTHLY MARKET UPDATE

October 2020

Despite the encouraging economic backdrop, October lived up to its reputation for volatility, delivering a second consecutive monthly decline and the worst monthly return since March. US and global equities had been in the green until mid-month but sold off meaningfully in the final few days as uncertainty surrounding CoVid-19 and the elections drove market anxiety higher. For the month, the S&P 500 was down 2.5% with gains in utilities and communication services more than offset by weakness in technology, energy, and healthcare. Bonds offered no solace as interest rates rose across intermediate and longer-term maturities. Credit spreads compressed from 541 to 488 during the first half but widened back out to 532 by month end. Ultimately the elections produced exactly what markets prefer (gridlock) with a slightly elevated risk of a more austere CoVid fiscal relief package given the Republican Senate outcome.

Market Anecdotes

- A divided government with a Biden White House and Republican senate added to market jubilance with a positive global economic backdrop and a 'blue wave' stimulus rally that transpired from middle September to middle October.
- Tax hikes, infrastructure spending, green new deal, healthcare reform, regulation, and tech sector vilification have taken a back seat under a divided government scenario. The end of the trade wars, more modest CoVid fiscal relief, and eliminated tariffs are also likely.
- Regarding a significant fiscal stimulus package contention point, Moody's estimated CoVid related U.S. state budget shortfalls (2020-2022) at $434b, assuming no new stimulus and likely rounds of fall/winter CoVid restrictions.
- BCA pointed out that the contribution from state & local government spending turned negative in Q3 as it did in 2009/2010 where it remained a drag until 2014—a significant contributor to subpar GFC recovery growth.
- CoVid is becoming more prevalent in the U.S. as the "third surge" does not seem yet to be slowing down. European and Canadian approaches to health policy/lockdowns are being closely watched as proxies for full spring 2020 style versus partial targeted approach.
- With 89% of 3Q S&P 500 earnings reported, FactSet noted record beat rates of 86% and margins of 19.5% for a blended YoY earnings decline of -7.5%. Revenue is coming in at -2.1% with record beats (79%) and margin (2.6%) of beats.
- Large cap technology stocks were the biggest drag on the S&P 500 in October. The prospect of tax hikes and bipartisan quest to regulate the sector weighed on returns.
- The October FOMC meeting produced no change in policy and a reiteration of readiness to enact fresh QE along with other measures if deemed necessary. The BoE surprised markets by announcing £150 billion of quantitative easing (£50 billion more than expected).
- The housing market recovery continued as a driving force behind the US economy fueled by low rates, strong household balance sheets, and the K-shaped recovery impacting renters disproportionately more so than homeowners.

Economic Release Highlights

- The October jobs report was strong with 638,000 new jobs taking the unemployment rate down to 6.9% (7.6% expected) and non-farm, private, and manufacturing payrolls all topping expectations.
- Q3 U.S. GDP rose at a record annualized pace of 33.1%. Personal consumption rose 40.7% vs 38.9% estimated.
- October's U.S. manufacturing PMI improved slightly to 53.4 while the ISM manufacturing surged and crushed expectations (59.3 v 55.7). The composite index improved from 54.3 to 56.9.

- The global manufacturing PMI was 53.3, an improvement from 52.1 prior reading. The EU registered a healthy 54.8, China 53.6, India 58.6 and Germany 58.2.
- October's ISM services index softened slightly to 56.6 from last month's 57.8 reading.
- The personal income and outlay report showed encouraging MoM growth in personal income (0.9% v 0.3%) and personal consumption (1.4% v 1.0%). Inflation remained benign with headline and core PCE prices of 1.4% and 1.5% respectively.
- October's Conference Board consumer confidence deteriorated slightly and missed consensus (100.9 v 102.0). October UofM consumer sentiment remained stable at 81.8, up slightly from September's 81.2 reading.

Positioning

Our view is that October's market action will reverse over the coming 6-12-month horizon. The combination of easy monetary policy, modestly looser fiscal policy, cyclical manufacturing sector recovery, and progress on a vaccine should be enough to keep global growth on an above-trend path next year. Broader markets and internal indicators did not confirm the growth concerns implied by headline stock index performance last month. Rising UST yields, a steepening yield curve, strong small cap performance, and modest credit spread widening support maintaining a relatively constructive view on risk assets over the next 12 months. Additionally, we feel confident that a safe and effective vaccine will move toward the manufacturing and distribution phase at some point over the next 12 months. Once global growth is clearly re-established, we expect a leadership transition from growth toward more cyclically oriented industries and non-U.S. markets.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	26502	(4.52)	1.24	(5.38)	(0.18)	6.78
NASDAQ	10912	(2.26)	3.27	22.50	32.67	18.89
S&P 500	3270	(2.66)	1.15	2.77	9.39	10.46
Russell 1000 Growth		(3.40)	3.17	20.11	28.92	18.86
Russell 1000 Value		(1.31)	(0.06)	(12.74)	(7.97)	1.95
Russell 2000		2.09	3.23	(6.77)	(0.79)	2.46
Russell 3000		(2.16)	1.69	3.14	9.76	10.11
MSCI EAFE		(3.98)	(2.98)	(10.44)	(6.38)	(0.71)
MSCI Emg Mkts		2.08	2.41	1.15	8.67	2.43
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.30	(0.03)	(0.10)	(0.40)	(0.41)	(0.17)
High Yield	5.47	(0.03)	(0.02)	0.03	(0.11)	(0.17)
Municipal	2.00	(0.00)	(0.01)	(0.14)	(0.16)	(0.14)

Commodities	10/31/20	8/31/20	5/31/20	2/29/20
Oil (WTI)	36.60	42.61	35.57	44.83
Gold	1881.90	1957.40	1728.70	1609.90

Currencies	10/31/20	8/31/20	5/31/20	2/29/20
USD/Euro ($/€)	1.17	1.19	1.11	1.10
USD/GBP ($/£)	1.29	1.34	1.23	1.28
Yen/USD (¥/$)	104.54	105.84	107.77	108.12

Treasury Rates	10/31/20	8/31/20	5/31/20	2/29/20
3 Month	0.09	0.11	0.14	1.27
2 Year	0.14	0.14	0.16	0.86
5 Year	0.38	0.28	0.30	0.89
10 Year	0.88	0.72	0.65	1.13
30 Year	1.65	1.49	1.41	1.65

Style Returns

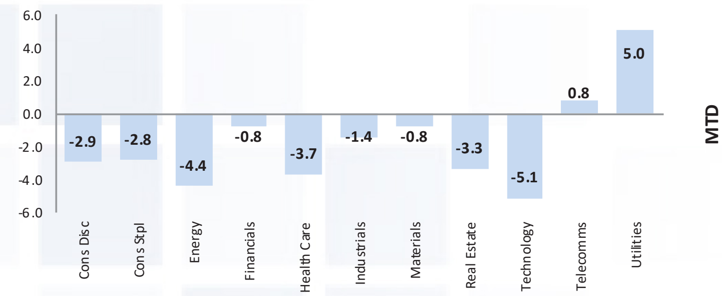
MTD

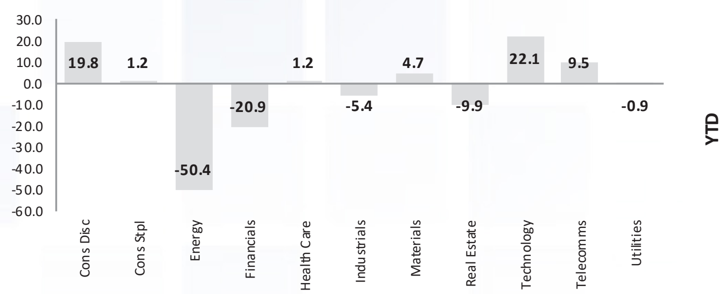
	V	B	G
L	-1.31	-2.41	-3.40
M	0.93	0.64	0.12
S	3.58	2.09	0.76

YTD

	V	B	G
L	-12.74	3.83	20.11
M	-12.03	-1.72	14.06
S	-18.74	-6.77	4.67

S&P 500 Sector Returns





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