

Market Insights

NOVEMBER 2020 UPDATE

A LOOK BACK AT THE PRIOR MONTH

ECONOMY: RECOVERY CONTINUES DESPITE COVID-19 SPREAD

Economic data released in October suggested the US economic recovery remained on track.

- **Conference Board's Leading Economic Index (LEI).** Conference Board's Leading Economic Index (LEI) rose 0.7% in September following a 1.4% increase in August and a 2% increase in July. Growth in the LEI was driven primarily by the continued modest decline in weekly jobless claims and strength in applications for new building permits. The deceleration reflects fading effects of fiscal stimulus and suggests that economic growth momentum was slowing a bit as the fourth quarter began.
- **Payrolls and Labor.** Non-farm payrolls increased 638,000 in October, above consensus expectations and similar to September's level despite a 268,000 decline in government employment. Meanwhile, the unemployment rate fell from 7.9% to 6.9% despite a rise in the labor force participation rate. While continued growth in the labor market is encouraging, permanent job losses have increased and momentum may slow in November amid rising COVID-19 cases (source: US Department of Labor).
- **Inflation.** Inflationary pressure subsided in September, with the core Consumer Price Index rising 1.7% year over year, but decelerating on a month-over-month basis. Producer Prices, measured by the core Producer Price Index, increased 1.2% year over year, indicating producers have had mixed success raising prices as the economy recovers from the COVID-19 lockdowns. While inflation has picked up off low levels, recent data reaffirms it may take some time to reach the Fed's inflation target.
- **US Consumer.** The Conference Board's Consumer Confidence Index fell slightly in October after the sharp rebound in September. The Present Situations Index managed to rise, but the Expectations Index declined, likely reflecting pre-election jitters. Meanwhile, retail sales rose in September by the fastest pace in three months, supported by the sharp jump in consumer confidence noted during September.
- **US Manufacturing.** After taking a bit of a breather in September, manufacturing activity reaccelerated in October. The Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index climbed to 59.3, the highest level since September 2018, and the New Orders Index jumped to its highest level since 2004. Manufacturing, which has been relatively well insulated from the outsized effects of COVID-19 compared with the services sector, remains one of the strongest segments of the US economy.
- **US Business.** The contraction seen in some regional Fed surveys continued in October, providing anecdotal evidence of the deceleration of economic momentum as the fourth quarter began. The bifurcation between goods and services persists amid the pandemic and will be interesting to monitor moving forward. However, despite ongoing uncertainty, the National Federation of Independent Business (NFIB) Small Business Optimism index rose in September as the economic reopening continued.
- **Policy.** While divided government has thus far prevented another COVID-19 fiscal stimulus package from being passed, we believe the dynamic may change post-election. A package—though smaller than what Democrats had wanted—may still be possible post-election, but it may have to wait until early 2021. The Fed made no policy changes last month, but it has considered extending the maturity of its Treasury purchases to provide additional stimulus if needed.

EQUITIES: SECOND STRAIGHT DOWN MONTH

Second Straight Down Month

Stocks fell for the second straight month in October as the S&P 500 lost 2.7%. Investor sentiment was pressured by the same factors that led to September’s weakness: a combination of election uncertainty, more COVID-19 spread, and the lack of a stimulus package in Washington, DC. The S&P 500 still remained positive year to date with a 2.8% total return over the first 10 months of 2020.

Style/Capitalization

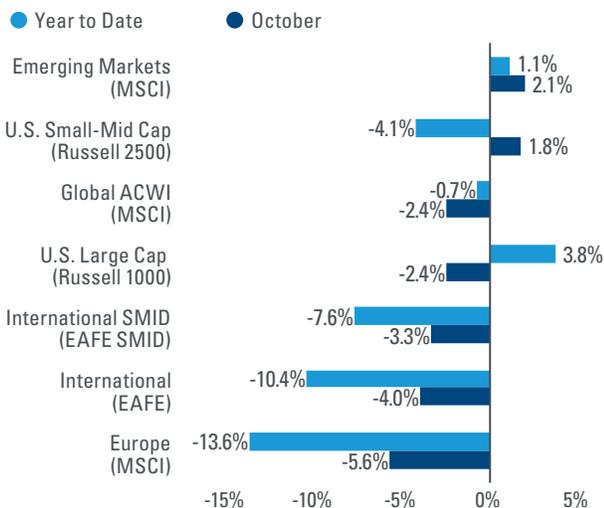
Small cap stocks outperformed large caps handily in October, as the Russell 2000 Index returned 2.1% while the large cap S&P 500 lost nearly 3%. Small caps benefited from superior performance in the financials, healthcare, and technology sectors. Mid cap stocks also outpaced large caps for the month, benefiting from relative strength across these same three sectors, but they trailed small caps with a 0.6% gain. The value style held up better than growth in October for the second straight month, as growth was dragged down by weakness in the two biggest growth sectors: Consumer discretionary and technology. Year to date, the Russell 1000 Growth Index has still outperformed Value by more than 30 percentage points.

Global Equities

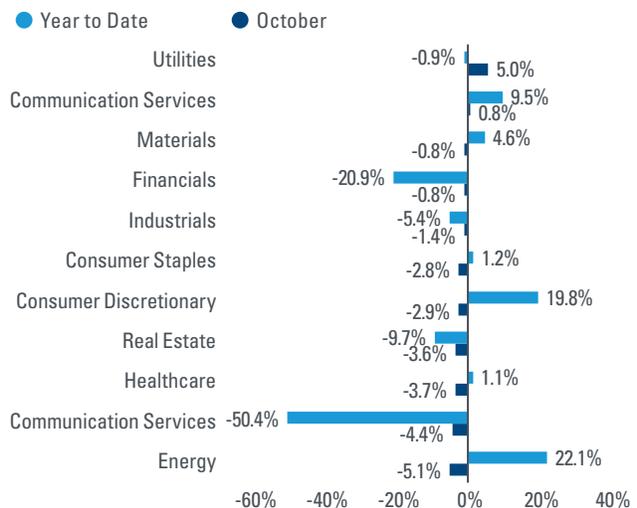
Emerging markets held up better than their US and developed international counterparts in October, topping both the S&P 500 and MSCI EAFE Index for the second straight month. The MSCI Emerging Markets Index gained 2.1% during the month, supported by gains in China, South Korea, and Taiwan, based on the MSCI country indexes. October’s gain pushed the MSCI EM Index back into positive territory with a year-to-date gain of 1.1%.

Developed international equities lagged behind both emerging markets and US equities with a 4% loss for the month, based on the MSCI EAFE Index. Weakness was concentrated in Europe, where the threat of COVID-19 is most acute, with outsized losses in France, Germany, Switzerland, and the United Kingdom. Japan held up relatively well. Year to date, the MSCI EAFE has lost 10.4%.

GLOBAL INDEX PERFORMANCE (Sorted by Monthly Return)



S&P 500 SECTOR PERFORMANCE (Sorted by Monthly Return)



Source: FactSet 10/31/20

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

FIXED INCOME: MIXED PERFORMANCE

Solid economic data in the US, along with the potential for additional fiscal stimulus following the US elections, likely provided catalysts for higher bond yields in October. The 10-year Treasury yield jumped just over 15 basis points (0.15%) during the month, finishing at 0.85%. The Treasury yield curve steepened, with short-term rates relatively stable and long-term rates rising.

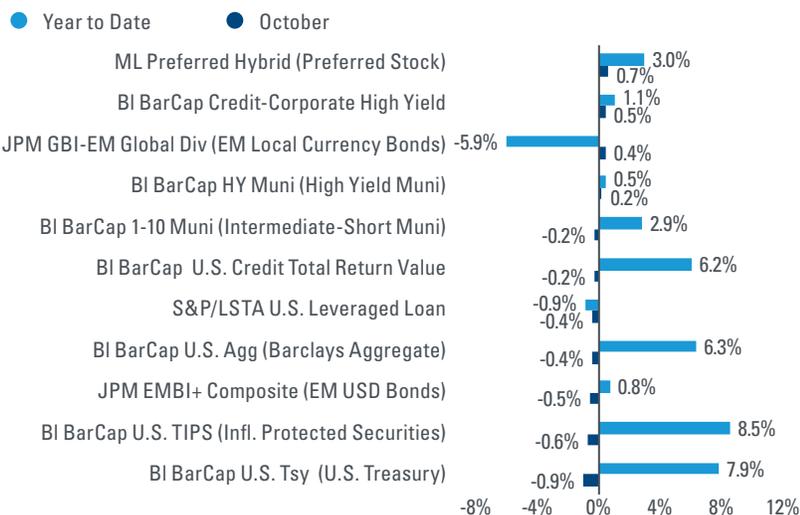
The investment-grade bond market delivered a negative return for the month, and Treasuries struggled the most, as shown in the Fixed Income Performance Table. The Bloomberg Barclays US Aggregate Bond Index (Agg) declined 0.45%, with Treasuries falling nearly 1%. Investment-grade corporate bonds and MBS also produced negative monthly returns, but both were able to outperform the benchmark. High-yield corporates rallied, delivering a positive monthly return of 0.5%. Higher-quality municipal bonds posted modest losses, but they did hold up better than the Agg. High-yield municipals eked out a modest, positive monthly return and topped the returns of high-quality municipals.

Solid Gains Overall

Commodities gained 1.4% in October as measured by the Bloomberg Commodities Index, but remain down 10.8% year to date.

Growing COVID-19 case counts in the United States and Europe, and Europe's renewed lockdown measures in response, sent crude oil prices down 11.6% as the market increasingly questioned future demand. Libyan oil production coming back online hurt prices from a supply perspective as well. Natural gas prices benefited from strong seasonal tailwinds and increased domestic demand, rising more than 12%. Precious metals took a pause in October, finishing little changed following extreme price action in prior months. Copper finished a volatile month little changed, balancing increasing risk of COVID-19 spread and strong Chinese demand. Prices for major agriculture commodities continued their recent strong price momentum on strong Chinese demand.

FIXED INCOME PERFORMANCE (Sorted by Monthly Return)



US Treasury Yields

Security	9/30/20	10/31/20	Change in Yield
3 Month	0.10	0.09	-0.01
2 Year	0.13	0.14	0.01
5 Year	0.28	0.38	0.10
10 Year	0.69	0.88	0.19
30 Year	1.46	1.65	0.19

AAA Municipal Yields

Security	9/31/20	10/31/20	Change in Yield
2 Year	0.26	0.33	0.07
5 Year	0.52	0.63	0.11
10 Year	1.12	1.25	0.13
20 Year	1.62	1.75	0.13
30 Year	1.74	1.87	0.13

Source: Bloomberg, FactSet 10/31/20

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

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