WEEK IN REVIEW

October 23, 2020

The Bottom Line

- Rising rates are signaling that the economic recovery is progressing, but equity investors wonder whether that can be believed. U.S. stocks fell on the week as stimulus hopes fade and COVID cases rise. But bond yields rose on good economic data indicating the recovery is underway.
- Rising yields and a steepening yield curve helped propel the financial, utility, and energy sectors which in turn helped value styles outperform growth.
- Economic data mostly beat economists' expectations during the week with Markit Flash Manufacturing and Services Purchasing Manager's Indices (PMIs) rising to their best levels in nearly two years.

Equity and bond investors diverge

The major U.S. averages all closed lower for the week, with the Nasdaq snapping a four-week winning streak, and the Dow and S&P 500 snapping three-week winning streaks. Dwindling hopes for any type of stimulus deal out of Washington ahead of Election Day, reports of another wave of COVID cases, and a pause in some vaccine trials all created unease in the markets. The VIX volatility index rose to 28.5 from last week's 26.8. Yet despite equity investors' concerns, bond investors seemed to indicate that an economic recovery is underway as Treasury yields rose (meaning bond prices fell) to a four-month high, with the 10-year note yield climbing to 0.84% on economic data that was mostly better than expected. Confirming the optimism from the rise in yields, the yield curve also steepened as the spread between 5-year and 30-year Treasurys hit the highest level in nearly four years. It is signaling that investors may be gaining confidence in a positive growth trajectory as we head into 2021. Friday's Markit PMI data, detailed on the next page, seem to be pointing to improved economic activity. Third quarter earnings are also beating expectations, with about a third of companies reported thus far.

Digits & Did You Knows

BELOW ONE – The last time the yield on the 10-year Treasury note was above 1% was on 3/19/2020 or 7 months this week. The 10-year note yield closed at 0.84% on Friday 10/23/2020 (source: Treasury Department, BTN Research).

PANIC OF 1907 – On October 23 of 1907, the Panic of 1907 deepened, as hundreds of nervous depositors besieged New York's biggest trust companies, demanding their deposits back in cash after a crash in speculative copper stocks threatened the solvency of the trusts. J.P. Morgan, acting as the country's unofficial central banker, loaned $3 million to the Trust Co. of America, helping to calm the panicky public. (source: The Wall Street Journal).

Market Snapshot	Index Level	1-week Price Return	2020 Price Return
EQUITIES			
S&P 500	3,465.39	**-0.53%**	**+7.26%**
Nasdaq Composite	11,548.28	**-1.06%**	**+28.71%**
Russell 2000	1,640.50	**+0.41%**	**-1.68%**
Nikkei-225 (Japan)	23,516.59	**+0.45%**	**-0.59%**
STOXX Europe 600	362.50	**-1.36%**	**-12.83%**
RATES			
2-Year UST Note	0.16	1 bps	-141 bps
10-Year UST Note	0.84	10 bps	-107 bps

QUALIFIED PLAN ADVISORS

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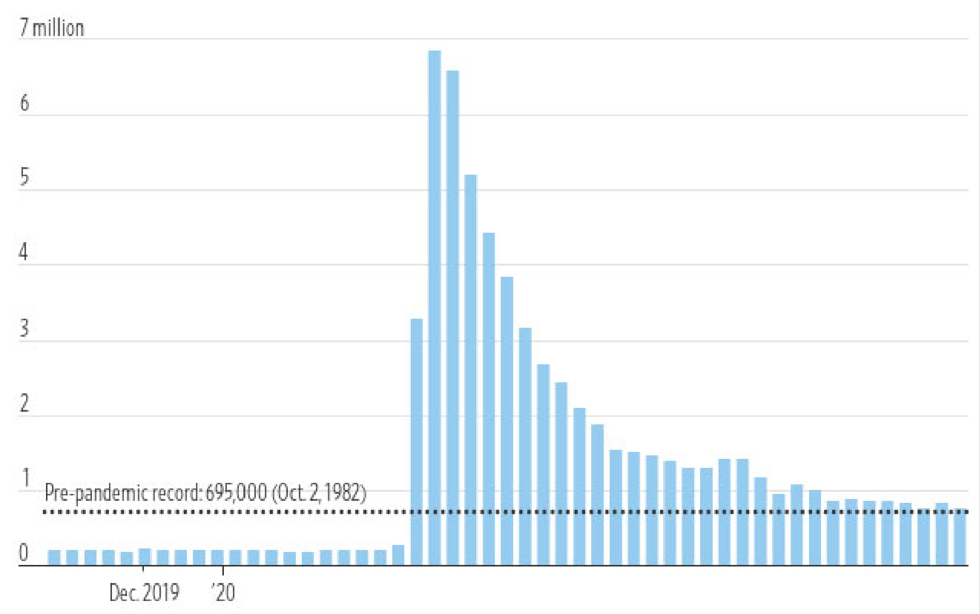
Chart of the Week

Jobless claims have fallen to the lowest levels since the coronavirus pandemic shut down much of the country in March. Weekly initial claims for jobless benefits, fell by 55,000 to a seasonally adjusted 787,000 in the week ended October 17. Better still, claims for the prior two weeks were revised lower. The revised level of claims for the week ended October 3, at 767,000, was the lowest since the week of March 14, when fewer than 300,000 new claims were filed. Continuing claims in the previous week dropped 1.024 million to 8.373 million, while the insured jobless rate plunged 0.7 points to 5.7%. Both were also at their lowest levels since March. The improving employment data further indicates the continuing recovery from the pandemic-induced downturn.

The Economy Continues to Recover

Initial unemployment claims, weekly



Source: Labor Department, The Wall Street Journal. Note: Seasonally Adjusted.

Economic Rundown

- October builder confidence gained for the sixth month in a row, as the **NAHB/Wells Fargo Housing Market Index (HMI)** rose another two points to 85, an all-time high.
- **Housing Starts** missed expectations for a +3.8% gain, but still rose +1.9% in September, its fourth gain in the past five months. However, the prior two months were revised down by a total of 33,000 units.
- **Building Permits**, an indication future housing starts, gained +5.2% to a 1.553 million unit rate, its highest level since March 2007.
- September **Existing Home Sales** surged +9.4% to a 6.54 million unit annual rate, the highest level since May 2006. All four regions posted gains, led by the Northeast.
- The Conference Board's **CEO Confidence Index** surged 19 points to 64, versus 45 in the July survey. This was the highest level since 2018, driven by the CEO's much more positive assessment of current conditions.
- The September Conference Board **Leading Economic Index (LEI)** increased +0.7%, beating the consensus of +0.6%, but was the smallest of five straight gains.
- **The Markit Flash U.S. Services PMI** jumped +1.4 points to 56.0, the third month of expansion and a 20-month high. The **Markit Flash Manufacturing PMI** was up +0.1 point to 53.3, the fourth straight month of growth, and the highest level in 21 months. Businesses in both surveys became more optimistic about the 12-month outlook amid hopes for fiscal stimulus and declining COVID risk.

The Week Ahead

Monday	• Chicago Fed Nat Activity Index (CFNAI) • New Home Sales
Tuesday	• Durable & Capital Goods Orders • FHFA, CoreLogic CS House Price Indexes • Conf. Board Consumer Confidence
Wednesday	• MBA Mortgage Applications
Thursday	• Jobless Claims • GDP, Personal Consumption Expenditures • Pending Home Sales
Friday	• Personal Income & Spending • Employment Cost Index • U. of Michigan Sentiment

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Asset Class Performance

WEEK IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best performer… or the worst. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as lowering portfolio volatility, improving risk-adjusted returns, and helping investments to compound more effectively.

	Monday	Tuesday	Wednesday	Thursday	Friday	WEEK	
High	Intl Bonds 0.28	Emg Markets 1.10	Intl Bonds 0.32	Small Value 2.11	Mid Growth 0.97	Small Value 2.02	High
	U.S. Bonds -0.12	Small Value 0.80	Emg Markets 0.28	Small Growth 1.46	Small Value 0.78	Emg Markets 1.67	
	Emg Markets -0.29	Real Estate 0.75	High Yield Bond -0.01	Mid Value 1.45	Intl Equity 0.65	Mid Value 1.17	
	High Yield Bond -0.35	Mid Value 0.66	U.S. Bonds -0.12	Large Value 1.37	Real Estate 0.61	Intl Bonds 1.14	
	Intl Equity -0.37	Intl Bonds 0.56	60/40 Allocation -0.24	Mid Growth 0.53	Emg Markets 0.59	Intl Equity 0.37	
	60/40 Allocation -0.61	Intl Equity 0.50	Large Growth -0.25	60/40 Allocation 0.26	Mid Value 0.58	High Yield Bond 0.28	
	Mid Growth -1.11	Large Value 0.49	Mid Value -0.36	High Yield Bond 0.18	Large Growth 0.49	Large Value 0.14	
	Mid Value -1.15	High Yield Bond 0.36	Real Estate -0.40	Intl Equity 0.08	Small Growth 0.47	60/40 Allocation 0.13	
	Small Value -1.17	60/40 Allocation 0.33	Large Value -0.41	Emg Markets -0.02	60/40 Allocation 0.39	U.S. Bonds -0.36	
	Small Growth -1.34	Large Growth 0.26	Intl Equity -0.48	Large Growth -0.07	Intl Bonds 0.35	Mid Growth -0.71	
	Large Value -1.43	U.S. Bonds -0.08	Small Value -0.48	Real Estate -0.12	U.S. Bonds 0.14	Real Estate -0.80	
	Large Growth -1.48	Mid Growth -0.24	Mid Growth -0.84	U.S. Bonds -0.18	Large Value 0.14	Small Growth -0.98	
Low	Real Estate -1.62	Small Growth -0.27	Small Growth -1.27	Intl Bonds -0.36	High Yield Bond 0.12	Large Growth -1.06	Low

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.