MARKET INSIGHTS

from Ziegler Capital Management

November 2020 Market Commentary

WRITTEN: DECEMBER 1, 2020

After two consecutive negative months, the S&P 500 came soaring back in November with a return of 10.95%. The S&P 500 has returned 14.01% on a year-to-date basis and is up nearly 62% from the March 23rd lows. Small cap stocks, as measured by the Russell 2000, had robust positive returns of 18.42% in November. This was the single best month for the Russell 2000 since its 1984 inception. Small cap stocks continue to narrow their year-to-date lag and the Russell 2000 is now only 3.62% behind the S&P 500 on a year-to-date basis as of November 30 with a return of 10.39%.

The U.S. Presidential election of Joe Biden as the President-Elect and the related congressional elections that include two run offs in Georgia continue to dominate headlines as well as a second wave of COVID-19 cases currently affecting a good part of the country. News on several COVID-19 vaccines has been positively received with the hope of widespread availability during the first quarter of 2021. Central Bank and government stimulus measures continue to help reduce the economic damage tied to the virus.

The second Third Quarter GDP reading of 33.1% on an annualized basis was unchanged from the first reading. It is a stunning and unprecedented recovery from the second quarter's annualized contraction of -31.4%. With the second estimate, there were upward revisions to nonresidential fixed investment, residential investment, and exports. There were downward revisions to state and local government spending, private inventory investment, and personal consumption expenditures. Imports, which are a subtraction in the calculation of GDP, were revised up.

Returns by Sector

	S&P 500		Russell 2000	
Sector	**YTD**	**Nov 2020**	**YTD**	**Nov 2020**
Communication Services	19.92	9.56	-1.93	27.40
Consumer Discretionary	30.01	8.56	23.82	19.93
Consumer Staples	8.81	7.52	18.14	14.30
Energy	-36.47	28.04	-42.07	29.41
Financials	-7.53	16.90	-11.89	14.19
Health Care	9.18	7.94	34.20	17.30
Industrials	9.75	15.97	15.05	21.42
Information Technology	36.08	11.43	23.47	20.74
Materials	17.73	12.51	3.44	17.39
Real Estate	-3.61	6.95	-11.08	19.01
Utilities	-0.18	0.76	-5.78	10.42
TOTAL RETURN	**14.01%**	**10.95%**	**10.39%**	**18.42%**

Source: Bloomberg

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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The Conference Board's GDP estimate for calendar year 2020 is -3.6%, slightly down from the previous forecast of -3.5%. This includes a forecasted 2.2% annualized gain in the fourth quarter. They are now estimating 2021 GDP at 3.4% with the potential for a 6.0% annualized expansion assumingCOVID-19 cases level off (including a reduction in lock-downs), a strong recovery in labor markets and consumption, additional stimulus, widely available vaccinations in early 2021, and no political disruptions. 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 638,000 and the unemployment rate declined to 6.9% in October. The unemployment rate has declined for six consecutive months but remains 3.4% higher than in February. Labor market improvements reflect the continued resumption of economic activity that had been curtailed due to COVID-19 and efforts to contain it. In October, notable job gains occurred in leisure and hospitality, professional and business services, retail trade, and construction. Employment in government declined. The U.S. savings rate was 13.6% in November 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.

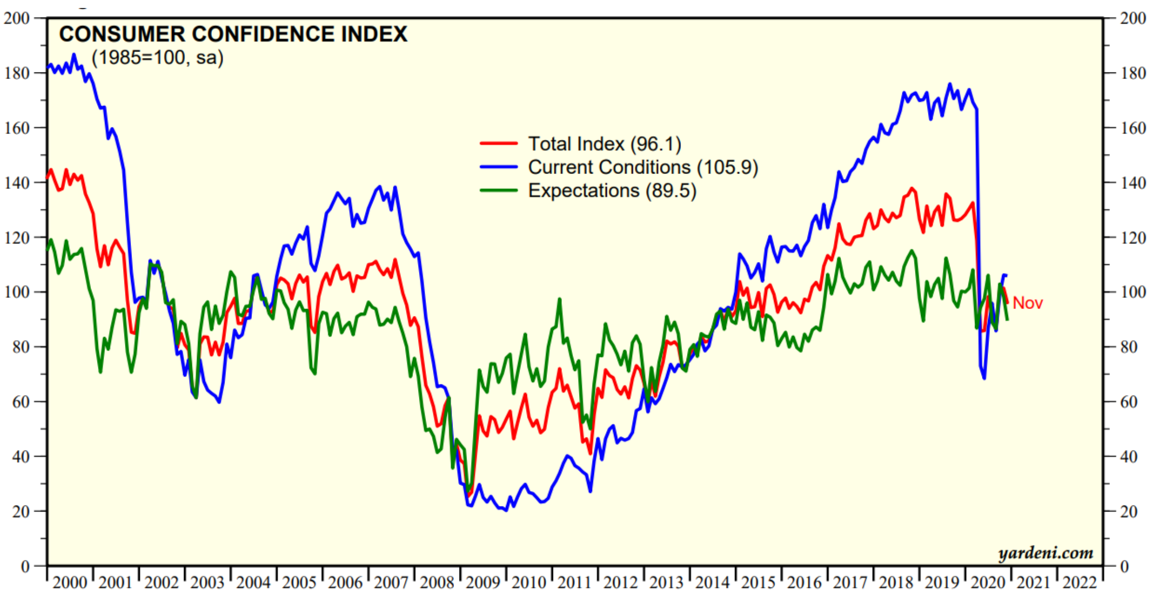
The Federal Reserve's November statement reiterated their commitment "to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals." They noted, "The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses." 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. In addition, the Federal Reserve stated that it would maintain or increase its holdings of Treasuries and Agency mortgage-backed securities in the coming months to sustain smooth market functioning and help foster accommodative financial conditions to provide support for the flow of credit to households and businesses.

On a year-to-date basis, there remains a sizeable return disparity between large and small company stocks and between growth and value; however, this trend has reversed during the last three months as market participation has significantly broadened. Small company stocks (as measured by the Russell 2000) outperformed large (as measured by the S&P 500) in November with a return of 18.42% versus 10.95%. The growth/value disparity favored value in November after also doing so in October and September, but remains significantly in favor of growth this year. On a year-to-date basis through November 30, large cap companies as measured by the Russell 1000 Growth have returned 32.40% whereas the Russell 1000 Value has returned -1.00%. Similarly, in Small Cap stocks, the Russell 2000 Growth has returned 23.12% and the Russell 2000 Value has returned -3.05% on a year-to-date basis through November 30.

West Texas Intermediate (WTI) finished November at $44.98 a barrel, an over 20% increase from the October month end price of $35.72 . WTI remains significantly higher than April's close at $18.84 per barrel. Oil prices have stabilized between $35 to 45 a barrel since June. However, WTI is still down considerably after beginning the year at $61.06 .

Consumer Confidence declined to 96.1 in November from 100.9 in October. The Present Situation Index (which is based on consumers' assessment of current business and labor market conditions) decreased slightly to 105.9 . The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) fell to 89.5 in November after readings of 98.4 in October and 104.0 in September with consumers having grown less optimistic about the short-term outlook due to the uptick in COVID-19 cases and the related economic impact. 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 7.36% for the year-to-date period through November 30 including a return of 0.98% during November. 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 ending November with a yield of 0.84%. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) continued to normalize and ended November at 104 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 November at 20.84, a significant reduction from the October reading of 38.02 and is now at a level last seen in February prior to the onset of market turmoil. It remains considerably lower than the March 16 peak of 82.69 and around its long-term average of approximately 20. Signs that President-Elect Biden should have a relatively smooth transition has dampened some political uncertainty that flamed the heightened market volatility in September and October.

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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