Monthly Investment Report

November 2020

***SUMMARY:* Stock prices fell for the second straight month in October amid anxiety about the U.S. elections, the prospects for additional fiscal stimulus, a growing "second wave" of the coronavirus, and the potential for greater regulation of tech and social media companies. While the presidential outcome remained up in the air at our press time, stocks rebounded sharply in the days immediately after Election Day, largely due to the belief that the balance in Congress hasn't shifted radically and that the Federal Reserve remains as accommodative as ever.**

In the U.S., stocks were mixed, with the major big-cap indexes declining and the smaller-cap indexes ending in the green. The Dow Jones Industrial Average declined 4.5% in October, leaving it in the red for the year at -5.4%. The S&P 500 fell 2.7% to reduce its year-to-date gain to 2.8%, while NASDAQ continued to boast a 22.5% 2020 return despite losing 2.3% last month. Smaller cap stocks bucked the downtrend, with both the S&P 400 Mid-Caps and 600 Small-Caps returning more than 2%. Nevertheless, both of those indexes trail the big caps with year-to-date returns of -6.6% and -13.1%, respectively.

Utilities were the best performers among the S&P 500's 11 sectors in October with a solid 5.0% return, but they were one of only two sectors with positive returns for the month. Telecommunications companies returned 0.8%. The other nine sectors ended in the red, with infotech companies – the standout performers so far this year –returning -5.1%, reducing their year-to-date return to +22.1%. Consumer discretionary stocks remained the second-best performer in 2020 with a 19.8% return despite a 2.9% loss last month. Notwithstanding continued strong profits from these companies –including Amazon, Google, Apple and Facebook – they have been targeted by some legislators for increased regulation, which could potentially reduce their earnings power. Energy stocks continued to trail the overall market, falling another 4.4% to increase their loss to more than 50% so far this year.

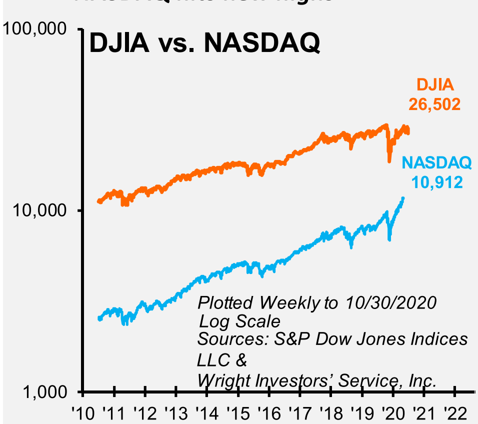
Foreign stocks also had mostly negative returns in October except in China and emerging markets. Chinese stocks gained another 5.3% in dollar terms to increase their market-leading return so far this year to 22.6%. Emerging markets rose 2.1% to nudge them in the green for the year at 0.9%. In Europe, however, stocks were down sharply for the month amid concerns about spikes in Covid-19 cases and potential negative effects on already sub-par economic growth; both eurozone and U.K. stocks were down more than 5% for the month. Japanese stocks lost a relatively modest 1.6%.

Returns in the bond market were mixed as yields on U.S. Treasury securities spiked. The Bloomberg Barclays U.S. Aggregate, which is heavily weighted with government bonds, returned a negative 0.4% as yields on long-term Treasuries jumped by 20 basis points. The yield on the benchmark 10-year note ended the month at 0.87%, its highest level since early June. Still, the index is up 6.3% so far this year. High-yield bonds had positive returns, gaining 0.5%. Outside the U.S., the Bloomberg Barclays Global Aggregate ex-U.S. index returned a positive 0.5% to boost its 2020 return to 5.3%.

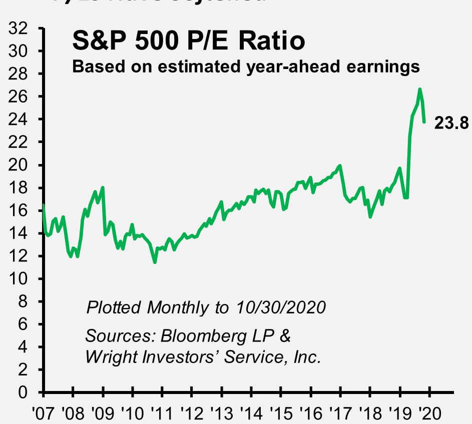
U.S. ECONOMY

The U.S. economy snapped back sharply in the third quarter, and the momentum continued into the final quarter. U.S. GDP rebounded by a record 33.1% annualized pace in the July-September period, slightly better than expected following the second quarter's historic 31.4% plunge. The rebound was fueled by a 40.7% rise in personal consumption expenditures which fell 33.2% in the prior quarter. The Institute for Supply Management's manufacturing index jumped nearly four points in October to 59.3, its highest level in nearly two years and its sixth consecutive monthly gain, while its servicing index remained in expansion territory for the fifth straight month, falling slightly to 56.6. Leading economic indicators rose 0.7%in September after rising 1.4%

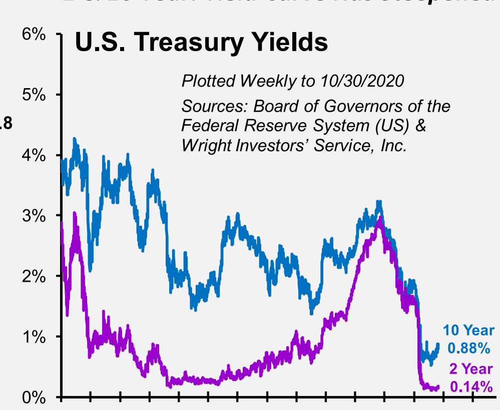
NASDAQ hits new highs



P/Es Have Softened



2 & 10 Year: Yield Curve Has Steepened



Total Investment Returns — 10/31/2020	October	Last 12 Mos.
Dow Jones Industrial Average	-4.5%	0.3%
Nasdaq Composite	-2.3%	32.8%
S&P 500 Composite	-2.7%	9.7%
S&P MidCap 400	2.2%	-1.2%
S&P SmallCap 600	2.6%	-7.7%
MSCI World ($)	-3.1%	4.4%
MSCI World ex U.S. ($)	-3.9%	-6.8%
Bloomberg Barclays U.S. Aggregate	-0.4%	6.2%
90-Day Treasury Bills	0.0%	0.9%
Consumer Price Index NSA* (Sep 2020)	0.1%	1.4%

*NSA: Not Seasonally Adjusted Sources: Bloomberg LP & Wright Investors' Service, Inc.

in the previous month. Durable goods orders climbed a better-than-expected 1.9% and well ahead of August's 0.4% increase. Orders for core capital goods rose 1.0%, well ahead of forecasts as well. Factory orders too rose 1.1%. On the downside, industrial production fell unexpectedly by 0.6%; the forecast had called for an increase by the same percentage.

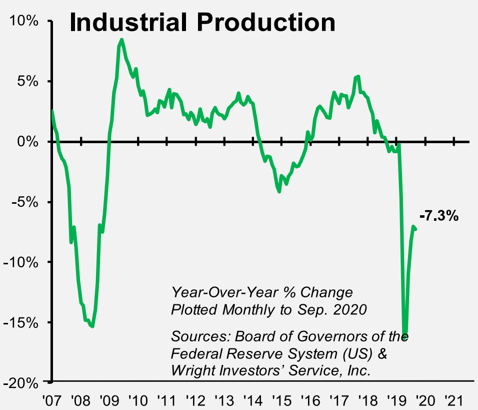
As the GDP report showed, the consumer looks to be in solid shape and eager to spend. Retail sales climbed a stronger-than-expected 1.9% in September, well above the prior month's 0.6% increase, while personal consumption expenditures rose 1.4% as personal incomes rebounded by 0.9%. This spending was buoyed by the strong rebound in the jobs market, which continued into October, when 638,000 people were added to payrolls and the unemployment rate fell to 6.9%, less than half what it was in April; more than 12 million jobs have been added since then. The Conference Board's consumer confidence index slipped slightly in October to 100.9 from 101.3, although that is well above the 85.7 level registered back in April during the lockdown.

The housing market, which has been roaring for the past several months on the back of historic low interest rates and the work-from-home trend, took a bit of a breather in September but remained strong. Sales of existing homes rose 9.4% to an annualized rate of 6.54 million units, 20.9% higher than the prior year. The median price of a home continued to soar, climbing nearly 15% over the prior year period to $311,800. Pending home sales, a leading indicator, fell 2.2% although they remain more than 20% higher than a year earlier. Likewise, sales of new homes fell 3.5% to an annual rate of 959,000 units last month after rising in each of the four previous months. Housing starts rose 1.9% to an annual rate of 1.42 million as construction of single-family homes jumped to its highest level in more than 13 years.

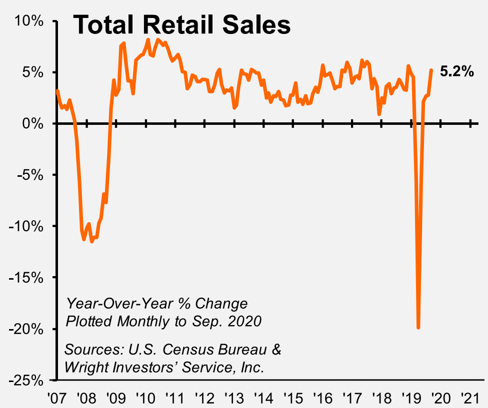
INVESTMENT OUTLOOK

Much of the talk recently has been about "uncertainty," mostly about the outcome of the election. But there are a lot of things we do know, or can be fairly confident about. No matter who eventually wins the White House, the chances of another stimulus package are pretty high, we believe. While the exact details and the size of such a package are still in flux, as is the timing, there is strong bipartisan support for one. In the meantime, the Fed stands ready to help on the monetary side. At the Fed meeting immediately after Election Day, Fed chair Jerome Powell refuted the idea that the Fed is out of ammunition, reiterating that "we are strongly committed to using these powerful tools that we have to support the economy during this difficult time for as long as needed, and no one should have any doubt about that." Of course, the biggest cause of uncertainty remains the path of Covid-19, but even here we believe there is little support for another full-blown lockdown. That should spare us the economic pain many suffered during the spring. As for the election, even as the presidential vote remains to be determined, it appears that the balance in Congress holds largely status quo, with Republicans picking up some seats in the House and likely maintaining control in the Senate. As a result, we believe the investment outlook remains positive, as the rally in stocks after Election Day seems to indicate.

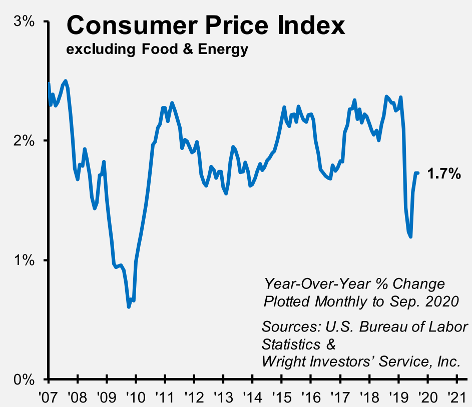
Manufacturing: Still Under Pressure



Consumer Spending: Good Rebound



Core Inflation: Hovering Below 2%



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