



MARKET MATTERS

MONTHLY INVESTOR UPDATE

December 7, 2020

Executive Summary

- The U.S. continued to hit worrying milestones in COVID-19 infections and hospitalizations.
- However, vaccines have been or are anticipated to be approved and distributed soon, first to healthcare workers and nursing home residents.
- U.S. manufacturing and service activity was up in November, but consumer confidence and job gains were down.
- Economists and investors will look to President-elect Joe Biden's cabinet picks and the results in January from Georgia's twin Senate runoff elections.
- Markets generally focused on the positive news in November. Small-cap stocks meaningfully outperformed large-cap stocks. Value stocks performed well relative to growth stocks. Credit markets also saw a rotation toward risk.

COVID-19 Update: Hope Springs Eternal

According to Johns Hopkins University's COVID-19 Dashboard, confirmed cumulative COVID-19 cases reached 65.2 million globally as of December 4, 2020. Case counts were reaching new daily records throughout the month of November in both the U.S. and Europe. The U.S. still leads the global tally with over 21% of all confirmed cases and over 18% of all deaths, which has led to new restrictive measures being implemented in many states and municipalities across the country. President-elect Joe Biden has released a plan requesting that all Americans wear masks for the first 100 days of his presidential term.

In the midst of all the news of increasing spread and mortality, favorable information on the vaccine efforts has been coming in a steady stream over the past several weeks. Pfizer has begun flying their vaccine to the U.S. in anticipation of approval by the Food and Drug Administration. The vaccine, which was developed in partnership with BioNTech, has already been approved in the U.K. On Tuesday, December 1, the U.S. Centers for Disease Control released its priority for dosage of vaccines, with healthcare workers and nursing home residents receiving top priority.

There seems to be light at the end of the tunnel with both Moderna, which also expects FDA approval soon, and Pfizer expecting their respective dosing schedules to begin in the U.K. and the U.S. within the next 30 days. While it is encouraging that vaccines are being approved and manufactured, dissemination to the general U.S. population is likely six months to a year away,

according to Dr. Moncef Slaoui, chief science advisor for Operation Warp Speed, a government-led program seeking to accelerate the development of COVID-19 vaccines. In an effort to boost confidence in vaccinations, former Presidents Barack Obama, George W. Bush, and Bill Clinton have offered to receive the vaccine on live TV.

Economic Update: Losing Steam

Economic data during the month of November was relatively strong, despite concerns over increased lockdowns caused by record cases of COVID-19 across portions of the U.S. late in the month. The IHS Markit November U.S. Composite Purchasing Managers Index (PMI) rose to 58.6, which was the largest expansion in the index since March 2015 and signals strong growth in the U.S. private sector. October retail sales also showed healthy growth rising on a year-over-year basis by an estimated 8.5%.

Although most economic data showed economic improvement, some cracks did appear. U.S. consumer confidence as measured by the Conference Board declined in November. The Conference Board blamed a resurgence of COVID-19 infections for the decline. Clearly, the quicker a safe and effective vaccine can be manufactured and approved, the more of a tailwind can be provided to the U.S. economy.

Job gains also slowed materially in November, from 610,000 new jobs in October to 245,000 new jobs in November, according to the U.S. Bureau of Labor Statistics. The unemployment rate declined from 6.9% to 6.7% as some Americans stopped looking for work and were therefore not counted as unemployed. The number of long-term unemployed individuals increased during the month.

In its latest reading of regional economic activity known as the “Beige Book,” the Federal Reserve highlighted that a third of the Fed’s 12 regional districts reported slowing economic activity later in November as COVID-19 cases reached record levels in many areas. The most pronounced impacts according to the Fed were in the Philadelphia district as well as four of the midwestern districts. The report showed continued weakness in travel and hospitality as both business travel and tourism have continued to be hit by the pandemic. Meanwhile, bright spots were found in manufacturing, distribution and logistics, and homebuilding. In separate speeches, Fed Chair Jerome Powell and St. Louis Fed President James Bullard both said they anticipated improved growth toward the middle of 2021.

President-elect Biden named some potential additions to his cabinet with one of the more notable picks being Janet Yellen, the former FOMC chair, as his pick for Treasury Secretary. Yellen is seen as a more moderate candidate than some of the other potential candidates and one that many political pundits feel is more likely to make it through the confirmation process. Political and market participants alike will be watching the results of the twin Senate runoff elections in early January in Georgia, which will decide the balance of power in the Senate for the next two years.

Market Index Trailing Total Returns				
as of 11/30/2020	MTD	YTD	1 Year	3 Year
S&P 500	10.95%	14.02%	17.46%	13.17%
Russell 2000	18.43%	10.41%	13.59%	7.09%
MSCI EAFE USD	15.50%	3.03%	6.37%	3.26%
MSCI Emerging Markets USD	9.25%	10.20%	18.43%	4.92%
Bloomberg Barclays U.S. Agg Bond	0.98%	7.36%	7.28%	5.45%
Bloomberg Barclays U.S. Corp High Yield	3.96%	5.13%	7.24%	5.68%
Bloomberg Barclays Global Agg Bond USD	2.38%	7.76%	8.94%	3.58%

Periods longer than a year are annualized. Returns include dividends or interest. Source: Morningstar.

Market Update: Focus on the Positives

Investors were simultaneously hit with significant positive and negative COVID-19 related news throughout the month of November. Vaccine optimism was high following the results of clinical trials from Pfizer and Moderna. Domestic and global markets focused more on vaccine progress than rising COVID-19 case counts and hospitalization rates. All 50 markets tracked by the S&P Global Broad Market Index (25 developed and 25 emerging markets) gained in November. The global index was up 12.63% in November, compared to declines of 2.20% and 3.24% in October and September, respectively.

In the U.S., a potential compromise on a new stimulus package contributed to investor confidence. In fact, the market showed little reaction to the lackluster unemployment data released on December 4.

This may all sound like a familiar story. The last several months have been characterized by periods of markets seemingly shrugging off disappointing news in favor of the more positive news. It is important to remember that the market and the economy are not the same thing. Market participants generally take a forward-looking view and are signaling confidence in a longer-term recovery.

There are a few other themes signaling longer-term confidence that we have not seen over the last few months. There has been a sharp rotation into small capitalization and value stocks, which we historically see during recoveries. Small-cap stocks meaningfully outperformed large-cap stocks, as evidenced by the S&P 600 and Russell 2000 index returns. The rotation from growth to value was less dramatic but still meaningful, particularly when looking at industries that have been disproportionately affected by the pandemic. These same themes (risk-on sentiment and industry rotation) were evident in the credit markets as well, according to credit market commentaries we reviewed.

Note

We are updating our style guide to more closely follow the Associated Press Stylebook. You may notice some minor technical changes in grammar and structure.

Authors: Michal-Erin Frushell, CFA; Alfredo Gomez, CFA, CAIA; Peter Magnuson; Daniel Weiss, CAIA

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

The statements provided herein are based solely on the opinions of the Advisor Group Investment Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions and may differ from those of other departments or divisions of Advisor Group or its affiliates.

Certain information may be based on information received from sources the Advisor Group Investment Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed. Certain statements contained herein may constitute “projections,” “forecasts” and other “forward-looking statements” which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Advisor Group Investment Research Team only as of the date of this document and are subject to change without notice. Advisor Group has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Advisor Group is not soliciting or recommending any action based on any information in this document.

22138168

Securities May Lose Value | Not FDIC/NCUA Insured | Not Bank or Credit Union Guaranteed

20 E. Thomas Road, Suite 2000 • Phoenix, AZ 85012 • 866-481-0379 • advisorgroup.com

Securities and investment advisory services are offered through the firms: FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., Triad Advisors, LLC, and Woodbury Financial Services, Inc., broker-dealers, registered investment advisers, and members of FINRA and SIPC. Securities are offered through Securities America, Inc., a broker-dealer and member of FINRA and SIPC. Advisory services are offered through Arbor Point Advisors, LLC, Ladenburg Thalmann Asset Management, Inc., Securities America Advisors, Inc., and Triad Hybrid Solutions, LLC, registered investment advisers. Advisory programs offered by FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., and Woodbury Financial Services, Inc., are sponsored by VISION2020 Wealth Management Corp., an affiliated registered investment adviser. Advisor Group, Inc. is an affiliate of these firms.