

## Pacific Financial Group Investment Update

November 2020

### Portfolio Management Team

The recent good news about COVID-19 vaccine trials has caused us to review our view on risk and portfolio positioning. In the short term, we are facing a surge in virus statistics, renewed restrictions, and the possibility of pausing the economic recovery. However, if we look forward to 2021, the prospect of widely available vaccines supports the possibility of a robust upturn in economic activity. Equity markets are forward-looking and are responding to this possibility. We have seen more cyclical areas of the market perform well, which is typical in a recovery.

Currently, three main themes are being expressed in our domestic equity exposure: cyclical stocks, defensive/quality holdings, and growth & technology. Given the positive news from vaccine trials, we have begun to shift this exposure to include more cyclical stocks while reducing defensive/quality holdings. Here is an overview of the changes:

- Reduce exposure to defensive/quality equity holdings
- Increase allocation to mid and small caps
- Add sector exposure to Materials

Our U.S. equity exposure will continue to have a slight overweight to growth as we believe the fundamentals for growth and technology remain strong. According to FactSet, the Technology sector is one of the few sectors expected to post earnings growth in 2020 and is projected to post earnings growth of over 14% in 2021. There is also a strong pipeline of IPOs in the sector, which should provide further support.

We are electing to maintain the current U.S. versus international exposure as-is across our investment products. Valuations are compelling internationally, however, when considering the sector composition of international markets, it is understandable why valuations are so low. Almost one-third of the developed international market, as measured by the MSCI EAFE, is comprised of the Financial and Industrial sectors. Financials have struggled with low to negative interest rates, and Industrials have suffered from less demand. Given the optimistic vaccine news, we are carefully monitoring the international markets for potential opportunities in the future.

Market momentum and opportunities can shift quickly in a recovery. Given the recent encouraging vaccine news, we believe the combination of more cyclical exposure and growth holdings will better position us to capture a variety of return opportunities. We continue to monitor fundamentals and market indicators to look for the best risk-adjusted investment opportunities.

#### Key Points

- Decreased defensive holdings
- Increase mid & small caps
- Add Materials
- Overall increasing cyclical exposure



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