



Price Returns			
Index	Close	Week	YTD
S&P 500 Index	3,484	0.2%	7.8%
Dow Jones Industrial Average	28,606	0.1%	0.2%
NASDAQ	11,672	0.8%	30.1%
Russell 2000 Index	1,634	-0.2%	-2.1%
MSCI EAFE Index	1,870	-2.6%	-8.2%
10-yr Treasury Yield	0.74%	0.0%	-1.2%
Oil WTI (\$/bbl)	\$41.00	1.1%	-32.8%
Bonds*	\$117.89	0.1%	6.8%

Source: Bloomberg, FactSet

\*Bonds represented by the iShares U.S. Aggregate Bond ETF

### Last Week:

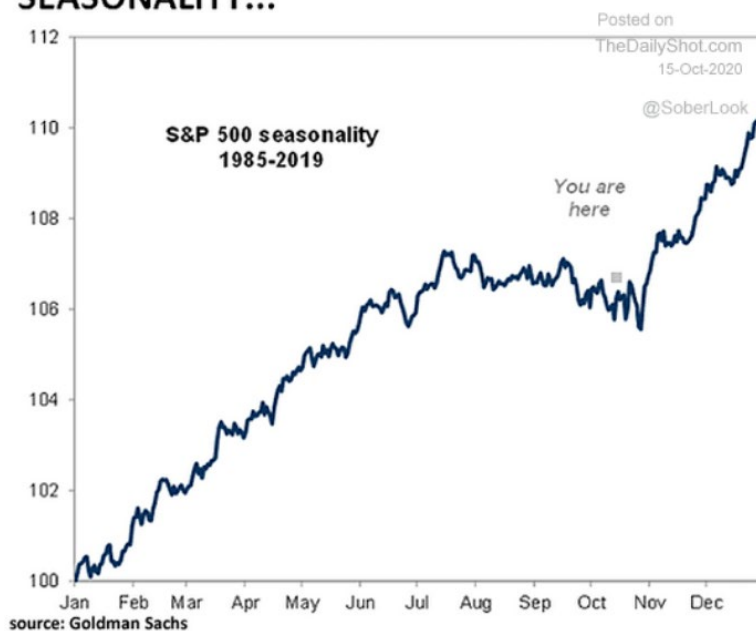
#### U.S. Equity Markets

- U.S. large cap equities (S&P 500® Index) rose a modest 0.2% as resilient corporate profits, vaccine potential and ongoing monetary support from the Federal Reserve offset an increase in COVID-19 cases in the U.S. and Europe, and reduced optimism for a pre-election fiscal stimulus. While the headline indices gained ground, declining stocks outnumbered those that advanced by a 3:2 margin. Treasuries were weaker with the curve steepening, the dollar was up +0.7%, gold lost -1.0% and WTI crude rose +1.1%.
- Sector performance:
  - Industrials (+1.1%) outperformed led by machinery, rails and parcel/logistics
  - Communication services (+0.9%) outperformed led by **Alphabet** (3.8%), **Activision Blizzard** (+3.1%), Walt Disney (+1.5%) and **Facebook** (+0.6%)
  - Utilities (+0.8%) outperformed led by Exelon Corp (+7.4%), American Electric Power (+1.9%), and NextEra (+0.9%)
  - Consumer staples (+0.7%) were led by Costco (+3.3%) and Walmart (+1.4%)
  - Information technology (+0.8%) outperformed led by **PayPal** (+3.6%), **Microsoft** (+1.8%), Apple (+1.8%), and **Workday** (+1.7%)
  - Consumer discretionary (-0.2%) fell due to **Amazon** (-0.4%) and cruise lines
  - Materials (-0.4%) underperformed led by global miners and precious metals
  - Health care (-0.5%) underperformed as weakness in big pharma and biotech offset strength in distributors, managed care and hospitals
  - Financials (-0.9%) underperformed on weakness from bank earnings including Bank of America (-4.4%) and **Citigroup** (-3.4%)



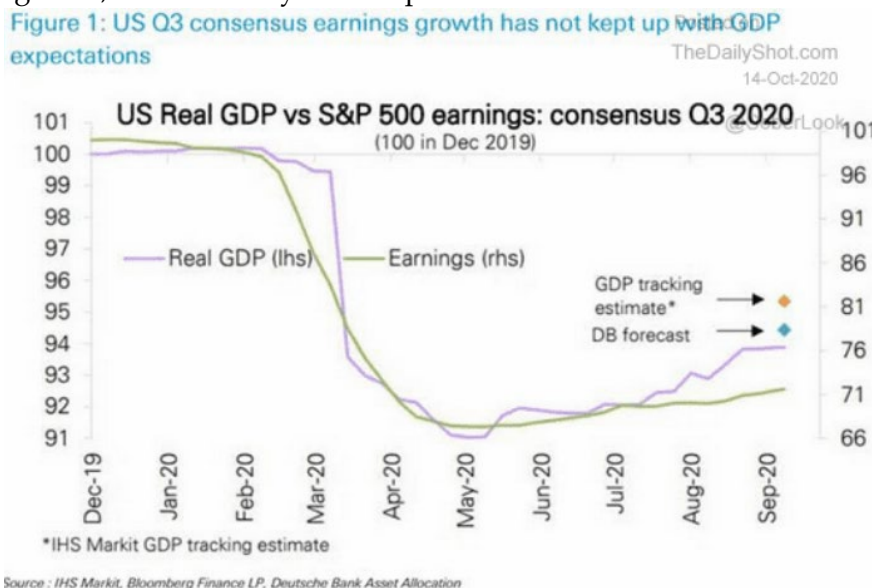
- Energy (-2.1%) underperformed despite oil (WTI) rising +1.1%
- REITs (-2.3%) underperformed with notable weakness from Brookfield Property (-10.6%), Equity Residential (-6.9%), AvalonBay (-5.9%) and Welltower (-3.6%)
- From 1985 – 2019, seasonality trends showed that November and December are favorable months for U.S. equity investors.

### SEASONALITY...



Source: The Daily Shot

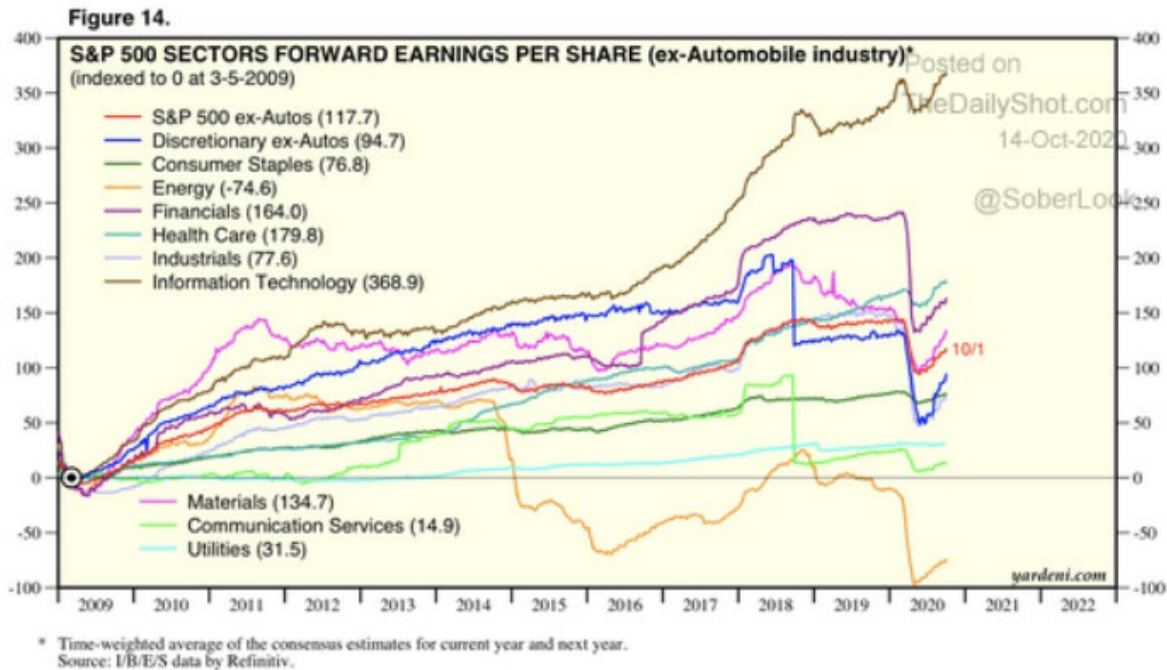
- According to Deutsche Bank, earnings growth may provide an upside surprise in the third quarter. But if they're calling for it, would it truly be a surprise?



Source: The Daily Shot



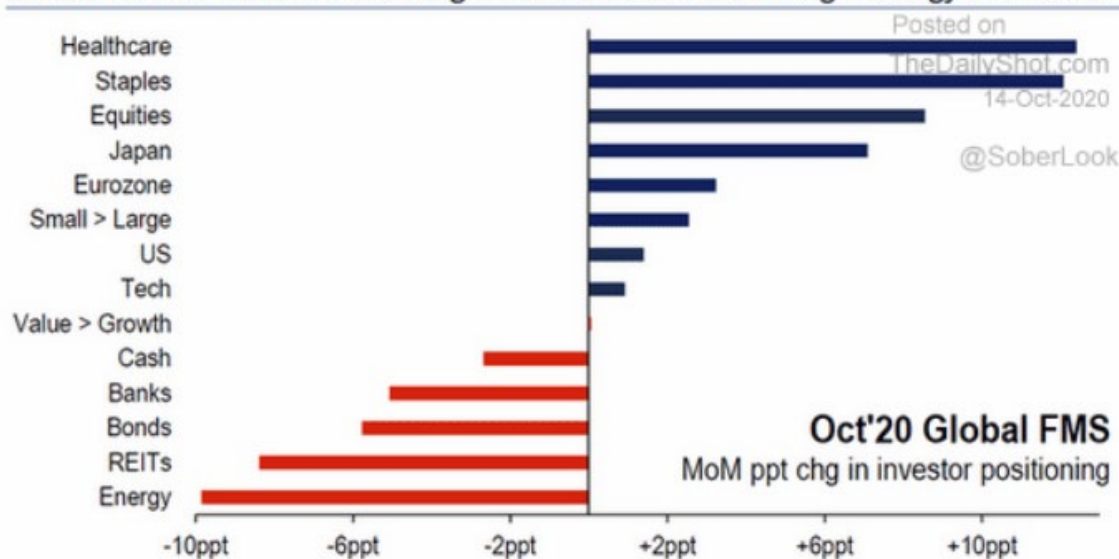
- Information Technology generated the highest earnings per share of any sector since March 5, 2009. It is also the largest sector in the S&P 500 Index.



Source: The Daily Shot

- According to Bank of America, fund managers are long healthcare and consumer staples, while short energy and REITs.

**Exhibit 13: FMS investors overweight healthcare and underweight energy this month**



Source: BofA Global Fund Manager Survey

Source: The Daily Shot



- In 2020, the S&P 500 Index closely tracked moves in the dollar.

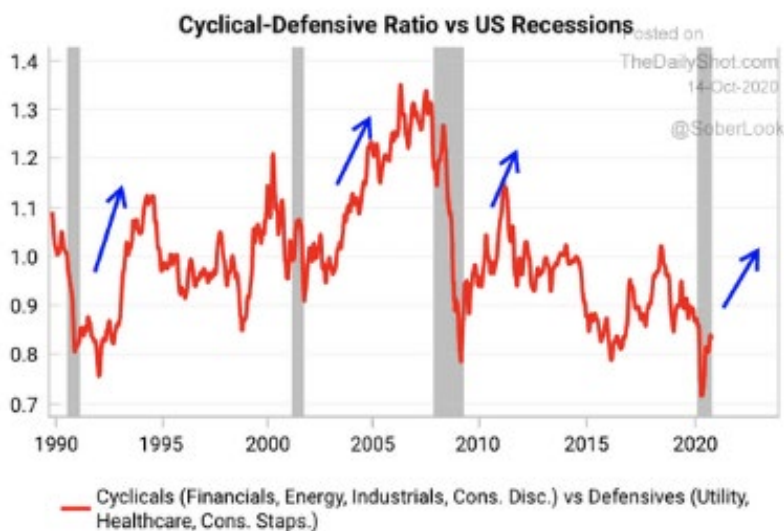


\*Source: BIS

Note: Vertical lines denote S&P 500 bottom on March 23, 2020 and peak on September 2, 2020

Source: The Daily Shot

- Cyclical sectors tend to outperform defensive sectors when the U.S. rebounds from an economic trough.

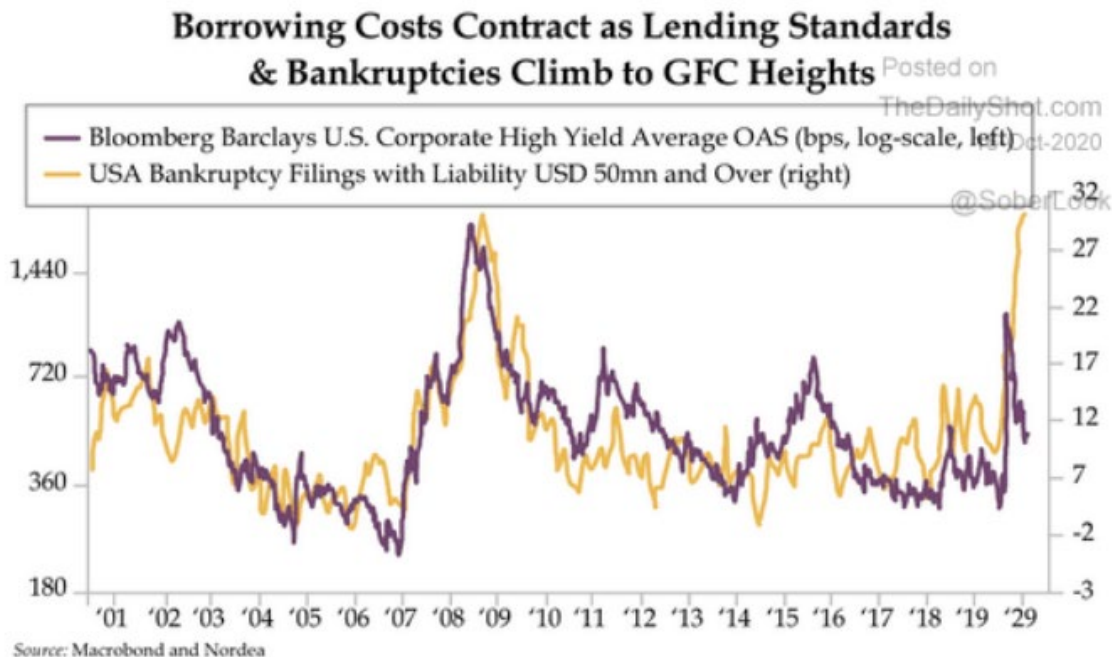


Source: The Daily Shot



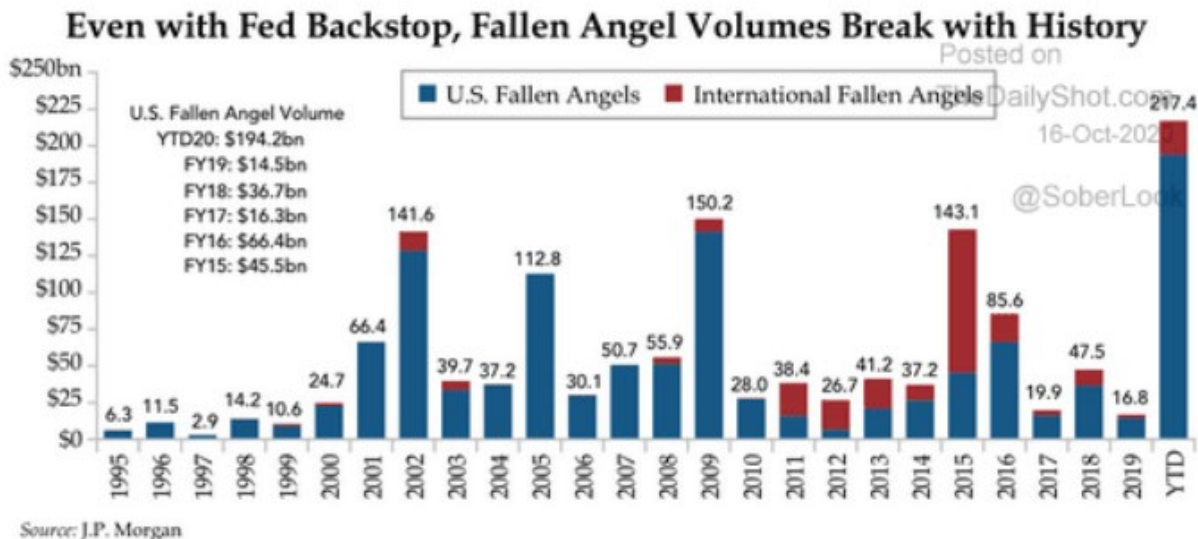
### Fixed Income Markets

- U.S. corporate high-yield spreads have diverged from bankruptcy filings.



Source: The Daily Shot

- Despite unprecented monetary support from the Federal Reserve, fallen angel (investment-grade corporate debt downgraded to junk) volumes are now higher than in 2009.



Source: The Daily Shot



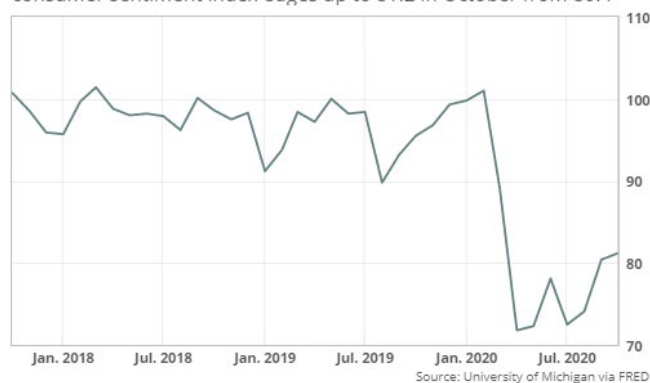


## U.S. Economic and Political News

- Federal Reserve Vice Chair Richard Clarida said that the U.S. economic recession may already be over and “may go into the record books as the briefest recession in U.S. history.”
- Retail Sales increased 1.9% in September, above consensus expectations. Retail Sales excluding volatile automotive and gasoline components rose 1.5%.
- The Consumer Price Index increased 0.2%, which was consistent with consensus estimates.
- The Producer Price Index rose 0.4% in September on both a headline and core basis, each of which were twice as robust as the 0.2% consensus forecast.
- Industrial Production slid -0.6% in September, with the consensus having penciled in a plus sign in front of the 0.6% figure. Missed it by that much!
- The University of Michigan’s Consumer Sentiment Index printed 81.2 in its preliminary October reading, a shade better than the 81.0 consensus forecast.

### Consumer sentiment hits pandemic high

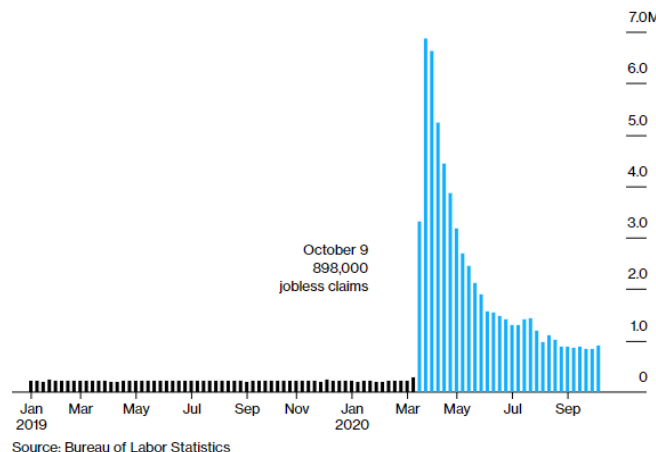
consumer sentiment index edges up to 81.2 in October from 80.4



Source: Marketwatch

- The Philadelphia Fed Index jumped 17 points to 32.3, well above the consensus expectation of 13.5, while the Empire State Index slid to 10.5, below the 14.5 consensus forecast.
- Weekly Jobless Claims rose 53,000 to 898,000.

### Jobless Claims Rise Unexpectedly

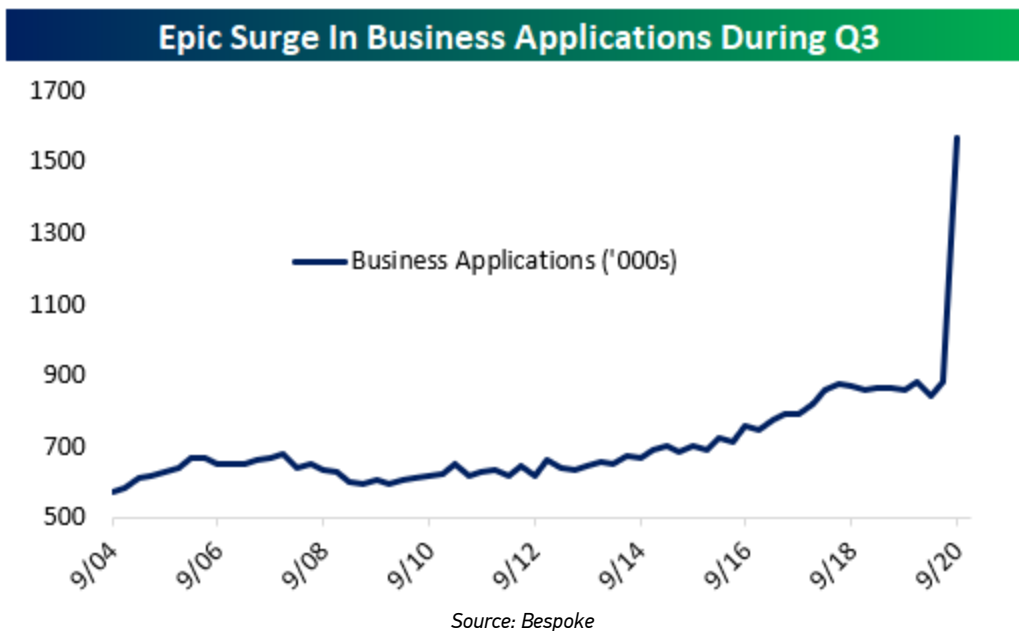


Source: Bloomberg

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- While layoffs were a pox on the economy, new business formation was impressively robust, with business applications rising 82% y/y in the third quarter. As Bloomberg observes, “People often wait several months after filing for an Employer Identification Number before actually starting their businesses, creating a lag in job creation.”



### International Markets and News

- The Chinese stock market (Shanghai Composite) rose +2.0% after the national Golden Week holiday, as strong September trade data (+9.9% year-over-year) reinforced hopes for a sustained recovery, and the International Monetary Fund raised its full-year GDP forecast for China to +1.9% from +1.0% in June.
  - People’s Bank of China (PBOC) officials showed little appetite for cutting interest rates, but did add RMB 500B of liquidity via its one-year medium-term lending facility.
- Europe’s Stoxx 600 Index fell -0.8% as COVID-19 infections increased in most of Europe, which led to further restrictions on public life to curb the resurgence of the virus.
  - European Central Bank (ECB) Chief Economist Philip Lane said in a *Wall Street Journal* interview that “the next phase is going to be tougher for the European economic recovery” and “the big question....how quickly can the current dynamic, with rising cases, be stabilized?” Lane played down expectations for additional stimulus.
- Japanese equities (Nikkei 225 index) fell -0.9% as Prime Minister Yoshihide Suga asked for specific stimulus package recommendations in order to draft a formal package before year end, which could include more subsidies for domestic travel, an extension of the “Go To” program, additional spending and tax relief for struggling businesses.
  - According to Bloomberg, the Bank of Japan (BoJ’s) assets now total ~137% of Japan’s GDP and the BoJ owns 70% of Japan’s government bonds.



**This Week:**

- House Speaker Nancy Pelosi announced a Tuesday deadline for a pre-election fiscal stimulus agreement. Stocks are rising on expectations that some sort of deal gets done, as neither party seemingly wants to go into Election Day without addressing the needs of their constituents.
- Quarterly earnings season kicks into gear this week with notable earnings including, but not limited to: Tesla, Procter & Gamble, **Verizon**, Netflix, Intel, **Coca-Cola**, AT&T, **Abbott Labs**, Thermo Fisher Scientific, **Danaher**, NextEra, Union Pacific, Texas Instruments, Phillip Morris, IBM, Lockheed Martin, American Express, Texas Instruments, **Crown Castle**, Progressive, Lam Research, Northrop-Grumman, Northern Trust, American Electric Power, Biogen, Snap, **Capital One**, Las Vegas Sands, PPG Industries, Paccar, Kinder Morgan, Freeport-McMoRan, Southwest Airlines, **Nasdaq**, **Discover Financial Services**, Equifax, Tractor Supply, Fifth Third Bancorp, Expedia and PulteGroup.
- The U.S. macro-economic calendar will begin with a webinar, featuring the New York Federal Reserve President, and the NAHB Housing Market Index on Monday, followed by Building Permits and Housing Starts data on Tuesday. Wednesday just features the Fed Beige Book, while Thursday sees Continuing Jobless Claims, Initial Claims, Existing Home Sales, Leading Indicators, and the Kansas City Fed Manufacturing Index. Look for PMI data to bookend the week, with flash Composite, Manufacturing, and Services PMI expected.
- U.S. Economic data:
  - Monday: NAHB Housing Market Index
  - Tuesday: Building Permits, Housing Starts
  - Wednesday: MBA Mortgage Purchase Applications, CPI (y/y), Retail sales (m/m)
  - Thursday: Existing Home Sales, Leading Indicators
  - Friday: Flash Manufacturing PMI, Flash Services PMI

As always, thank you very much for your interest in our thoughts and support of our services

Whitney Stewart, CFA®  
Executive Director

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Executive Director





*Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.*

**S&P 500®:** The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P® Composite includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks. The volatility of an index varies greatly; investments cannot be made directly in an index.

**Russell 2000®:** The Russell 2000® index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index.

**Dow Jones:** The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

**NASDAQ:** The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

**NASDAQ-100:** The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

**MSCI EAFE:** MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries\* around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**STOXX Europe 600:** The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

**Nikkei 225:** The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. (Sourced from Investopedia).

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