WaterRock Global Asset Management, LLC

MARKET REVIEW & OUTLOOK

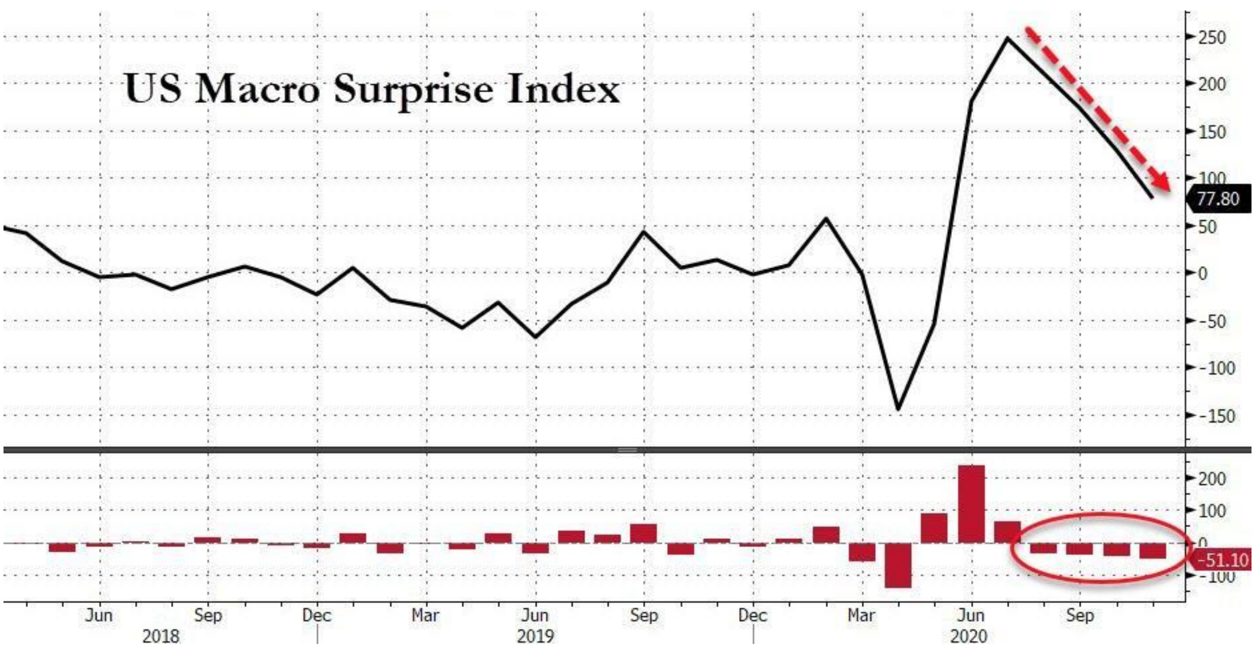
November 2020

KEY TAKEAWAYS

- Global Equities experienced a monthly surge that has rarely if ever been seen before. Several markets had their largest monthly gains on record.
- The economic data continues to look challenged in the near term in the face of continued reversals of openings as more countries, states and cities reengage lockdowns with increasing case count, hospitalization and unfortunately deaths.
- Election season seems to be winding down, though there is still some contention in the air.

The U.S. Economy

The second estimate for the third quarter GDP also reported an annualized +33.1%, unchanged from the advanced estimate released in October. The economy is still facing many uncertainties as the lockdowns reemerge. Further, the expiration of many of the stimulus provisions from March and April, which were partially extended in August, are scheduled to rolling off at the end of the year and there is no conversation of additional stimulus in the face of the new lockdowns. The chart below shows that the economy is still performing better than expectations, but that clearly the momentum from the early summers months has waned.

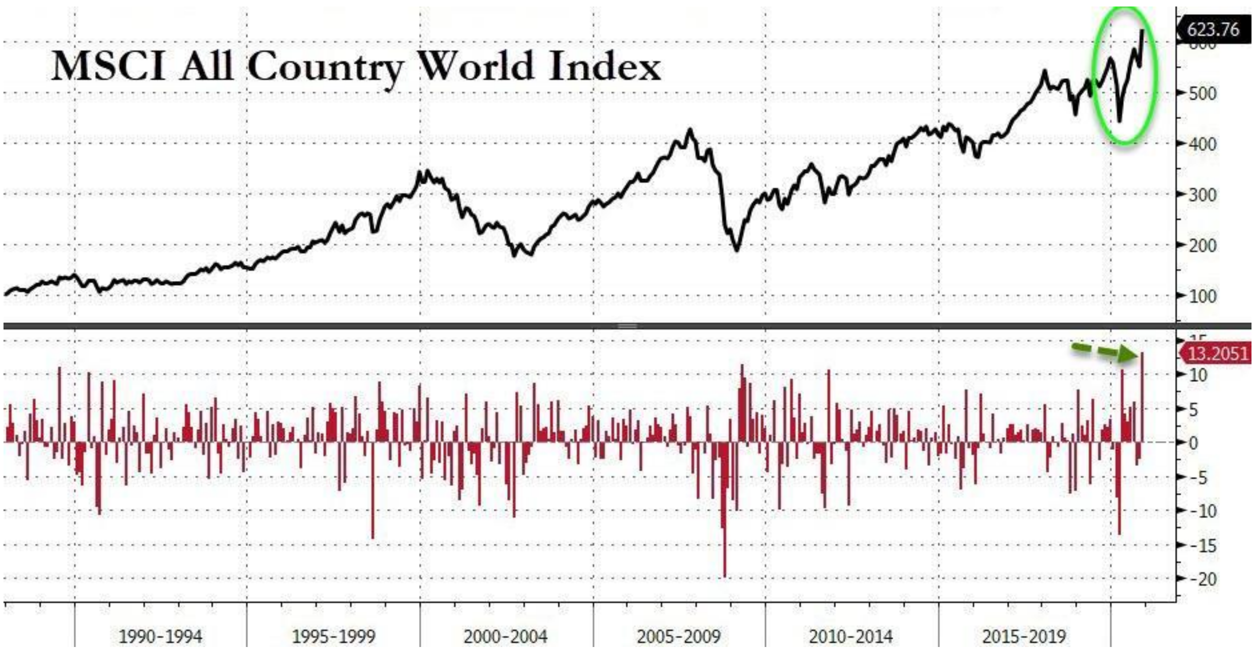


Source: https://www.zerohedge.com/markets/global-stocks-soar-best-month-ever-bitcoin-hits-record-high

Stocks and Bonds

The fixed income markets had a volatile month in November, though didn't experience much month over month change in yield. The battle between vaccine hopes and lockdown reality kept yields in check. High-quality fixed income, as measured by the iShares US Aggregate Bond ETF, saw further credit spread compression and ended the month with a gain of +0.99%. The U.S. 10-year treasury bond yield had a range high of 0.97%, threatening to break into the single digit, to a low of 0.75%. The yield ended at 0.84%, up from October's close of 0.86%.

The global stock market, as depicted in the chart below, soared during November, with many indices experiencing their biggest monthly gains in decades if not ever. The Dow Jones Industrial Average rallied +11.84%, the S&P 500 climbed +10.75%, and the small cap Russell 2000 soared +18.29%. The international markets followed a similar path as the U.S. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +15.28% and the MSCI Emerging Markets iShares Core ETF Index rose +9.68%.



Source: https://www.zerohedge.com/markets/global-stocks-soar-best-month-ever-bitcoin-hits-record-high

In November, we saw a lot of green for the sectors of the S&P. The best performers were…

- Energy: +27.99%
- Financials: +16.85%
- Industrials: +16.03%

The worst relative performer and only sector with a gain of less than 5% was…

- Utilities: +0.74%

Oil Report

In November, crude oil was pretty much a one-way trade higher. The hopes of OPEC+ reaching another agreement to hold back supplies coupled with the hopes of a successful vaccine and a return to normal drove the rally. Concerns about the corona virus seemed to be largely overlooked this month. The current NYMEX WTI Crude Oil futures settled at $45.34 and posted a gain of almost 27% from the prior month close of $35.79 a barrel. The price for RBOB gasoline followed a similar path to crude oil. RBOB finished higher by over 20% for the month of November. The gains for the underlying energy commodities certainly provided a nice tailwind for the above-mentioned outsized Energy sector returns.

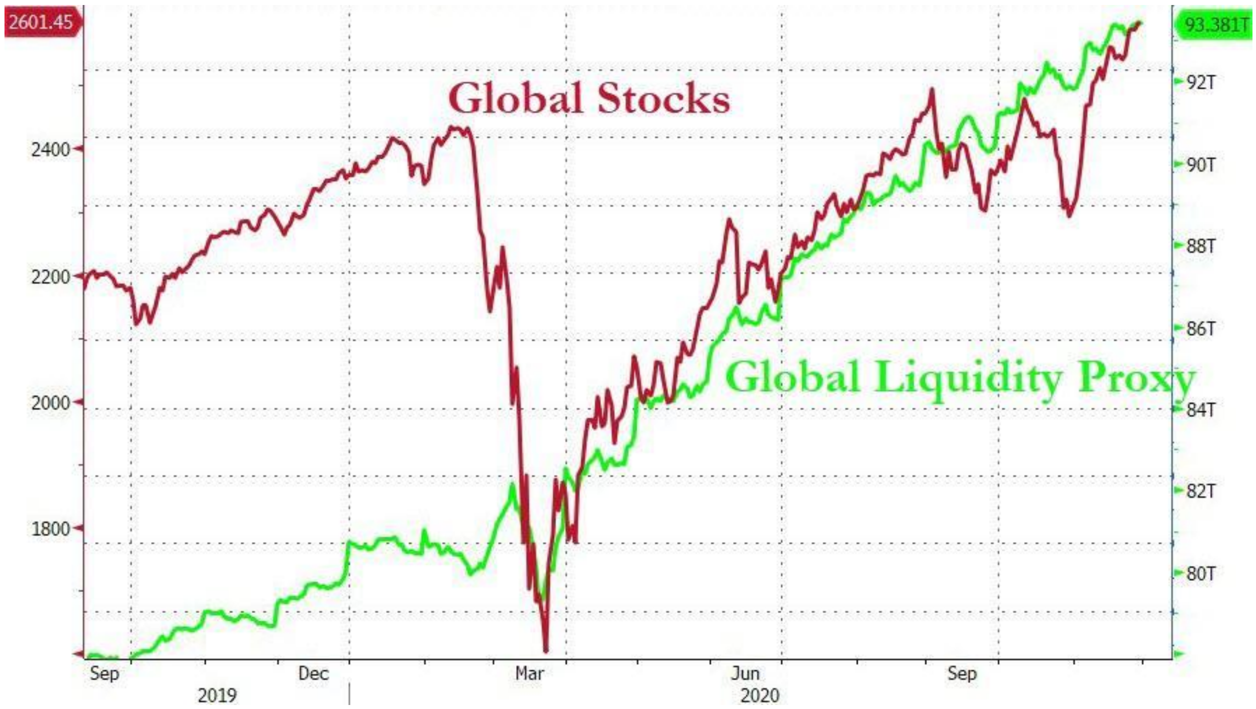
The Rest of the Data

The stock market and the election had most of the headlines, but the corona virus pandemic unfortunately did not fade off into the sunset. In fact, it arguably got worse, as previously the discussion was more focused on case count, which has varying degrees of usefulness, i.e. total cases versus cases that are symptomatic. The case count debate still rages, but hospitalization and deaths are not very debatable and sadly continued to increase during the month and broke records that were set in March and April. Many governments are falling back on the old means of fighting the virus with lockdowns disregarding the economic and emotional impact and treating everyone the same even though the evidence suggests that the corona virus does not treat all equal. The glimmer of hope, and certainly one the stock market bulls grabbed onto with both hands, is continued progress and hope that a successful vaccine will soon be approved.

The October ISM Manufacturing Index jumped 3.9 points to 59.3 from September's reading of 55.4. On the other hand, the ISM Services Index eased to 56.6 from 57.8 in September. Any reading above 50 generally indicates improving conditions. Consumer confidence dropped to 96.1 in November, which compares to an upwardly revised figure of 101.4 in October. The unemployment rate posted another drop, coming in at 6.9%, as the economy added a strong, 638,000 jobs in October, which beat expectations. The Consumer Price Index for All Urban Consumers (CPI-U) was flat at +0.0% in October on a seasonally adjusted basis. Over the last 12 months, the All-Items Index climbed +1.2% on a non-seasonally adjusted basis. Overall, these numbers continue to show a stable growing economy that is probably growing GDP at a low single digit growth rate. The 4th quarter GDP will likely be highly dependent on December and the severity of the lockdowns.

Summary

The path forward has two divergent paths. On the one hand, the hope is that a successful vaccine is launched soon, and everything goes back to normal. We continue to grow the economy in the low single digits like we did in 2019 and before. The other path is a continued slog dealing with a repeat of the serious outbreaks of the corona virus as we did in the spring and a return of 2- or 3-week lockdowns that drag out for 2 or 3 months. Clearly hope is on the side of the vaccine as the other side is not one, we want to endure again. Given the divergent paths it is hard to believe that not only did the stock market have one of the best month's on record, but the number of indices high record highs surpassing the levels seen before the corona virus hit. That does leave the question, what is driving the stock market so high. One potential answer is shown in the chart below. Former Fed head Ben Bernanke said that the amount of balance sheet expansion is what counts, i.e. the stock, others have argued that it is the flow, i.e. the continuing increase in the balance sheet. I will let you answer for yourself base on the chart below.



Source: https://www.zerohedge.com/markets/global-stocks-soar-best-month-ever-bitcoin-hits-record-high

Not to fear though, we have built our asset allocation models with dynamic features and quarterly rebalancing. If the markets continue to march higher, we will capture some of those gains and reallocate to less volatile high-quality bonds. If the equity markets enter into a period of negative performance, we have dynamic investment vehicles that utilize rules-based defense mechanisms to reduce the risk of the portfolio.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

Kevin Churchill, CFA®, CFP®
Chief Investment Officer
WaterRock Global Asset
Management

WATERROCK
GLOBAL ASSET MANAGEMENT LLC