MONTHLY MARKET UPDATE

November 2020

OPAL WEALTH ADVISORS

A choppy early November gave us the worst pre-election week performance on record but was followed post-election by the strongest week since April positive sentiment prevailed for most of the month. Relative clarity on the election outcome and corresponding policy outcomes propelled markets to the best November for the S&P 500 since 950 and the first time since 1982 we've had two double digit months in one calendar year. Strong COVID-19 vaccine trial results and continued economic recovery momentum overwhelmed a resurgence in COVID-19 case counts globally in terms of risk asset performance. Cyclical and value-oriented areas of the market outperformed technology and growth for the month. Joe Biden won the U.S. presidency and markets cheered what looks like a split/gridlocked election outcome, albeit still uncertain with the Georgia senate runoff races outstanding. One key anxiety point is that fiscal negotiations for another COVID-19 relief package stalled throughout the month and remain unclear today.

The S&P 500 was up a remarkable 11% in November after two consecutive down months while small caps (+18%) and developed market international stocks (+15.5%) moved even higher yet. It was the largest monthly gain for the DJIA since 1987 and the largest ever for the Russell 2000! From a sector standpoint, we saw cyclical areas like industrials (+13.4%), materials (+13.1%), and financials (+11.69%) dramatically outperform technology (+0.07%), healthcare (+1.7%), and real estate (+1.28%). Commodities (+13%) had a stellar month with several boasting returns in the top decile of their respective historical ranges, including oil which was up 27%. The USD declined another 2.3% in November taking the one-year decline to -6.5% despite the big flight to safety bid back in March.

Market Anecdotes

- Markets applauded the likely election outcome of D POTUS / R Senate which puts tax hikes, infrastructure spending, green new deal, and major healthcare reform to the back seat. A Biden administration would be more likely to focus on foreign policy issues including ending trade wars, slowly negotiating eliminated tariffs, and pro-growth immigration policies.
- The Georgia senate runoff races are tightening based on polls and betting market odds which have taken odds of a Republican senate down from 87% on November 3rd to 71% this week.
- The election outcomes also resulted in a more tenuous fiscal CoVid-19 relief package outlook under the divided government scenario at a time where government spending contribution to GDP growth turned negative for the first time in 25 months during 3Q.
- Current partisan lines in the sand are at $500b (Republican) and $900b (Bipartisan moderates) respectively with 13.5mm Americans in line to lose unemployment benefits at year-end.
- November may have offered a glimpse of what equity market internals and leadership may look like once CoVid-19 eventually begins to lift with notable market breadth, value, international and cyclical leadership emerging.
- Q3 2020 earnings officially ended with the glass half full. S&P 500 top and bottom lines contracted by 2.4% and 2.6% respectively but far surpassed expectations and came with generous upward forward guidance. Interestingly, ex/energy (-$14.3b), airlines (-$13b), and hotel/restaurant/leisure (-$9.7b), the S&P would have reported 4.3% growth in earnings.
- Leuthold Group highlighted the relatively attractive valuation for small caps, making the case that both SCV (17x) and SCG (24x) are historically cheap relative to historical averages. Small growth is trading at approximately 50% of valuation measures it reached in '00.
- The Russell 2000 hit a CoVid-19-panic low of 966.216 on March 18, 2020 and remained a

relative laggard until its November surge, now up over 90% in 9 months! During this time, US Nominal GDP fell about 1.6% and trailing 12-month R2000 earnings are down 2.52%.

- U.S. Treasury secretary Steve Mnuchin requested the Fed return unused funds of several CoVid-19 Fed stimulus programs and will not seek to renew them upon their 12/31/20 expiration. Municipal and corporate credit markets may be particularly exposed near term.
- The Fed is expected to ramp up longer duration UST purchases in light of the Treasury announcement of sunsetting Fed bond facilities and may now be considering supplemental monetary action at their upcoming December meeting.
- M2 is growing at 24% and has been growing at +20% for over six months with little sign of slowing well into 2021. The Fed balance sheet surged to new record highs, currently at $7.24308T. The ECB balance sheet also hit a record high last month.
- The battle with CoVid-19 took a significant turn for the better from both an efficacy (90%+ vaccine efficacy rates) and time to market standpoint while simultaneously taking a turn for the worse in terms of case counts, hospitalizations, deaths, and human mobility.
- Copper went parabolic in November with a 13.7% gain, now up 52% off the March lows and at its highest level since Q1 of 2013. The combination of the rally in copper, commodities, cyclical sectors, and banks alongside weakness in gold implies a stronger global economy than rates.
- USD aiding Intl equity performance. Since the Bloomberg US Dollar Index's peak on 3/23, it has erased all of its COVID-19 gains and more, falling over 11% to its lowest level since May 2018.

Economic Release Highlights

- November jobs report confirmed a slowing labor market backdrop with 'only' 245,000 new jobs, down from 611,000 in October, and a headline unemployment rate of 6.7%.
- Retail sales came in slightly below consensus on the headline (0.3% vs 0.4%) and more so on ex-vehicles & gas (0.2% vs 0.6%) and the control group (0.2% vs 0.4%).
- October's Personal Income and Outlays report revealed disappointing personal income (-0.7% v 0.1%) but in line PCE growth of 0.5%. Core PCE price index was in line as well at 1.4% YoY.
- November flash U.S. PMIs (C, S, M) all came in handily above consensus and now deeply in expansionary territory at 57.9, 56.7, and 57.7 respectively. November ISM Manufacturing and Services readings of 57.5 and 55.9 respectively show a resilient U.S. economy, certainly among mid and larger sized businesses.
- November's Global manufacturing PMI climbed from 53 to 53.7. 74% of countries in the index registered above a 50 reading. EZ PMIs (45.1, 53.6, 41.3) missed expectations while the U.K. (47.4, 55.23, 45.8) beat handily across the board.
- October durable goods report came in higher than expected across headline (1.3% v 0.9%), Ex-transports (1.3% v 0.3%), and core goods (0.7% v 0.6%) components. Industrial production rebounded to 1.1% from unexpected decline the prior month and slightly in excess of forecast.
- The most recent Conference Board U.S. LEIs revealed a sixth consecutive monthly increase (0.7%) but also a decelerating pace of advances.
- Conference Board consumer confidence for November came in short of consensus (96.1 v 98.0) likely reflecting the CoVid-19 surge and policy uncertainty in the coming months.
- November's final UofM consumer sentiment reading fell to 76.9, short of consensus estimate of 77.2, likely a reflection of Republican initial sentiment after the election.
- November's Housing Market Index surged to 90 from October's much higher than expected level of 85. Housing starts (1.530 v 1.460), permits (1.545 v 1.560), and existing homes sales (6.854 v 6.470) further substantiated the robust backdrop of the housing market.

- Case-Shiller House Price Index continued its torrid pace in September, coming in well above expectations (1.3% v 0.5% MoM) (6.6% v 5.4% YoY) across the 20 metro region samples.
- New Home Sales for October of 999k annualized was higher than expected and right in line with September's strong pace of 1002.

Positioning

November's equity market rally, which priced in greater policy certainty, a surprisingly resilient global economy, and the positive impact of an efficacious and timely CoVid-19 vaccine, left markets somewhat extended and overly optimistic in the short-term but on relatively stable ground over the intermediate term. Looking into 2021, we expect widespread vaccine distribution in Q2, a continuation of extreme monetary policy accommodation, and heightened sense of urgency for fiscal CoVid-19 relief given the slowing labor market recovery. Whereas 2020 was driven by equity market multiple expansion, we believe 2021 will see earnings grow into that multiple.

U.S. housing and manufacturing sectors remain viable sources of strength while the labor market is showing signs of slowing and inflation remains very much at bay, leaving monetary policy makers free to maintain easy policy for the foreseeable. Developed market monetary and fiscal backdrops leave us with confidence that the cyclical recovery will continue into 2021. Meanwhile, the Chinese growth locomotive seems poised to continue through the first half of 2021 but may be the first market susceptible to a need to tighten in later 2021/ early 2022.

Our internal and external research efforts suggest maintaining an overweight to broad equity markets while leaning slightly more into international and emerging markets in lieu of high-grade fixed income (U.S. Treasuries). Additionally, we continue to favor cyclical areas of the equity markets including industrials and materials. We transitioned from a growth overweight to a neutral value/growth view in September and are maintaining a relatively weak USD view in light of the massive twin U.S. deficits, ultra-accommodative U.S. monetary policy, and deeply negative real yields. Overall, the combination of easy monetary policy, loose fiscal policy, continued cyclical manufacturing sector recovery, and progress on a vaccine should be adequate to keep global growth in recovery mode and above trend in the coming year.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	29639	12.14	3.99	6.11	8.09	9.37
NASDAQ	12199	11.91	4.51	37.09	42.06	22.30
S&P 500	3622	10.95	3.68	14.02	17.46	13.17
Russell 1000 Growth		10.24	2.10	32.40	36.40	21.47
Russell 1000 Value		13.45	8.30	(1.00)	1.72	5.25
Russell 2000		18.43	15.67	10.41	13.59	7.09
Russell 3000		12.17	5.62	15.68	19.02	13.20
MSCI EAFE		15.51	8.05	3.45	6.83	3.77
MSCI Emg Mkts		9.25	7.79	10.51	18.83	5.31
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.23	(0.07)	(0.15)	(0.48)	(0.49)	(0.27)
High Yield	5.27	(0.20)	(0.21)	(0.17)	(0.27)	(0.37)
Municipal	1.95	(0.05)	(0.07)	(0.19)	(0.20)	(0.22)

Commodities	11/30/20	9/30/20	6/30/20	3/31/20
Oil (WTI)	45.72	40.05	39.27	20.51
Gold	1762.60	1886.90	1768.10	1609.00

Currencies	11/30/20	9/30/20	6/30/20	3/31/20
USD/Euro ($/€)	1.20	1.17	1.12	1.10
USD/GBP ($/£)	1.33	1.29	1.24	1.25
Yen/USD (¥/$)	104.38	105.58	107.77	107.53

Treasury Rates	11/30/20	9/30/20	6/30/20	3/31/20
3 Month	0.08	0.10	0.16	0.11
2 Year	0.16	0.13	0.16	0.23
5 Year	0.36	0.28	0.29	0.37
10 Year	0.84	0.69	0.66	0.70
30 Year	1.58	1.46	1.41	1.35

Style Returns

MTD

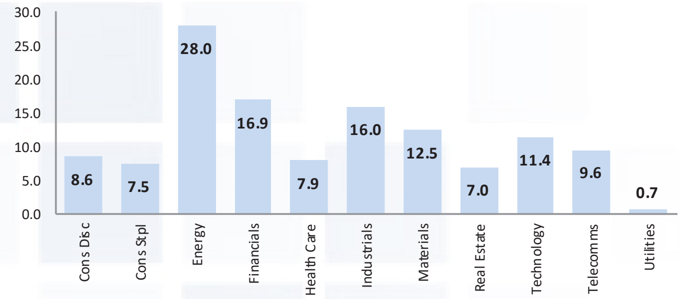
	V	B	G
L	13.45	11.78	10.24
M	14.04	13.82	13.43
S	19.31	18.43	17.63

YTD

	V	B	G
L	-1.00	16.06	32.40
M	0.32	11.86	29.38
S	-3.05	10.41	23.12

S&P 500 Sector Returns

MTD



YTD

OPAL WEALTH ADVISORS

Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**