Summary

In a shortened holiday week, economic data included stronger housing prices but a decline in sales, mixed personal income/spending results, and lower consumer sentiment as Covid cases again pick up.

U.S. and foreign equity markets both experienced gains last week, as positive sentiment continued. Bonds were mixed, with U.S. corporates and foreign debt also gaining. Commodities were mixed, with cyclically-sensitive energy and industrial metals seeing gains, offset by declines in precious metals.

Economic Notes

(0/+) The 2nd estimate of **U.S. GDP** for the 3rd quarter was unchanged, still showing annualized growth of 33.1% from Q2. Under the hood, personal consumption was revised down just slightly, as were inventories, net trade, and government spending; on the other hand, business fixed investment and residential investment each were revised upward.

The expected rate of growth Q4 has changed a bit, with a pandemic 'second wave' taking hold across the U.S. and globally. Due to this pullback in expected activity, 3-4% appears to be the consensus, with the Atlanta GDPNow at 11.0%, contrasted with New York Fed Nowcast at 2.8%. Anticipated improvement has been pushed back a bit into early- to mid-2021, with a future trajectory of growth is largely tied to vaccine distribution hopes.

(0) **Personal income** for October reversed course by falling -0.7%, further than the -0.1% expected. Although salary income rose nearly a percent, demonstrating stronger labor recovery, the total component appeared to be most heavily impacted by the supplemental $300 unemployment payment expiring. Year-over-year, income remains up 6%. **Personal spending**, on the other hand, rose 0.5%, beating expectations by a tenth, while the year-over-year spending figure is down almost -1%. Interestingly, personal spending on durable goods rose a percent, and 15% on a year-over-year basis—the strongest such period in over 30 years. The personal savings rate consequently fell by -1% to 13.6%. PCE inflation was flat on both a headline and core level for the month, while year-over-year inflation increased 1.2% and 1.4%, respectively. Obviously, these are both well below optimum Fed-targeted levels.

(+) **Durable goods orders** rose by 1.3% in October, beating expectations calling for 0.8%. On a core level, this came a bit less at 0.7%, but still beat expectations calling for 0.5%. Overall, orders were led by aircraft, which tends to be lumpy, but also for electronics and equipment, as well as metals. Core capital goods shipments rose 2.3% on the month, about four times expectations. Durable goods orders are up nearly 45% from the trough in April, not far from where they were prior to the pandemic beginning.

(-) The advance October **trade balance** report showed a widening of -$0.9 bil. to -$80.3 bil., but not quite to the -$80.4 bil. expected. Trade levels overall rose by $3-5 bil. during the month, with imports rising a bit more than exports, mostly due to a decline in foods/feeds/beverages for the latter.

(+) The **FHFA home price index** rose 1.7% in September, beating expectations calling for only 0.8%. All nine national regions reported an increase in prices, led by the Middle Atlantic and New England states—each up over 2%. The year-over-year rate rose by a percent to 9.1%. This index captures a broader mix of housing, including not only cities, but also rural areas, that have seen more of a resurgence during the pandemic.

(+) The **S&P Case-Shiller home price index** gained 1.3% in September, nearly double the 0.7% increase expected, and including a revision upward for the prior month by 1%. As with the FHFA, all 19 cities in last month's survey, led by 2+% increases in Seattle, San Diego, and Phoenix. This month's result elevated the year-over-year gain by nearly 1.5% to 6.6%.

(-) **New home sales** for October fell -0.3% to a seasonally-adjusted rate of 999k units, below the 1.7% increase in sales expected, despite a significant upward revision for the prior month. Regionally, the sales rose in the Midwest, while the South saw the largest declines. Year-over-year, sales are up over 40%, which continues to reflect low interest rates, tight inventory (of existing and new building activity), as well as sporadic flight from urban to suburban locations. For instance, inventory of new homes represents 3.3 months sales, with that of completed homes even lower.

(-/0) The final November **Univ. of Michigan index of consumer sentiment** ticked down by a minimal -0.1 of a point to 76.9, contrary to expectations calling for no change, and a nearly -5 drop from the early November survey. Current conditions were up a point, while expectations for the future fell by nearly a point. Inflation expectations for the coming year were flat at a still-elevated 2.8%, while those for the next 5-10 years dropped a tenth to 2.5%.

(-) The Conference Board's **consumer confidence index** for November declined by -5.3 points to 96.1, below the 98.0 level expected. The labor differential changed minimally, ticking up by a tenth of a point. Assessments of present conditions fell by only a fraction of a point, while expectations for the future fell by nearly -9 points. Perhaps this is a reflection of recent lockdowns, which are expected to have negative economic repercussions in the very near term.

(0) **Initial jobless claims** for the Nov. 21 ending week rose by 30k to 778k, higher than the 730k median forecast estimate. **Continuing claims** for the Nov. 14 week fell by -299k to 6.071 mil., but still above the 6.000 mil. level expected. Claims reports by state were dramatically mixed, with sharp declines in LA and MA offset by increases in IL, MI, and WA. These increases appeared to echo virus lockdown impacts. Concern continues over the drop in continuing claims, which is largely due to benefits expiring for affected workers. How that is handled as these accelerate near year-end remains to be seen.

Question of the Week

How important is the Dow reaching 30,000?

It's a new high, but not dissimilar to celebrating say, 29,999 as a new peak, although the odd number didn't receive the same level of media attention. These round market levels, whether it be the Dow Jones Industrial Average, Nasdaq, or others, tend to generate high visibility (especially in the slower post-election news cycle). If an index is old enough, and tends to show positive performance (as stocks have over the long haul), you'll end up reaching new and higher milestones. The seemingly-large 30,000 level is just a reflection of how long the index has been in existence. (It was first assembled in 1896 by its namesake Charles Dow, former Wall Street Journal editor, in a day where calculating the price levels of a dozen stocks by hand on paper was 'cutting edge indexing.') We won't go into how the Dow is a less desirable index to track relative to others, due to its outdated price-weighted construction methodology and concentrated membership of 30 stocks, but it remains well-watched regardless due to this historical legacy. The S&P 500, more widely used by financial professionals, has gained public traction over time, but its lower and less sexy 3,000-ish level is simply a reflection of its more recent creation (early 1950's). Total return percentages matter much more than index levels.

Most importantly, these announcements can often cause investors to react in one of two ways: (1) consider buying, after they're reminded of their FOMO ('fear of missing out'); or, (2) consider selling, as they see the new milestone high as feeling 'expensive.' Neither is an ideal approach, based on news coverage alone.

The new highs for several U.S. equity indexes are a reflection of the unusual year we've experienced. Following a dramatic (-33%) drawdown in March, stocks have recovered—and then some (+65%). The rebound triggers opposing investor emotions largely because of what this extreme movement represents, in realities on the ground as well as anticipated future realities. While fundamentals (revenues and earnings) have improved as lockdowns eased mid-year, we're now in the throes of a second wave which could dampen the recovery outlook again. Yet, promising vaccine data gives markets more of what they really want, which is the removal of uncertainty about an ending point for the pandemic. If sometime in 2021 provides virus containment and herd immunity, today's multiples are expected to 'grow into' 2021 and 2022 earnings expectations. The damage from the lockdowns earlier this year were such that higher-than-average recovery growth, at the current path, could be the case for several quarters, if not a few years. The Fed also looks to remain on hold during that time. As important as anything, low interest rates tend to be an extremely powerful and positive input into fair values for stocks and real estate.

With the end of the year approaching, it's likely a good time to reevaluate portfolio positioning. Reacting to recent equity strength by a knee-jerk extreme of going 'all in,' or 'getting out' completely can be disruptive, especially since the second question of 'now what?' offers few alternative. Rather, if one's risk allocation level needs to be adjusted, doing so by a notch or two can provide continued market exposure, yet not cause one to completely miss out on potential market gains over time (or even sharp movements from the 'best days'). Stock market timing is extremely difficult, if not impossible. Therefore, any move that changes exposure to that growth engine, relative to the stabilizing force of bonds in portfolio creates risk-return trade-offs. 'Regret' is a real force discussed many times by economists involved in behavioral finance.

Market Notes

Period ending 11/27/2020	1 Week (%)	YTD (%)
DJIA	2.25	7.04
S&P 500	2.30	14.52
NASDAQ	2.97	37.16
Russell 2000	3.94	12.54
MSCI-EAFE	2.23	4.34
MSCI-EM	1.77	10.41
BBgBarc U.S. Aggregate	-0.03	7.28

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2019	1.55	1.58	1.69	1.92	2.39
11/20/2020	0.07	0.16	0.38	0.83	1.53
11/27/2020	0.09	0.16	0.37	0.84	1.57

U.S. stocks started the Thanksgiving week strongly, with continued carryover from the prior week's vaccine news, as well as newly positive news from AstraZeneca surrounding a third possible vaccine. This was in addition to perhaps a boost upon reports that the Presidential transition to Joe Biden is beginning to occur behind the scenes—despite the continued public stance and court challenges to the contrary. The appointment of well-respected and dovish former Fed chair Janet Yellen as the new Secretary of Treasury also seemed to be taken positively, due in addition to perhaps to the removal of Senator Elizabeth Warren from consideration for the post.

By sector, energy stocks gained nearly 10% last week with optimism for 2021 pointing to stronger energy demand. Cyclical financials, industrials, and consumer discretionary stocks also earned several percent; on the other hand, health care was the only sector losing ground, with news of the President considering executive action concerning prescription drug prices. Real estate also declined on the week.

Foreign stocks fared positively, in similar fashion to those in the U.S., with Covid vaccine hopes. Also, the aftermath of the U.S. election, and assumed normalization of many trade and other strategic alliances appears to have benefitted stocks in both Europe and emerging markets. Returns were undifferentiated by region, although the commodity-sensitive nations such as Brazil and Russia fared slightly better than others.

U.S. bonds were little changed last week, although investment-grade and high yield corporates earned several tenths of a percent, in keeping with stronger equity risk sentiment. Foreign bonds were helped by a half-percent drop in the value of the dollar.

Commodities generally gained in the energy and industrial metals sectors, in keeping with a weaker dollar and hopes for improved economic activity, while agriculture and precious metals fell back. The price of crude oil spiked another 7% to around $45.50/barrel, as hopes for demand recovery remained high. Sentiment around upcoming OPEC+ meetings was positive, although the outcome for production was not yet clear.

Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends, with the exception of MSCI-EM, which is quoted as price return/excluding dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.