MARKET INSIGHTS

from Ziegler Capital Management

October 2020 Market Commentary

The S&P 500 had its second consecutive negative monthly return of -2.65% in October after a sell off during the last week of the month. The S&P 500 has returned 2.76% on a year-to-date and is up nearly 50% from the March 23 lows. Small cap stocks, as measured by the Russell 2000, had positive returns of 2.10% in October and continue to narrow its year-to-date lag. The Russell 2000 is now 9.54% behind the S&P 500 on a year-to-date basis as of October 31 with a return of -6.78%.

COVID-19, social issues, the confirmation of Amy Coney Barret to the Supreme Court and the U.S. Presidential election continue to dominate headlines. Most U.S. states have opened their economies with social distancing, but there is concern about the second wave of cases currently affecting a good part of the country. Businesses such as restaurants are looking to continue to adapt their business practices in light of spacing restrictions from COVID-19. Central Banks and Governments stimulus measures continue to help reduce the economic damage tied to the virus.

The first Third Quarter GDP reading was 33.1% on an annualized basis, a stunning and unprecedented in size recovery from the second quarter annualized contraction of -31.4%. The recovery was driven by a 40.7% rebound in consumption, which was driven by an 82.2% jump in durable goods consumption. Gains in services spending were more muted because of ongoing physical distancing restrictions. Overall consumption remains 2.5% below its pre-pandemic level.

The Conference Board's GDP estimate for calendar year 2020 is -3.5% after previous estimates of -3.3% to -4.9%. They are now estimating 2021 GDP at 3.5% with the

Returns by Sector

	S&P 500		Russell 2000	
Sector	**YTD**	**Oct 2020**	**YTD**	**Oct 2020**
Communication Services	9.46	0.79	-23.03	-3.52
Consumer Discretionary	19.69	-2.93	3.02	-1.45
Consumer Staples	1.20	-2.81	3.36	0.79
Energy	-50.39	-4.43	-54.94	-1.70
Financials	-20.91	-0.82	-22.84	9.25
Health Care	1.12	-3.68	14.40	2.34
Industrials	-6.25	-1.40	-5.14	0.53
Information Technology	22.13	-5.10	2.26	1.89
Materials	4.61	-0.78	-11.88	5.98
Real Estate	-9.91	-3.33	-25.28	-3.20
Utilities	-0.91	5.06	-14.67	5.03
TOTAL RETURN	**2.76%**	**-2.65%**	**-6.78%**	**2.10%**

Source: Bloomberg

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ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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potential for a 6.9% annualized expansion if the economic activity that occurred between this May through August is sustained through the remainder of 2020 and carries into 2021. According to the National Bureau of Economic Research, the U.S. entered a recession in February and remains there.

According to the U.S. Bureau of Labor Statistics, employment increased by 661,000 jobs and the unemployment rate declined to 7.9% in September. The unemployment rate has declined for five consecutive months but remains 4.4% higher than in February. Labor market improvements reflect the continued resumption of economic activity that had been curtailed due to COVID-19. In September, notable job gains occurred in leisure and hospitality, in retail trade, in health care and social assistance, and in professional and business services. Employment in government declined over the month, mainly in state and local government education. The U.S. savings rate was 14.3% in September after peaking at a stunning 32.2% in April. As previously discussed, these continued elevated rates have the potential to be a significant economic growth driver or may be used for sustenance if needed.

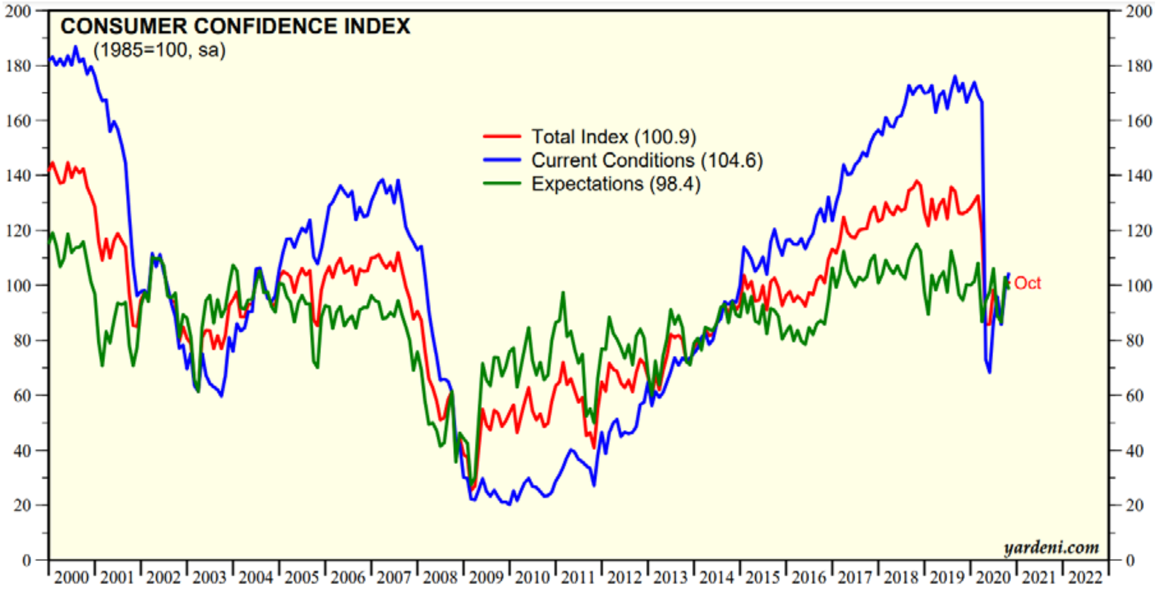
The Federal Reserve's September statement reiterated their commitment "to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals." They noted, "Financial conditions have improved in recent months, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term." The Committee kept the target range for the federal funds rate at zero to 0.25% and expects it will maintain this target range for the near future. The Federal Reserve said that it would maintain its purchasing program for U.S. Treasury and agency mortgage-backed securities at least at the current pace to maintain smooth market functioning and accommodative financial conditions.

On a year-to-date basis, there remains a sizeable return disparity (over 9%) between large and small company stocks and between growth and value, however, this trend reversed in September and October. Small company stocks (as measured by the Russell 2000) outperformed large (as measured by the S&P 500) in October with a return of 2.09% versus -2.65%. The growth/value disparity favored value in October after also doing so in September, but remains significantly in favor of growth this year. On a year-to-date basis through October 31, large cap companies measured by the Russell 1000 Growth have returned 20.11% whereas the Russell 1000 Value has returned -12.74%. Similarly, in Small Cap stocks, the Russell 2000 Growth has returned 4.67% and the Russell 2000 Value has returned -18.74% on a year-to-date basis through September 30.

West Texas Intermediate (WTI) finished October at $35.72, lower than the September month end of $39.87 a barrel. WTI remains significantly higher than April's close at $18.84 per barrel. Oil prices have stabilized between $35 to 40 a barrel since June. However, WTI is still down considerably after beginning the year at $61.06 per barrel.

Consumer Confidence fell slightly to 100.9 in October after sharply increasing to 101.8 in September. The Present Situation Index (which is based on consumers' assessment of current business and labor market conditions) increased to 104.6 in October from 98.5 in September. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) fell to 98.4 in October from 104.0 in September due primarily by a softening in the short-term outlook for jobs. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned 6.32% for the year-to-date period through October 31 including a return of -0.45% during October. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury beginning the year at 1.92%, hitting an all-time low of 0.54% in July and ended October with a yield of 0.875%. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) continued to normalize and ended October at 125 basis points. They began the year at 93 basis points and peaked at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended October at 38.02, spiking over 10 points (38%) in the last week of the month as COVID-19 and election-related turmoil affected the markets. Prior to this, the VIX was around the September month-end level of 26.37. It remains considerably lower than the March 16 peak of 82.69. The VIX's long-term average is approximately 20. Historically, volatility rises rapidly and often declines slowly.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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