CAMDEN CAPITAL

Market Insights

OCTOBER 2020 UPDATE

A LOOK BACK AT THE PRIOR MONTH

ECONOMY: RECOVERY STARTING TO LOSE MOMENTUM

Economic data released in September suggested the US economic recovery was beginning to slow.

- **Conference Board's Leading Economic Index (LEI)** rose 1.2% in August following a 2% increase in July, reflecting a slowing rate of improvement for the US economy as the effects of fiscal stimulus wane. Despite the continued growth of the LEI, the index remains in recession territory, still 4.7% below its February level. In particular, slowing growth for new orders of capital goods, residential construction, and consumer confidence pointed toward the uncertainty facing the economy as the fourth quarter began.
- **Payrolls and Labor.** Nonfarm payrolls increased 661,000 in September, missing consensus expectations, and below August's job gains. Despite the slowing momentum in the labor market, the unemployment rate declined from 8.4% to 7.9%. While we're encouraged by the continued growth in the labor market, permanent job losses have increased, and we've seen more corporate layoff announcements amid fading stimulus and rising COVID-19 cases.
- **Inflation.** The core Consumer Price Index continued to accelerate, rising 1.7% year over year as improving economic growth has helped prices stabilize. Producer prices, measured by the Core Producer Price Index, increased 0.4% during the month of August, signaling producers have become more successful at passing along higher raw material costs to customers. While recent data has shown an acceleration in inflation, returning to the Fed's 2% target will likely be a slow process.
- **US Consumer.** The Conference Board's Consumer Confidence Index increased in September after back-to-back monthly declines. The Present Situations Index and The Expectations Index each rose, reflecting improving optimism about the short-term outlook. Retail sales missed analysts' expectations in August, growing 0.6%, but remain above pre-pandemic highs. With the increase in consumer confidence in September, we are waiting to see if this will provide a tailwind for September's retail sales print.
- **US Manufacturing.** Manufacturing activity continued to expand in September, but it took a bit of a breather as the ISM Manufacturing Purchasing Managers Index declined to 55.4. The New Orders Index declined for the first time since April, while the measure of factory inventories increased, showing stockpiles have declined at a slower pace. While gauges of manufacturing activity slipped a bit, manufacturing activity remains a strong point of the economy.
- **US Business.** Regional Fed surveys continue to reflect a minor contraction in business conditions, which lines up with the tapering pace of economic growth we've seen as summer ends. However, the NFIB Small Business Optimism Index increased in August despite many survey reporters noting continued uncertainty about the future. Capacity utilization rose modestly to 71.4% from 71.1%, suggesting greater production efficiency.
- **Policy.** The possibility of a fifth COVID-19 relief bill remains uncertain, as the two sides remain far apart on the size of the package. Negotiations are ongoing after House Democrats passed a revised $2.2 trillion aid package. While the Fed made no changes to the policy rate at the September meeting, it did revise its guidance to align with the shift toward "average inflation targeting," while voting members appear to expect rates to remain at the zero-bound until at least 2023.

EQUITIES: FIRST DOWN MONTH SINCE MARCH

Stocks' five-month win streak came to an end in September as the S&P 500 slipped 3.8%. A combination of election uncertainty, more COVID-19 spread, and the lack of agreement on a stimulus package in Washington, DC, dampened investor sentiment. The S&P 500 still returned 5.6% over a very volatile first nine months of 2020 that had a more than 33% peak-to-trough decline during February and March.

Style/Capitalization

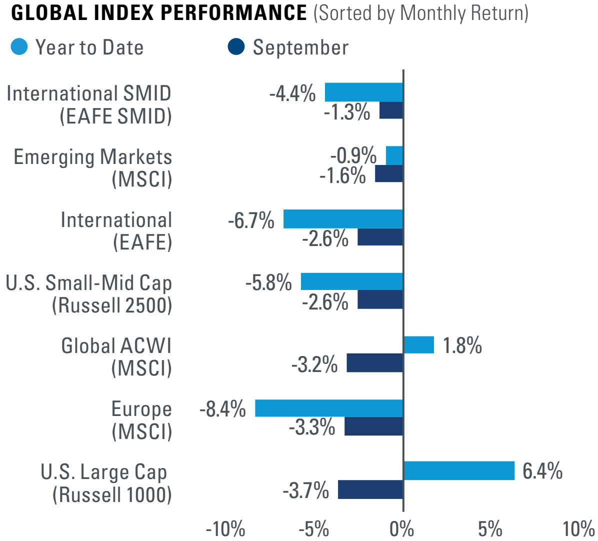
Small cap stocks slightly outperformed large caps in September, as the Russell 2000 Index slipped 3.3% compared to the nearly 4% loss for the large cap S&P 500. Though the performance differential between large and small was minimal, small caps benefited from superior performance in the consumer discretionary, healthcare, and technology sectors. Mid cap stocks outpaced both small and large caps for the month, getting a boost from gains in healthcare and materials stocks, and relatively smaller losses in technology. The value style finally outpaced growth in September for the first time in 12 months, as growth was dragged down by outsized losses in the communication services, consumer discretionary, and technology sectors. Year to date, the Russell 1000 Growth Index has still outperformed Value by more than 35 percentage points.

Global Equities

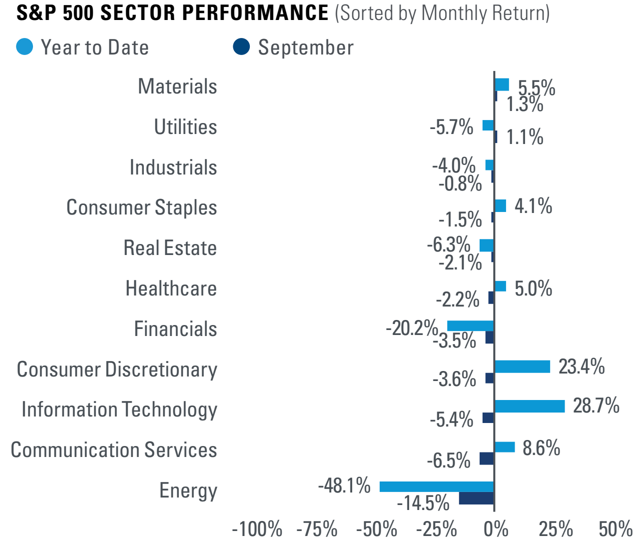
Emerging markets held up better than its US and developed international counterparts in September despite gains in the US dollar. The MSCI Emerging Markets Index lost 1.6% during the month, supported by gains in South Korea, Taiwan, and India, based on the MSCI country indexes. China underperformed amid tensions with the United States, despite its relative economic health. September's loss pulled the MSCI EM Index back into negative territory with a year-to-date loss of 0.9%.

Developed international equities lagged behind emerging markets but outperformed the United States with its 2.6% loss for the month, based on the MSCI EAFE Index. Japan was a strong performer, while Australia, France, and the United Kingdom lagged. Year to date, the MSCI EAFE has lost 6.7%.

GLOBAL INDEX PERFORMANCE (Sorted by Monthly Return)



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



Source: FactSet 09/30/20

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

Election uncertainty and the lack of agreement on new fiscal stimulus contributed to a risk-off environment in September, with spreads in lower-quality bond sectors rising as stocks fell. The 10-year Treasury yield fell slightly for the month, ending near 0.70%. The Treasury yield curve remained essentially stable, with minor changes to yields across the curve.

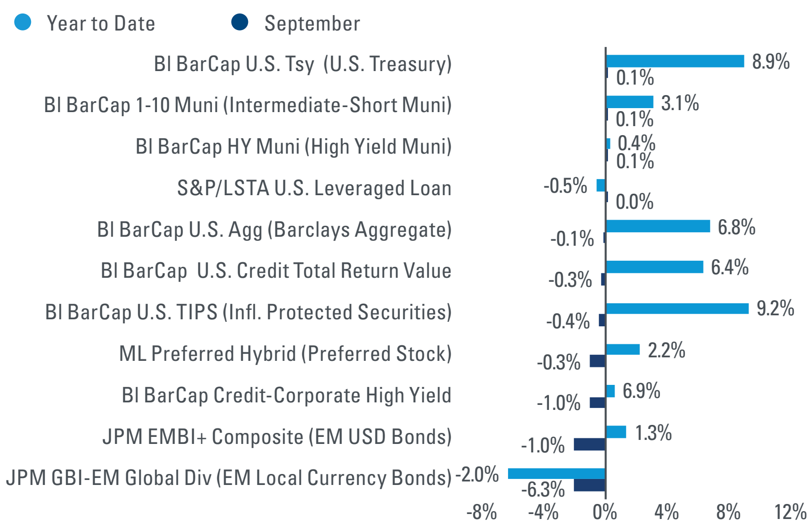
The investment-grade bond market was basically flat for the month, but Treasuries were able to deliver a positive monthly return, as shown in the Fixed Income Performance Table. The Bloomberg Barclays US Aggregate Bond Index (Agg) declined 0.05%, with weakness from investment-grade corporate bonds weighing on returns. The risk-off environment led to meaningful increases in spreads for certain lower-quality bond sectors. High-yield corporates and emerging markets debt both fell more than 1% during September. Higher-quality municipal bonds produced positive returns for investors during the month, outpacing higher-quality taxable bonds based on the performance of the Bloomberg Barclays US Aggregate Bond Index. High-yield municipals eked out a modest, positive monthly return and essentially matched the returns of high-quality municipals.

Commodities: Solid Gains Overall

Commodities fell 3.4% in September, measured by the Bloomberg Commodities Index, and were impacted by the risk-off market tone and increasing uncertainty surrounding the domestic economic recovery. The index remains down 12.1% year to date.

COVID-19 second-wave concerns called future oil demand into question, sending prices down more than 6% for the month. Natural gas prices more than doubled crude's losses for the month after enduring a volatile third quarter. Major industrial metals were down on growth concerns, while precious metals fell despite the flight-to-safety environment, digesting impressive gains in recent months. Major agricultural prices rose due to improving economic signs coming out of China, the dominant buyer in many categories.

FIXED INCOME PERFORMANCE (Sorted by Monthly Return)



US Treasury Yields

Security	8/31/20	9/30/20	Change in Yield
3 Month	0.11	0.10	-0.01
2 Year	0.14	0.13	-0.01
5 Year	0.28	0.28	0.00
10 Year	0.72	0.69	-0.03
30 Year	1.49	1.46	-0.03

AAA Municipal Yields

Security	8/31/20	9/30/20	Change in Yield
2 Year	0.25	0.26	0.01
5 Year	0.51	0.52	0.01
10 Year	1.10	1.12	0.02
20 Year	1.61	1.62	0.01
30 Year	1.72	1.74	0.02

Source: Bloomberg, FactSet 09/30/20

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.

IMPORTANT DISCLOSURE INFORMATION

This document is intended for informational purposes only and contains the opinions of Camden Capital and should not be taken as a recommendation to invest in any asset class or foreign securities market. The information contained in this report is current only as of the earlier of the publishing date and the date on which it is delivered by Camden Capital. All information in this report has been gathered from LPL Financial and sources we believe to be reliable, but we do not guarantee the accuracy or completeness of such information. The economic performance figures displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Past performance is not indicative of future results. All investments involve risk including the loss of principal.

CAMDEN CAPITAL

Century City
2029 Century Park East, Suite 3160
Los Angeles, CA 90067
(310) 461-1172

Los Angeles
2301 Rosecrans Avenue, Suite 2110
El Segundo, CA 90245
(310) 725-0210

Manhattan Beach
820 Manhattan Avenue, Suite 102
Manhattan Beach, CA 90266
(310) 698-8100

North Palm Beach
1295 U.S. Highway 1
North Palm Beach, FL 33408
(561) 693-3255