



Price Returns

Index	Close	Week	YTD
S&P 500 Index	3,465	-0.5%	7.3%
Dow Jones Industrial Average	28,336	-0.9%	-0.7%
NASDAQ	11,548	-1.1%	28.7%
Russell 2000 Index	1,634	-0.2%	-2.1%
MSCI EAFE Index	1,874	-0.4%	-8.0%
10-yr Treasury Yield	0.84%	0.1%	-1.1%
Oil WTI (\$/bbl)	\$39.78	-3.3%	-34.9%
Bonds*	\$117.47	-0.4%	6.2%

Source: Bloomberg, FactSet

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

Last Week:

U.S. Equity Market

- U.S. large cap equities (S&P 500® Index) fell -0.5% as the possibility of a Democratic sweep of the U.S. Presidency and Congress, along with increasing COVID-19 cases in the U.S. and Europe, offset continued resilient corporate profits, vaccine potential and ongoing monetary support from the Federal Reserve. Treasuries were weaker with the curve steepening, the dollar was down -1.0%, gold was flat, and WTI crude fell -3.3%. Bitcoin rose to its highest level since July 2019.*
- Sector performance:
 - Communication services (+2.1%) outperformed led by **Facebook** (+7.1%), **Alphabet** (+4.2%), AT&T (+1.8%) and Walt Disney (+1.2%), but Netflix fell (-8%).
 - As expected, the Justice Department formally unveiled antitrust charges against **Google**. The DoJ specifically called out Google being the default internet search provider on Android-powered phones. If this sounds familiar, it's because Google faced similar issues in Europe in years past.
 - Utilities (+1.2%) were led by Southern Co. (+4.3%) and Duke Energy (+1.5%).
 - Financials (1.0%) outperformed as banks rose on yield curve steepening.
 - Energy (+0.5%) outperformed despite oil (WTI) falling -3.3%.
 - Pioneer Natural Resources says it intends to acquire **Parsley Energy** in an all-stock transaction that effectively amounts to a no-premium takeover offer.
 - Health care (-0.1%) outperformed led by **Anthem** (+3.0%), **Danaher** (+2.3%), **Humana** (+1.5%), **Medtronic** (+1.2%), **HCA Healthcare** (+1.1%) and Pfizer (+0.6%).
 - Materials (-0.4%) outperformed led by Dupont (+1.1%) and Linde (+0.5%).
 - Industrials (-0.6%) underperformed led by waste and building materials stocks.
 - Consumer discretionary (-0.6%) fell, led by **Amazon** (-2.1%).

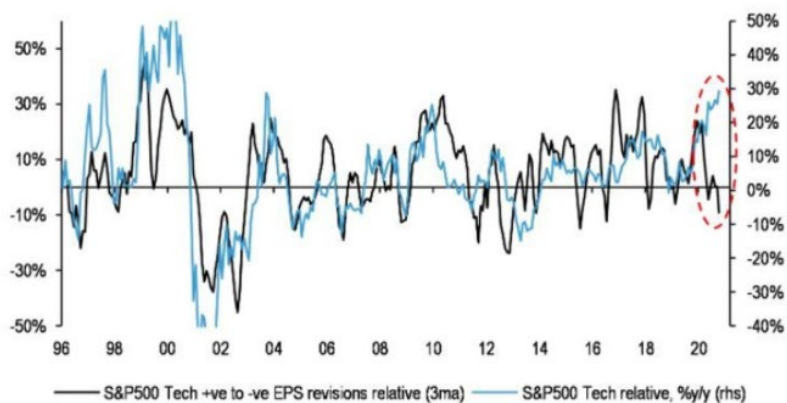
*Sterling Capital Management does not recommend Bitcoin or other cryptocurrencies.

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- REITs (-1.2%) underperformed with weakness from **Crown Castle** (-5.1%), Equinix (-5%), Innovative Industrials (-4.3%) and **CBRE** (-4%).
- Consumer staples (-1.4%) fell on weakness in big-box retailers and food stocks.
- Information technology (-2.2%) underperformed led by Intel (-11%) and IBM (-7.9%) on weak earnings, along with Apple (-3.4%).
- While technology is the clear sector leader thus far in 2020, there's a notable divergence opening up between the stocks and earnings estimate revisions.

...Tech (OW) relative EPS revisions are weakening now, while the sector keeps outperforming, which is opening up a significant gap... this could help facilitate the rotation that we envisage

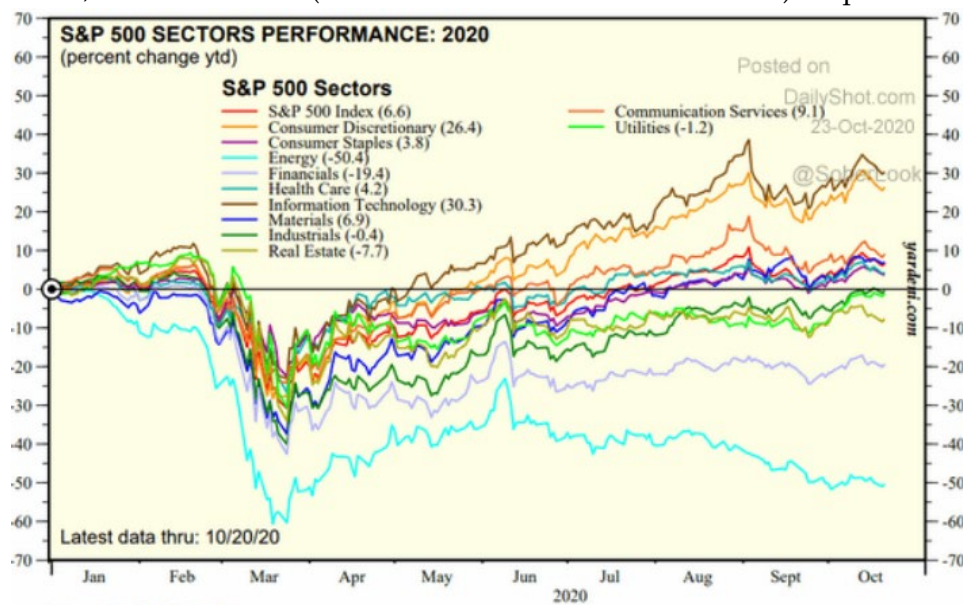


Source: Bloomberg, Datastream, Markit

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Source: Marketwatch

- This past week, information technology and consumer discretionary (the best two sectors YTD in 2020) underperformed, while financials (the second-worst sector return YTD) outperformed.

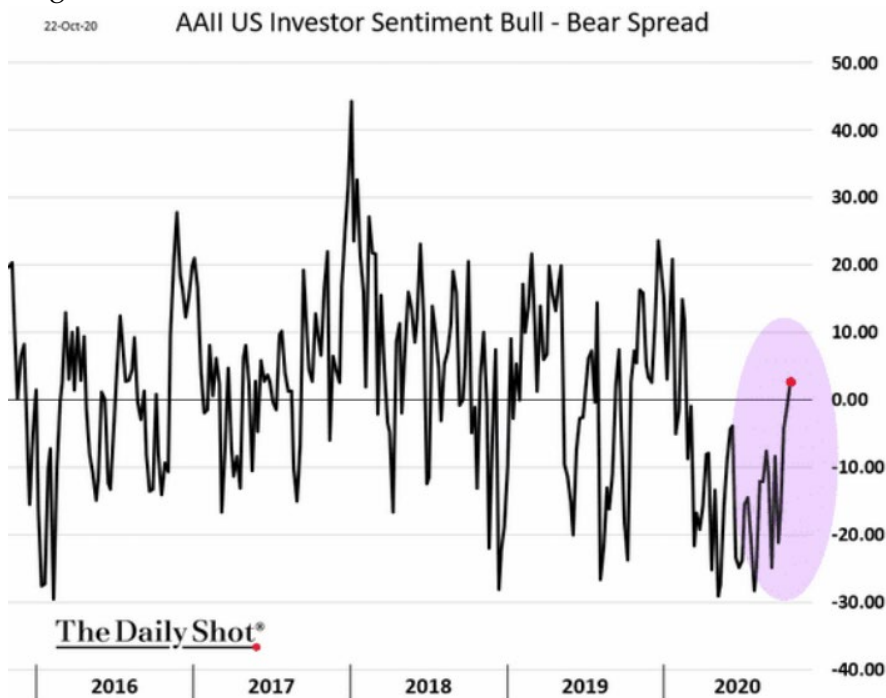


Source: Standard & Poor's.

Source: The Daily Shot

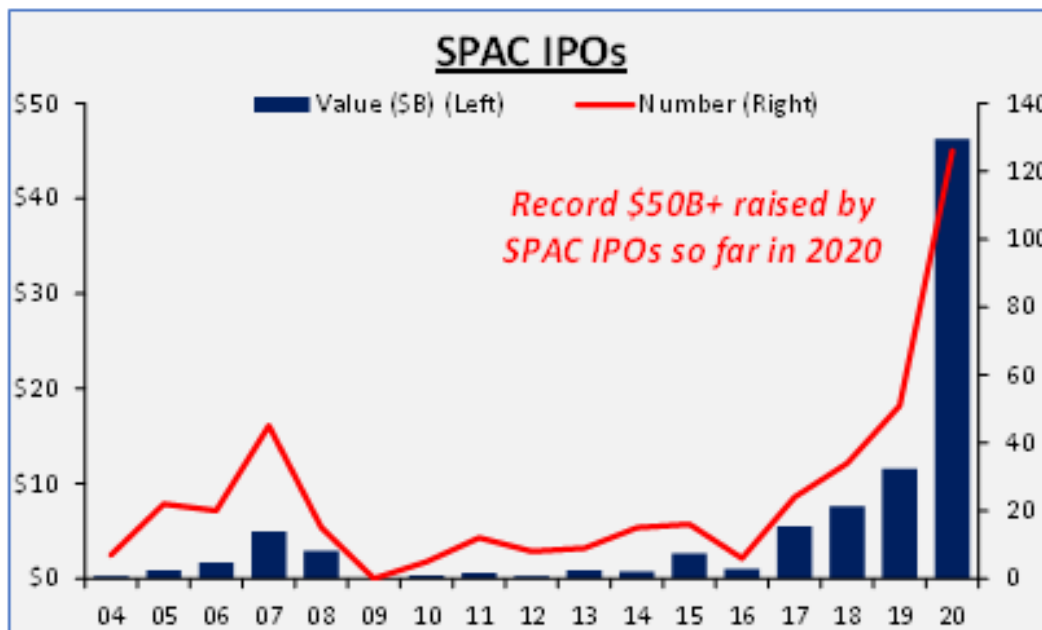


- The American Association of Individual Investors (AAII) investor sentiment bull-bear spread turned positive for the first time since the beginning of the COVID-19 crisis, suggesting that the average investor is turning bullish.



Source: The Daily Shot

- A record \$50B+ has been raised by SPAC (Special Purpose Acquisition Company) IPOs so far in 2020.



Source: Wolfe Research



- Stock buyback authorizations declined by 66% year-over-year as corporate management teams are generally holding more cash due to the uncertain environment.

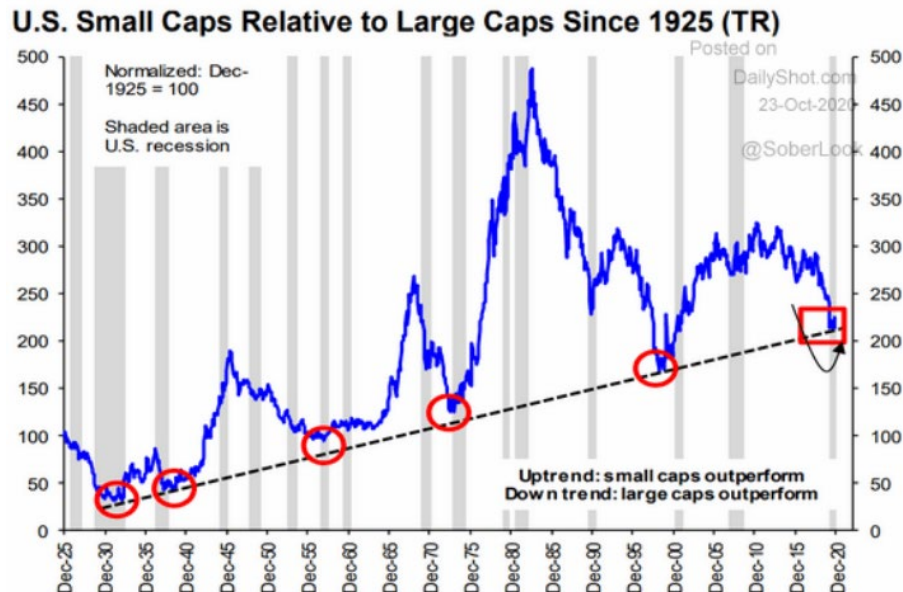
Exhibit 19: Buyback authorizations have declined by 66% year/year as of October 10, 2020



Source: Goldman Sachs Global Investment Research

Source: The Daily Shot

- Do the two charts below suggest that the multi-year underperformance of small caps relative to large caps is poised for a reversal?



Performance based on Ibbotson SC TR index from 1925 to 1978 and Russell 2000 (TR) thereafter.

Source: Scotiabank GBM Portfolio Strategy, Morningstar, Shiller.

Source: The Daily Shot.

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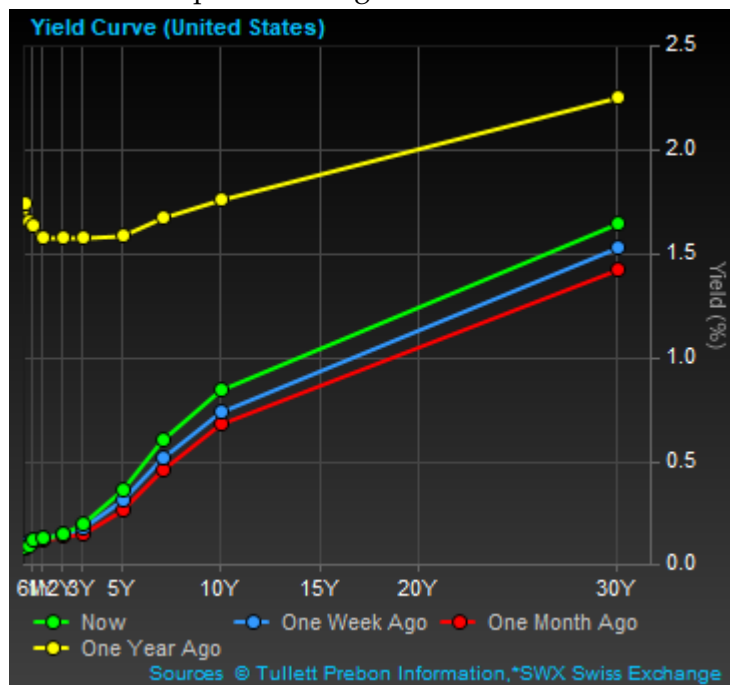


- Will the recent outperformance of small caps (Russell 2000® Index) continue?



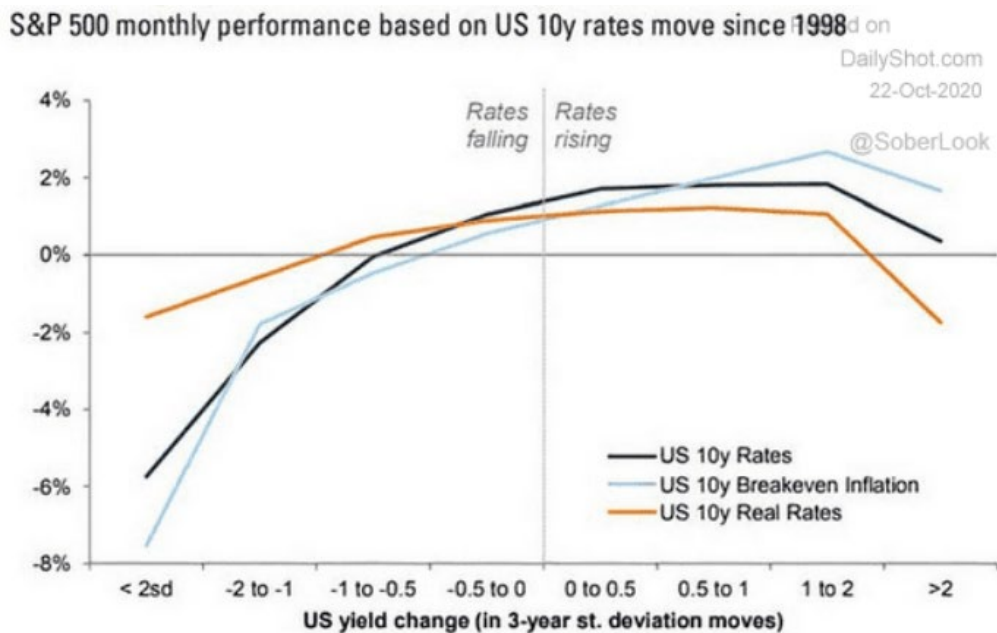
Fixed Income Markets

- The U.S. Treasury yield curve steepened during the week and in the last month.





- Large increases of real rates tend to be correlated with weaker equity markets.



Source: Bloomberg, Goldman Sachs Global Investment Research

Source: The Daily Shot

U.S. Economic and Political News

- Housing Starts edged up 1.9% in September to 1.42 million annualized units (a bit below the 1.45 million consensus estimate), while Permits jumped 5% to 1.55 million (above the 1.52 million consensus forecast).
- Existing home sales surprised to the upside by increasing 9.4% in September to the highest level since May 2006.
- Weekly jobless claims broke a streak of negative surprises and fell more than expected to 787,000, the lowest level since March.
- Continuing claims fell from a revised 9.4M to 8.4M, but the expiration of unemployment benefits for some workers might be partly at work.
- Social Security benefits will increase by a 1.3% cost of living adjustment in 2021.
- IHS Markit's Services PMI gauge rose to 56.0 in October from 54.6 in September, to its highest level in 20 months.
- The Manufacturing PMI index ticked up to 53.3 in October from 53.2 in September, to a 21-month high.
- The election continued to dominate the headlines with Joe Biden maintaining a high-single-digit lead over President Trump in the national polls and ahead in a number of battleground states.
 - Democrats also maintained their edge in the race to control the Senate, though there seems to be more uncertainty there.



- According to FiveThirtyEight, Democrats have a 74% chance of taking control of the Senate. However, strategists discussed a murkier outlook there.
- Thursday brought a second, final presidential debate that was very different than the first, with takeaways focused on a more disciplined President Trump and a more substantive overall discussion of the issues. However, there were also doubts that anything transpired to change the contours of the race so close to Election Day and with so many voters already decided. In fact, more than 42% of all votes cast in 2016 already were cast this year via early in-person and mail-in voting.

International Markets and News

- The Chinese stock market (Shanghai Composite) fell -1.8% as the People's Bank of China (PBOC) Governor Yi Gang said China's key debt ratios could moderate in the coming months as economic growth picks up and China reported Q3 GDP of +4.9% year-over-year.
 - Industrial output in September grew 1.2% from August and surpassed pre-pandemic levels.
 - E-commerce giant **Alibaba** began promotions for " Singles Day," the world's largest consumer shopping event held on November 11. It will be extended by three days to meet an expected surge in demand as Alibaba expects about 800M consumers to participate.
 - Last year Alibaba's gross merchandise value totaled approximately USD \$38.3B, which was significantly greater than 2019's day after Thanksgiving online sales of USD \$7.4B.
- Europe's Stoxx 600 Index fell -1.4% 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) President Christine Lagarde said that the European economic recovery risked "losing momentum" as governments imposed new restrictions to curb the COVID-19 pandemic.
 - She also encouraged European leaders to step up efforts to approve the EUR 750B recovery fund so that the stimulus money could be distributed early next year.
 - IHS Markit's Flash Composite PMI fell to 49.4 (below 50 indicates economic contraction) in October, dragged down by a continuing slowdown in services activity.
 - Moody's lowered its rating of the United Kingdom's sovereign debt to Aa3 from Aa2, citing weak economic growth amid Brexit.
 - A systems glitch halted trading in Paris for two hours Monday.
- Japanese equities (Nikkei 225 Index) rose +0.5% as the Bank of Japan's (BoJ) policy-setting committee is expected to lower its GDP projections due to weaker-than-expected economic activity in the June quarter (-28.1% annualized).
 - Although exports and manufacturing output have rebounded, domestic household spending fell for an eleventh consecutive month in August, and wages declined, keeping a lid on consumer spending.



This Week:

- Stock market futures are indicated sharply lower amid rising COVID-19 cases and lack of progress on a fiscal stimulus program.
- Dunkin' Donuts said it has engaged in discussions about selling the company.
- Approximately one-third of the S&P 500's constituents are scheduled to report quarterly results, including, but not limited to: Apple, **Microsoft**, **Amazon**, **Alphabet**, **Facebook**, **Visa**, Samsung, **MasterCard**, Pfizer, **Comcast**, **Merck**, Novartis, SAP, Novo Nordisk, **AbbVie**, **UPS**, ExxonMobil, Chevron, **Eli Lilly**, Amgen, Shopify, **Honeywell**, Charter, **Starbucks**, American Tower, ServiceNow, 3M, AMD, United Technologies, Boeing, Caterpillar, **Fidelity National Information Services**, TOTAL, GlaxoSmithKline, HSBC, **S&P Global**, **Anthem**, **Gilead Sciences**, Altria, Equinix, Colgate-Palmolive, **Fiserv**, General Electric, Southern Co., Blackstone, Automatic Data Processing, **Activision Blizzard**, CME Group, Ecolab, **Chubb**, Vale, **Marsh & McLennan**, BASF, IntercontinentalExchange Group, Norfolk Southern Corp., **Boston Scientific**, **Global Payments**, **Moody's**, **HCA Holdings**, Twilio, **Digital Realty Trust**, **General Dynamics**, Cognizant, Twitter, DexCom, **Centene**, The Kraft Heinz Co, eBay, **NXP Semiconductors**, **IDEXX Labs**, Conoco Phillips, O Reilly Automotive, T. Rowe Price Group, Cummins, Ford Motor, **CoStar Group**, Pinterest, KLA-Tencor, **Motorola Solutions**, **MSCI**, Archer Daniels Midland, **Aptiv**, Willis Towers Watson, **Old Dominion Freight Line**, **Cerner** and **Phillips 66**.
- The U.S. macro-economic calendar will see Building Permits, the Chicago Fed National Activity Index, and the Dallas Fed Index followed by Durable Orders, the FHFA Home Price Index, S&P/Case-Shiller Home Price, and the Richmond Fed Index on Tuesday. Wednesday's sole event is Wholesale Inventories m/m, while Thursday includes Continuing Jobless Claims and Initial Claims Data along with preliminary GDP data. Finally, on Friday expect PCE deflator data to come with Personal Income figures for the m/m period.
- U.S. Economic data:
 - Monday: New Home Sales
 - Tuesday: Core Durable Orders, Durable Orders ex transport, Durable Orders, FHFA House Price Index, Case-Shiller Home Price Index, Consumer Confidence
 - Wednesday: MBA Mortgage Purchase Applications, Wholesale Inventories
 - Thursday: GDP (advance), GDP Chain Price (advance), Pending Home Sales
 - Friday: Core PCE, GDP, Personal Spending, Personal Income, Employment Cost Index, Chicago PMI, Michigan Consumer Sentiment (Final)

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

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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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