AndCo's Monthly Market Update

November 2020

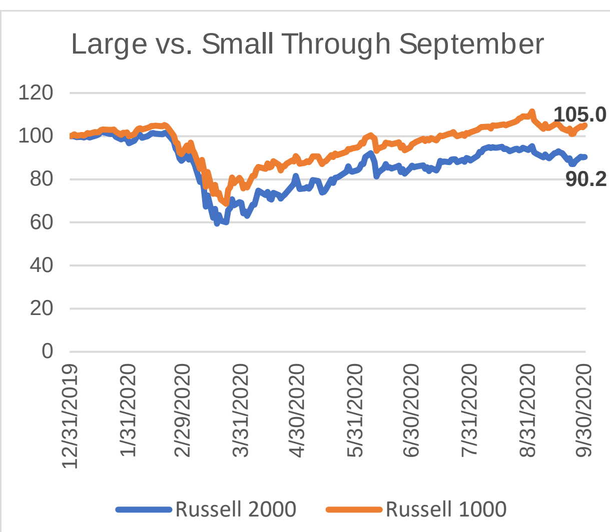
THE ECONOMY

October is the most volatile month of the year for the US stock market. Dating back to the original "Black Thursday", on October 29, 1929, the US stock market fell roughly 12.8% in one day.[1] More recently, on "Black Monday", October 19, 1987, the S&P 500 fell 20.4% in a single day.[2] While we did not experience anything near that level of volatility during the recent month, we saw a number of data points that suggest the economic recovery remains positive. Outside of the fundamentals, there were a number of headlines that contributed significantly to the market during the month. Importantly, the polls for the presidential election narrowed significantly during the month suggesting the outcome was in flux. Despite being an October update, we cannot write a market update without commenting on November's election results. While there was no clear winner on election night, most media outlets have declared Joe Biden as the President Elect. However, President Donald Trump's team is contesting the outcome in several states. While this may be cause of concern, as a reminder, following the 2000 election the outcome remained undecided until mid-December. States must certify their results by December 8th and the deadline for the Electoral College vote is December 14th. Given the high emotion and legal challenges from both sides, the outcome of this year's election will most likely be questioned by some. The number of COVID-19 cases increased in several European countries during the month resulting in renewed restrictions aimed at thwarting the virus. In the near-term, any measures implemented to deal with increased infections will likely delay the already shaky recovery in Europe. Finally, the fight in Congress to negotiate a fiscal relief package remained unsettled. There was some hope that a smaller package could be agreed to with the bulk of the relief aimed directly at individuals and small businesses. However, given the contentious mood in Washington, the two sides were unable to agree on terms.

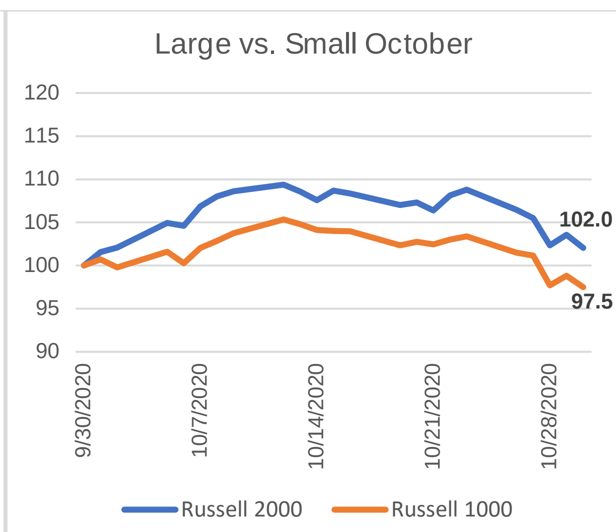
While the election and COVID-19 headlines got most of the attention during the month, there were a number of positives seen from an economic perspective. First, the initial reading for the 3rd quarter GDP reading came in at an impressive 33.1% annualized.[3] While the snap back in growth is impressive following a decline of -31.4% in the 2nd quarter, the economy as measured by GDP remains smaller than it was in March of this year prior to the onset of the pandemic.[4] Labor markets continue to show signs of improvement as evidenced by the decline in the US unemployment rate in October to 6.9%, down from 7.9% the month prior.[5] Given the growth in the labor market, it comes as little surprise that consumer confidence continues to improve. For October, the University of Michigan's Sentiment Index increased to 81.2, up from 80.4 the month prior.[6] Business sentiment showed signs of continued improvement with the NFIB Small Business Index increasing to 104.0, up from 100.2.[7] Finally, the housing market remains robust with existing home sales in September climbing to more than 6.5 million annually, up from 6.0 million the month prior.[8] While the likelihood for additional volatility over the remaining two months of the year is high given the outcome of the election, the trajectory of the recovery remains positive in our view.

EQUITIES

US equity markets saw a second consecutive month of declines in October with the S&P 500 Total Return Index declining by roughly -2.7% during the month.[9] Despite improving economic conditions, US stocks trended lower as investors grew cautious in advance of the election and concerns related to the pandemic. We witnessed a number of trends reversing course during the month, most notably being the recent outperformance of large cap stocks relative to small caps and growth outperforming value. During October, the Russell 2000 Index gained roughly 2.1% during the month while the Russell 1000 Index was down -2.4%.[10] Prior to October, large caps had outperformed small caps by more than 14.5% year-to-date.[11]

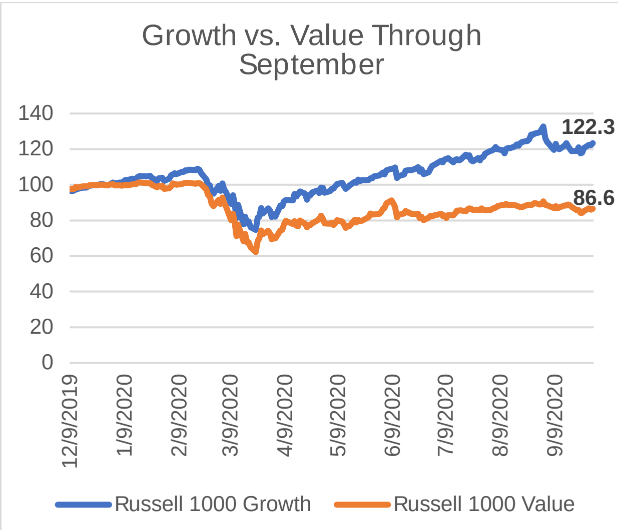


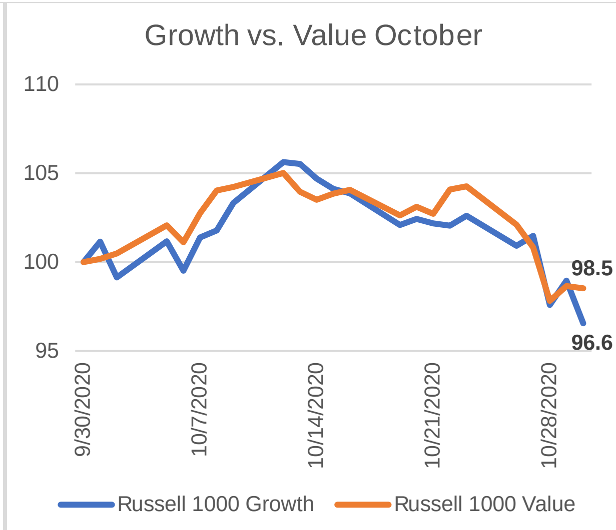
Source: Bloomberg as of September 30, 2020



Source: Bloomberg as of October 31, 2020

October also saw growth stocks pause as the Russell 1000 Growth Index declined by roughly -3.4%.[12] Similar to large cap stocks, growth stocks represented by the Russell 1000 Growth Index outperformed value, represented by the Russell 1000 Value Index, through the 3rd quarter by more than 36.7%.[13] While one month doesn't make a trend, during October, the gap narrowed as value outperformed growth by roughly 2.0%.[14]





Source: Bloomberg as of September 30, 2020

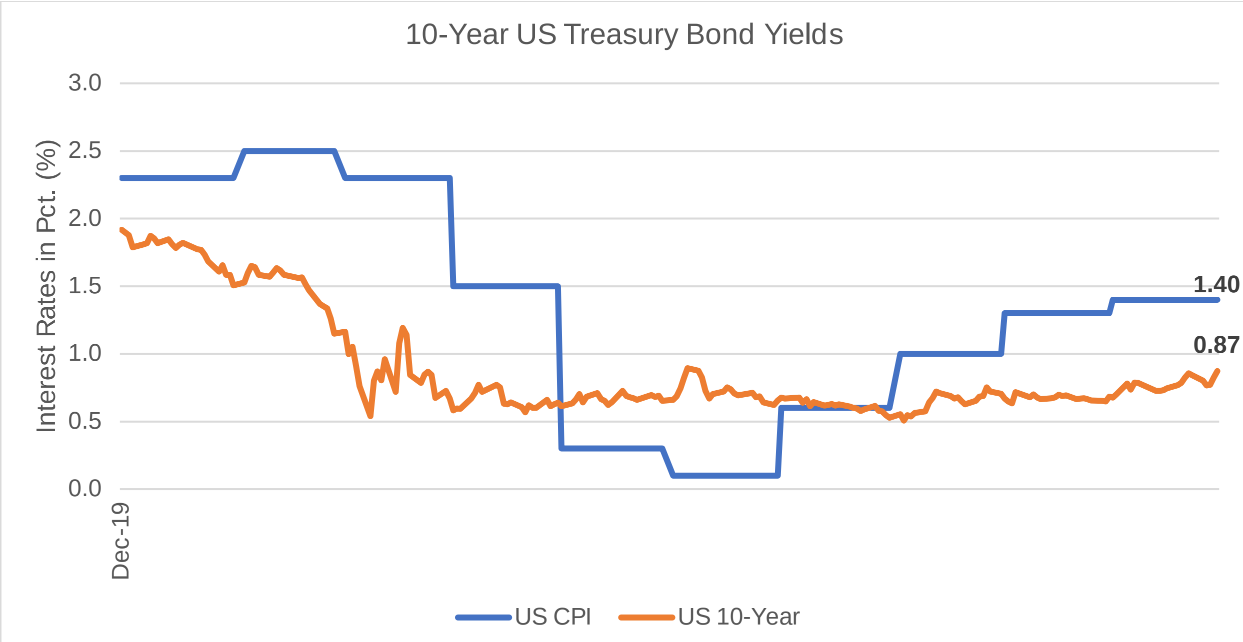
Source: Bloomberg as of October 31, 2020

Global developed market stocks did not fare much better than their domestic counterparts during the month as the MSCI EAFE Index declined by roughly -4.0% due primarily to concerns related to the pandemic.[14] Emerging market stocks did much better with the MSCI Emerging Market Index gaining nearly 2.1% as the combination of an improving US economy and declining US dollar acted as twin-tailwinds.[15]

FIXED INCOME

Despite the political uncertainty surrounding the pending election, US interest rates moved higher during the month of October with the US 10-Year Treasury bond rising 19 basis points to close at 0.9%.[16] Typically, during periods of uncertainty, interest rates decline as investors seek safe haven assets. While longer-term US interest rates moved higher, short-term rates remained largely unchanged resulting in a steepening of the US Treasury curve. As a result of the increase in US interest rates, the Bloomberg Barclays US Aggregate Bond Index declined by approximately -0.5% during the month.[17] Credit markets outperformed Treasury bonds during the month with the highest risk sectors delivering the best performance. During the month, the Bloomberg Barclays

US Corporate High Yield Index returned 0.5%.[18] Finally, looking at inflation, expectations for future inflation continue to move higher as the pace of the economic recovery quickens. Despite the recent move higher, nominal US Treasury bonds trade at a yield below CPI. Said differently, investors are losing money investing in US Treasury bonds when factoring in inflation. Additional moves higher in interest rates will also act as a headwind and detract from future absolute returns.



Source: Bloomberg as of October 31, 2020

APPENDIX

1. https://www.thebalance.com/black-thursday-1929-what-happened-and-what-caused-it-3305817
2. https://www.thebalance.com/what-is-black-monday-in-1987-1929-and-2015-3305818
3. Bloomberg as of October 29th, 2020
4. Bloomberg as of September 30th, 2020
5. https://www.bls.gov/news.release/pdf/empsit.pdf
6. Bloomberg as of October 16th, 2020
7. Bloomberg as of October 13th, 2020
8. Bloomberg as of October 22nd, 2020
9. Morningstar as of October 31st, 2020
10. Bloomberg as of September 30th, 2020
11. Bloomberg as of October 31st, 2020
12. Bloomberg as of October 31st, 2020
13. Bloomberg as of September 30th, 2020
14. Bloomberg as of October 31st, 2020
15. Morningstar as of October 31st, 2020
16. Bloomberg as of October 31st, 2020
17. Bloomberg as of October 31st, 2020
18. Morningstar as of October 31st, 2020

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