
# MONTH IN REVIEW

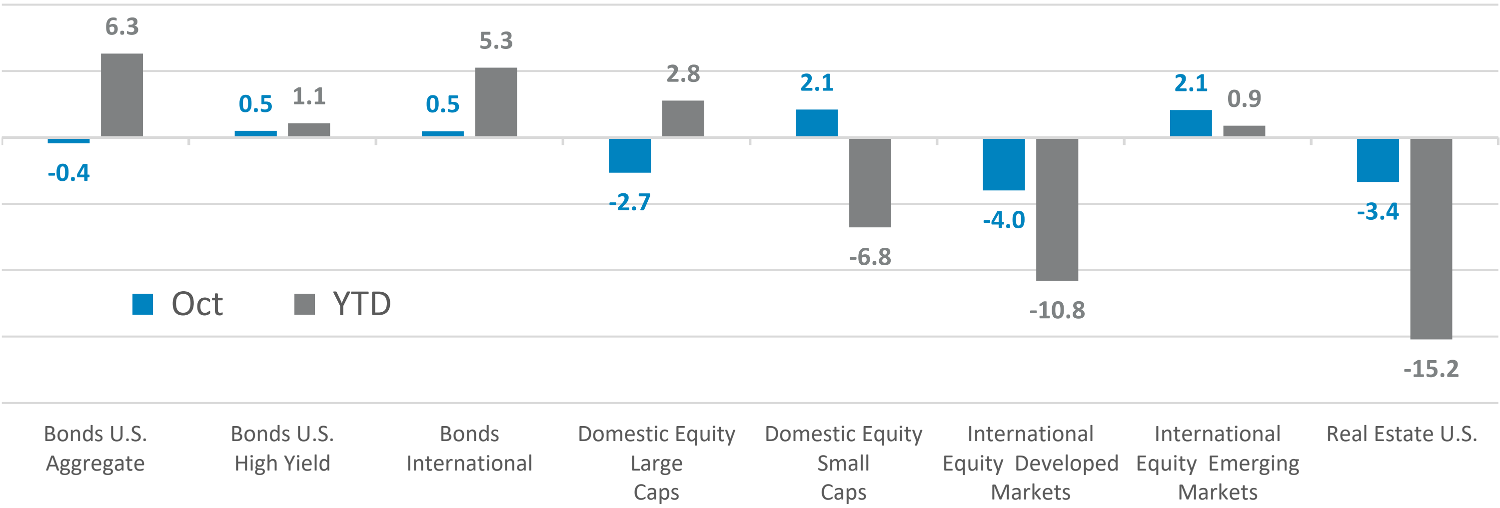
## October 2020

## Quick Takes

- **COVID cases swell.** U.S. daily coronavirus cases increased throughout October to over 80,000 per day, much of the increase came from the mid-west. Hospitalizations and ICU utilization are both rising as well. Even worse than the increase in the U.S., the resurgence in Europe has been especially pronounced, triggering a new restrictions there.
- **Manufacturing revival**. October ISM Manufacturing climbed further into expansion territory (a level above 50), hitting 59.3, which was the highest level since September 2018.
- **Record rebound.** After a dreadful Q2 reading, resulting from the pandemic shutdowns – which was the sharpest quarter-over-quarter decline ever recorded – Q3 GDP came roaring back. The third quarter gross domestic product (GDP) expanded at an annualized rate of over +33%, which was the largest ever quarter-over-quarter gain since WWII.
- **Election uncertainty** was a theme all of October and results were still unknown at publication time, but it appears we may have the first session of Congress going back to at least 1900 with a Democratic President and House, and a Republican Senate.

## Asset Class Performance

Large company stocks in the U.S. and abroad finished in the red for the second consecutive month. Real Estate also gave background in October. However, small company stocks and emerging markets stocks both gained +2.1%.




Source: Bloomberg, as of October 31, 2020. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

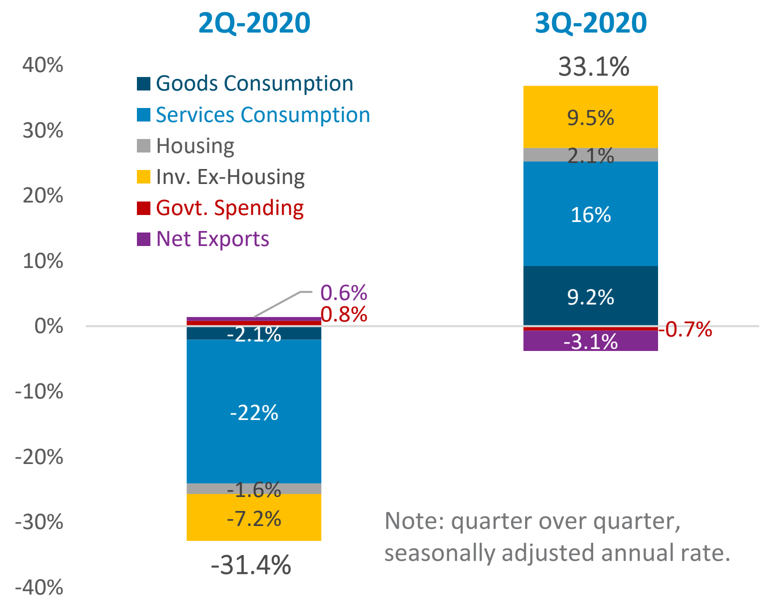
QUALIFIED PLAN ADVISORS

# U.S. GDP growth posts best quarter ever, nearly doubles the previous record

With COVID case counts on the rise, the next round of stimulus on hold, and growing uncertainty around the election result, many investors are increasingly focused on economic data. Perhaps the biggest report of the month was the initial release of Gross Domestic Product (GDP) for the third quarter. Following the record annualized contraction of -31.4% in Q2, economists expected a massive rebound in economic growth for Q3. And they got one that was better than they forecasted. The Bureau of Economic Analysis' advance estimate of third-quarter U.S. real GDP grew at an annualized rate of +33.1%, exceeding a Dow Jones estimate of +32%. That is the fastest pace of economic expansion on record in the U.S. The previous post-World War II record was the +16.7% annualized surge in the first quarter of 1950. Importantly, an evaluation of the underlying components of GDP show that the recovery has generally been broad-based. Consumption, the largest component of the U.S. economy, contributed 25 percentage points to the GDP growth increase. Services consumption was particularly strong in health care and food services. Goods consumption rebounded nicely as well, led by motor vehicles and apparel sales. Private investment excluding housing also contributed, mainly from residential and equipment investment, but also from a rebuilding in inventories, likely from restocking after coronavirus-related shutdowns depleted supplies.

### GDP Growth: 2Q = Weakest Ever, 3Q = Strongest Ever

Real GDP growth by component

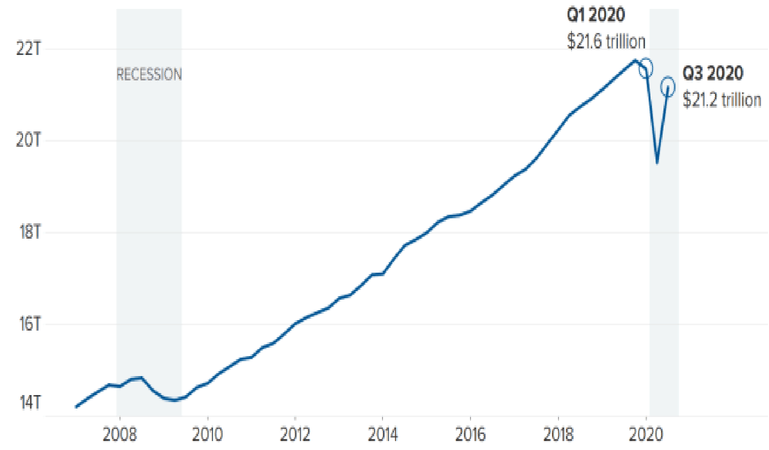



Note: quarter over quarter, seasonally adjusted annual rate.

Source: BEA, J.P. Morgan.

### U.S. gross domestic product (GDP)

Total value in current U.S. dollars, seasonally adjusted




Source: Bureau of Economic Analysis, CNBC.
Note: Data is seasonally adjusted.

It should be noted, however, that despite the rate of the Q3 rebound being higher than the rate of the Q2 decline, the US economy remains about -3% below pre-pandemic levels. As seen in the chart above, in dollar terms Q2 GDP declined by $2 trillion, so the Q3 increase came off a much lower base. The Q3 increase was $1.6 trillion leaving GDP at a total value of $21.2 trillion, off of the record high $21.7 for Q4-2019. Now with new case counts increasing, the rate of growth may slow until a vaccine is widely available.

Of course there were many other economic indicators over the month, and like GDP, the majority of them came in better than expected. Bespoke Investment Group's Economic Indicator Diffusion Index, which tracks the pace at which reports are exceeding forecasts, has pulled back a little bit recently, but is still at elevated levels and indicative of economic strength and positive momentum. Housing data has been especially strong, but even that sector saw a reduction in its pace of improvement in the last week.

**Bottom Line: October economic data suggests improvement in the economy continued into the fourth quarter, though at a slower pace than the summer's dramatic resurgence. With COVID cases showing yet another wave, it will be important for vaccine development, and distribution, to become a reality to maintain the impressive momentum in Q3.**

**October 2020**

# What's Ahead

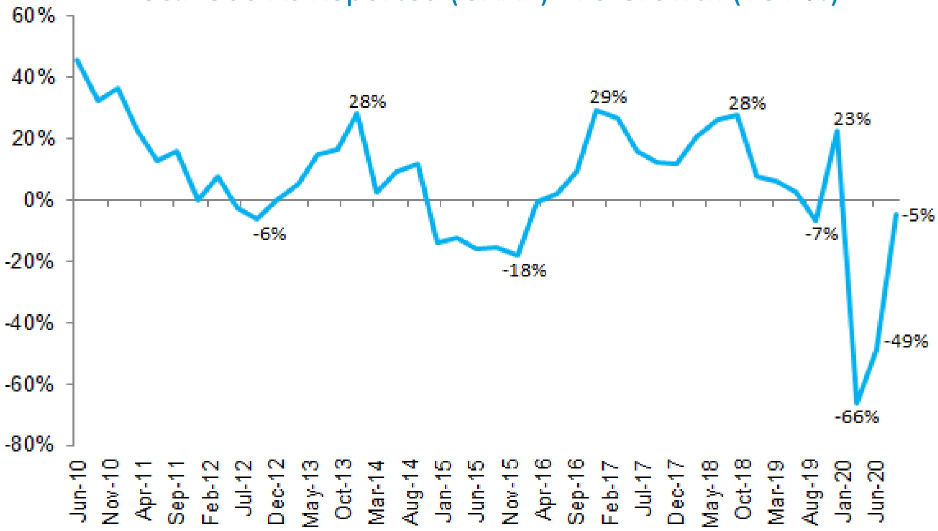
MONTH IN REVIEW

## Whatever the result, election decision removes event risk & uncertainty

Rising COVID cases, stimulus doubts, and election uncertainty rattled markets throughout October, especially in the back half of the month. Equity markets sold off in the last week of the month and the VIX volatility index rose to its highest levels since June. Though we may not have a result at the time this is published, at least the election will have passed – which should help to relieve the uncertainty facing investors, and which comes at a time when the calendar moves further into the most favorable quarter for investors historically. As it stands at time of publication, it appears that we will have divided government and possibly with the first session of Congress, going back to at least 1900, with a Democratic President, a Democratic House, and a Republican Senate. That's a situation that may further delay a new fiscal stimulus bill – or at least result in a smaller package than what was being speculated several weeks ago when a democratic clean sweep of all branches of government was the highest probability according to prediction markets.

**Corporate America Is Getting Closer To Positive Earnings Growth**

S&P 500 As Reported (GAAP) EPS Growth (YOY %)



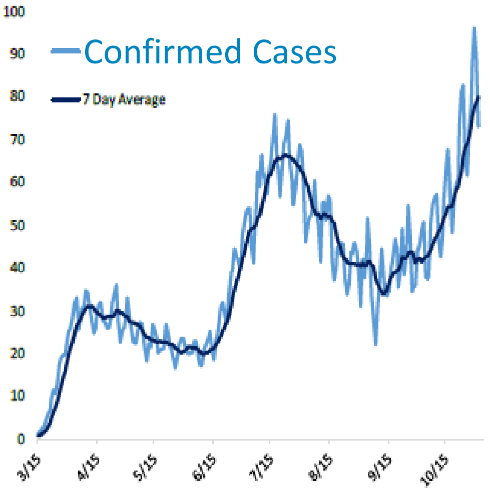

Source: S&P Dow Jones, Compound Capital.

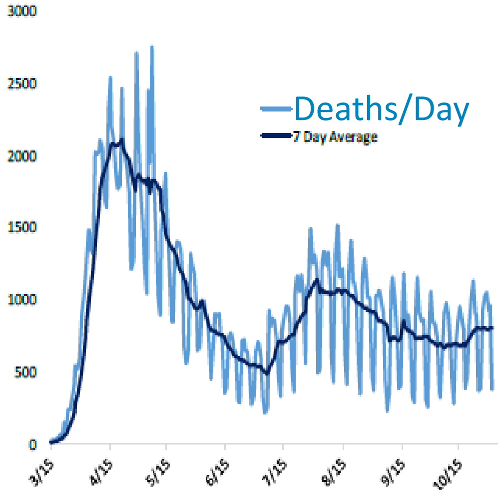
Markets will also have to contend with the still formidable threat of a third wave of COVID cases which were peaking at new highs as the month concluded. As detailed on the prior page, the biggest improvement in Q3 GDP growth came from consumption, which is also the largest sector of the U.S. economy. Any threat of new restrictions resulting from rising COVID cases could threaten consumption activity, which would be especially bad in the traditionally strong holiday period.

On the positive side, in addition to the robust improvement in Q3 GDP, we are also seeing better-than-expected results in third quarter corporate earnings. With 75% of S&P 500 firms reported, 86% beat their expectations. If that beat rate holds, it will mark the highest level of companies reporting a positive earnings surprise since FactSet began tracking the data in 2008. Analysts clearly set the bar too low coming into the 3Q-2020 earnings season, especially for the sectors most impacted by the pandemic – consumer discretionary, energy, industrials, materials, and financials – which are seeing the biggest earnings surprises. Also important, companies are beginning to provide forward guidance after suspending it in early 2020. This signals that managements are more confident in the outlook for their firms, but it is also important in that it too removes some level of uncertainty from the markets.

**US National COVID Tracking Statistics**

As of November 1, 2020




Source: Bespoke Investment Group.

**__Bottom Line__: Event risk remains with the COVID resurgence and the inability of Congress to pass a stimulus package, but the market is getting some relief from election uncertainty and earning uncertainty. That is coinciding with a historically market-friendly period. Improved economic activity and a better earnings backdrop may present a more constructive environment for investors if the COVID resurgence can be mitigated.**

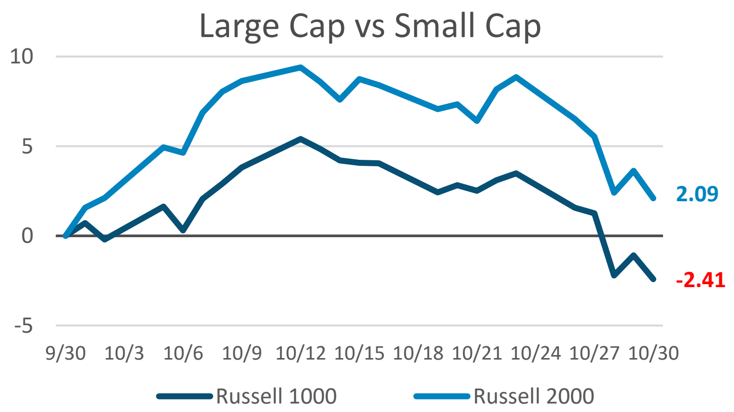
# October 2020

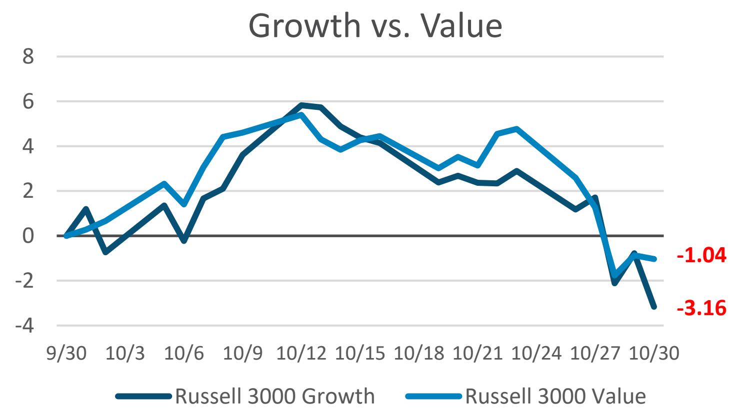
## Equity Themes

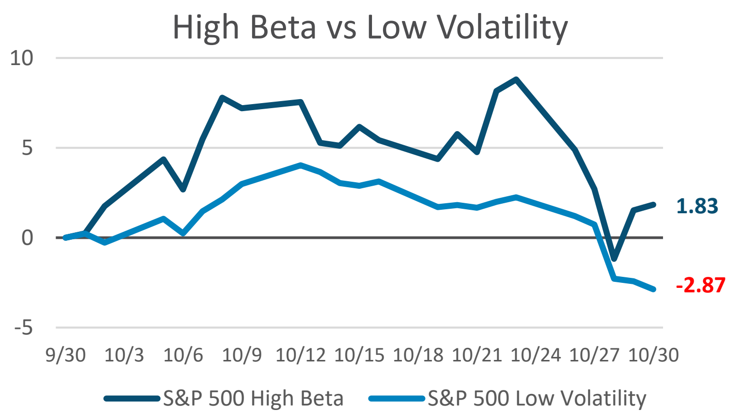
MONTH IN REVIEW

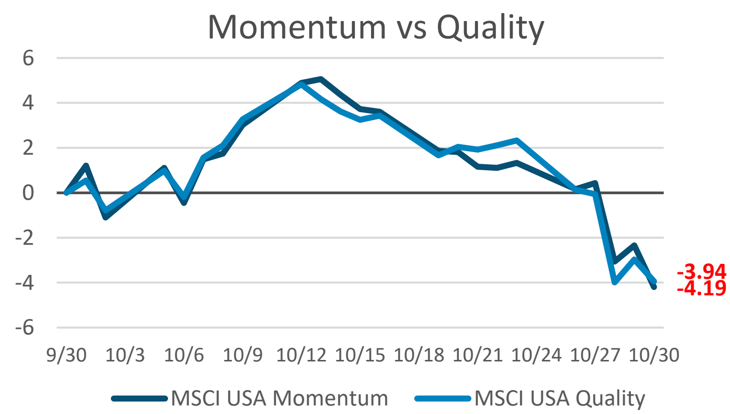
### What Worked, What Didn't

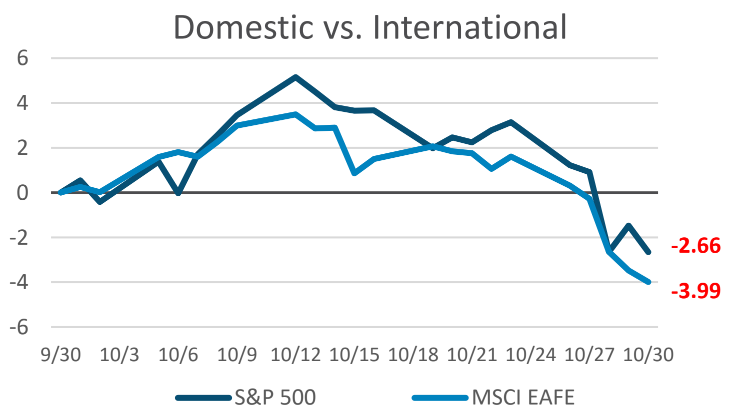
- **Cancel that.** Positive gains over the first few weeks of October, in virtually all equity styles, were abruptly erased in the last week. **Small Caps**, **High Beta**, and **Emerging Markets** were able to stay positive, but ended well off their highs of the month, which were as big as +5% to +10% at some points in the month.
- **Small Caps win.** In the face of a broad-based risk-off month, **Small Caps** managed the best performance with a +2.1% gain. Their +4.5% outperformance over **Large Caps** was the largest monthly excess since Nov 2016.
- **Emerging Markets**. The MSCI Emerging Markets index also gained more than +2% in October, and outperformed Developed Markets international stocks by +6.1%.

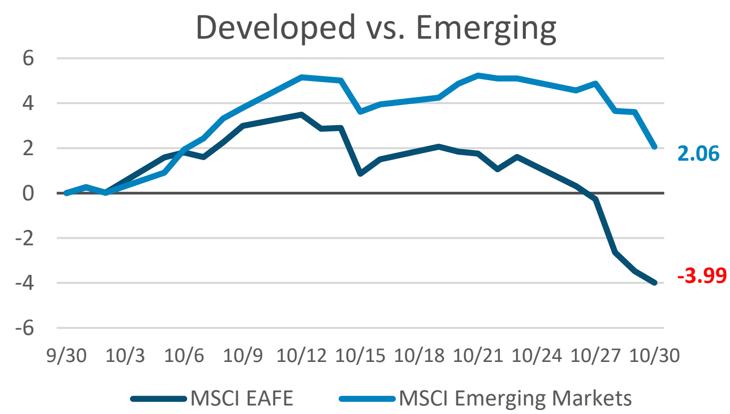



Source: Bloomberg.

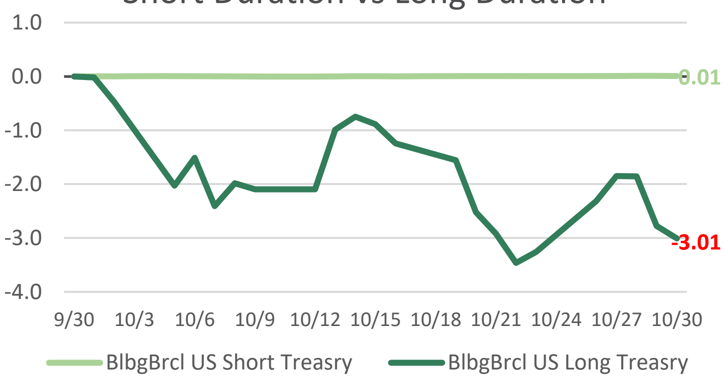
# October 2020
# Bond Themes

MONTH IN REVIEW

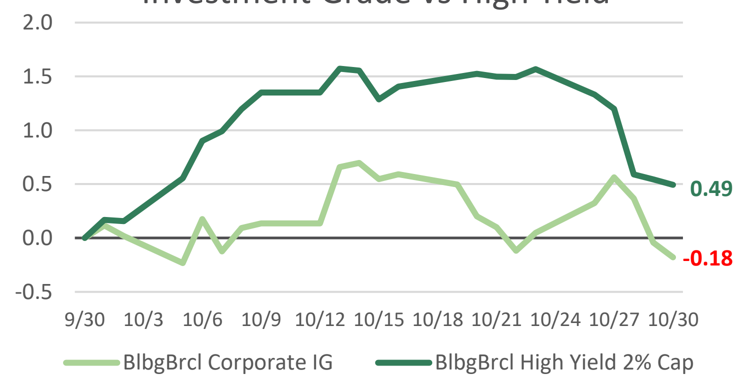
## What Worked, What Didn't

- **déjà vu all over again.** For the second month in a row, when equities suffered a broad risk-off month, bonds also sold off, countering their typical safe haven status when equities are down. **Long Duration** bonds suffered the most, losing -3%, as treasury yields rose throughout October (the 10y UST yield increased 20 basis points).
- **High Yield** bonds were the best performing bond sector in October, but like equities, they ended the month with a selloff in the last week of the month, which was the first weekly loss in five weeks.
- **Leveraged Loans** managed to eke out a positive gain of +0.2% in October, but they are now the only bond sector with a negative total return for 2020 (down -0.9%).

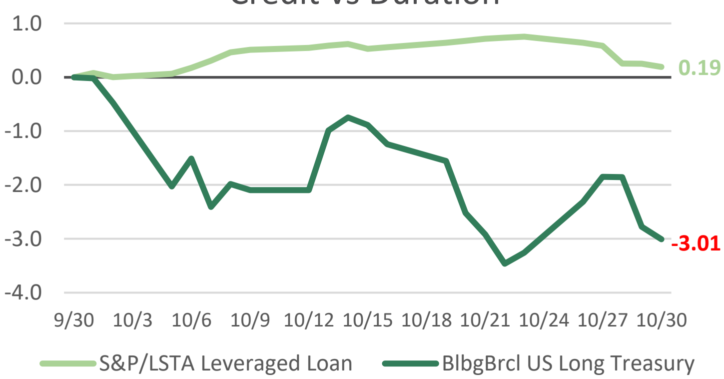
Short Duration vs Long Duration



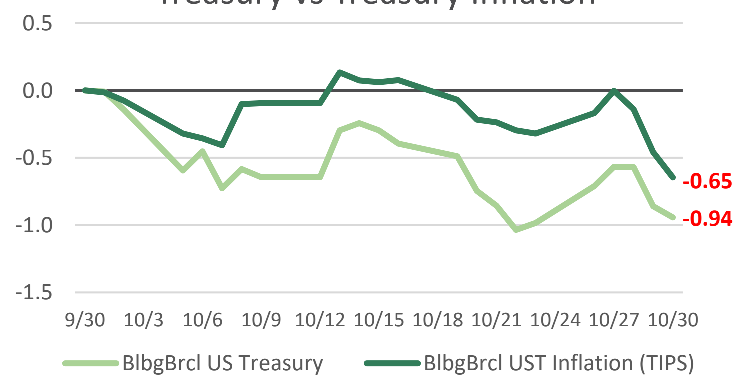

Investment Grade vs High Yield



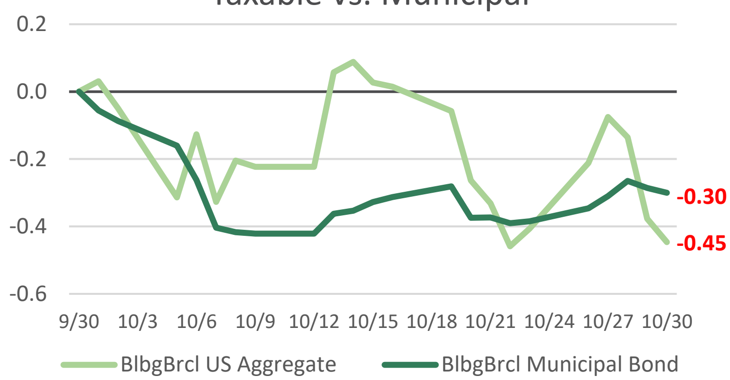

Credit vs Duration



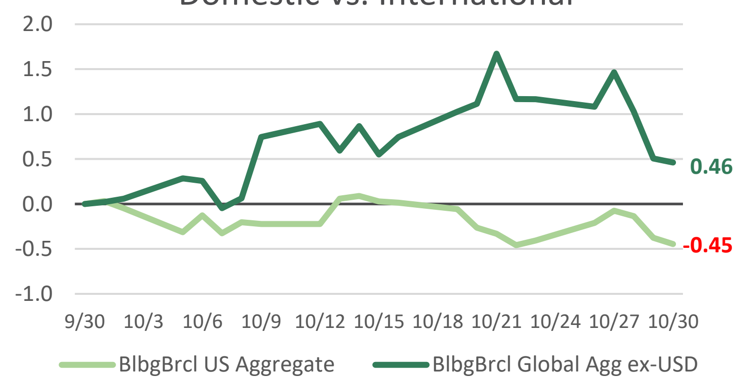

Treasury vs Treasury Inflation




Taxable vs. Municipal




Domestic vs. International




Source: Bloomberg.

# October 2020

# Asset Class Performance

MONTH IN REVIEW

**The Importance of Diversification**. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

| | Oct-01 | Oct-02 | Oct-05 | Oct-06 | Oct-07 | Oct-08 | Oct-09 | Oct-12 | Oct-13 | Oct-14 | Oct-15 | Oct-16 | Oct-19 | Oct-20 | Oct-21 | Oct-22 | Oct-23 | Oct-26 | Oct-27 | Oct-28 | Oct-29 | Oct-30 | Oct |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High | RE 1.93 | SCV 1.61 | SCG 3.04 | EM 0.18 | SCG 2.11 | SCV 1.60 | LCG 1.52 | LCG 2.23 | MCG 0.85 | IBD 0.36 | SCV 1.45 | IEQ 0.47 | IBD 0.28 | EM 1.10 | IBD 0.32 | SCV 2.11 | MCG 0.97 | USB 0.14 | LCG 0.52 | USB -0.14 | SCV 1.63 | HYB 0.22 | SCV 3.68 |
| | SCV 1.58 | RE 1.60 | SCV 2.45 | USB 0.09 | SCV 2.06 | RE 1.57 | MCG 1.33 | MCG 0.97 | SCG 0.06 | USB 0.06 | MCV 0.72 | EM 0.35 | USB -0.12 | SCV 0.80 | EM 0.28 | SCG 1.46 | SCV 0.78 | IBD -0.47 | EM 0.44 | IBD -0.75 | RE 1.52 | LCV 0.00 | EM 1.41 |
| | SCG 1.54 | MCV 1.03 | LCG 1.96 | IBD 0.08 | MCG 2.04 | MCV 1.45 | SCG 1.05 | EM 0.87 | USB 0.03 | IEQ -0.17 | SCG 0.62 | LCV 0.25 | EM -0.29 | RE 0.75 | HYB -0.01 | MCV 1.45 | IEQ 0.65 | HYB -0.88 | USB 0.23 | HYB -0.83 | MCV 1.30 | USB -0.27 | MCV 0.94 |
| | MCG 1.29 | LCV 0.29 | MCG 1.96 | SCG -0.15 | LCG 1.85 | LCV 1.31 | IEQ 0.78 | SCV 0.79 | LCG -0.07 | MCV -0.18 | RE 0.42 | IBD 0.21 | HYB -0.35 | MCV 0.66 | USB -0.12 | LCV 1.37 | RE 0.61 | 60/40 -1.10 | IBD 0.22 | 60/40 -1.92 | LCG 1.21 | MCV -0.46 | SCG 0.74 |
| | LCG 1.27 | HYB 0.00 | MCV 1.92 | HYB -0.23 | MCV 1.74 | EM 0.82 | IBD 0.78 | LCV 0.79 | EM -0.41 | HYB -0.25 | LCV 0.32 | 60/40 0.04 | IEQ -0.37 | IBD 0.56 | LCG -0.25 | MCG 0.53 | EM 0.59 | RE -1.27 | MCG 0.07 | RE -2.45 | EM 1.01 | IEQ -0.52 | HYB 0.40 |
| | EM 0.93 | USB -0.10 | LCV 1.62 | SCV -0.39 | LCV 1.59 | SCG 0.78 | EM 0.68 | 60/40 0.64 | HYB -0.45 | 60/40 -0.28 | MCG -0.01 | USB -0.05 | 60/40 -0.61 | IEQ 0.50 | 60/40 -0.25 | 60/40 0.23 | MCV 0.58 | EM -1.30 | HYB 0.05 | EM -2.50 | SCG 0.78 | IBD -0.56 | MCG 0.12 |
| | MCV 0.74 | IBD -0.14 | IEQ 1.52 | 60/40 -0.49 | EM 1.10 | IEQ 0.70 | 60/40 0.48 | SCG 0.62 | 60/40 -0.47 | LCV -0.41 | HYB -0.07 | MCG -0.06 | MCG -1.11 | LCV 0.49 | MCV -0.36 | HYB 0.18 | LCG 0.49 | LCG -1.61 | SCG 0.01 | MCG -2.72 | LCV 0.77 | 60/40 -0.67 | IBD -0.03 |
| | 60/40 0.60 | IEQ -0.20 | EM 1.34 | MCG -0.55 | IEQ 0.86 | 60/40 0.59 | HYB 0.22 | RE 0.60 | IBD -0.55 | EM -0.67 | USB -0.08 | HYB -0.12 | MCV -1.15 | HYB 0.36 | RE -0.40 | IEQ 0.08 | SCG 0.47 | MCG -1.72 | 60/40 -0.23 | SCG -2.87 | IEQ 0.47 | RE -0.68 | USB -0.56 |
| | IEQ 0.58 | 60/40 -0.25 | 60/40 0.97 | RE -0.63 | 60/40 0.81 | MCG 0.57 | LCV 0.17 | IEQ 0.58 | LCV -1.00 | SCV -0.69 | 60/40 -0.26 | SCG -0.23 | SCV -1.17 | 60/40 0.31 | LCV -0.41 | EM -0.02 | 60/40 0.39 | IEQ -1.80 | IEQ -0.78 | MCV -2.89 | 60/40 0.45 | SCV -0.78 | 60/40 -1.10 |
| | IBD 0.40 | SCG -0.47 | HYB 0.75 | MCV -0.76 | HYB 0.36 | LCG 0.40 | USB 0.03 | MCV 0.57 | IEQ -1.12 | MCG -0.74 | IBD -0.46 | MCV -0.27 | SCG -1.34 | LCG 0.26 | IEQ -0.48 | LCG -0.07 | IBD 0.35 | SCG -1.95 | LCV -1.26 | LCV -2.91 | MCG 0.39 | EM -1.13 | LCV -1.19 |
| | HYB 0.34 | MCG -0.83 | RE 0.56 | LCV -0.91 | RE 0.11 | IBD 0.28 | SCV -0.01 | HYB 0.51 | MCV -1.27 | LCG -0.79 | LCG -0.55 | SCV -0.30 | LCV -1.43 | USB -0.08 | SCV -0.48 | RE -0.12 | USB 0.14 | LCV -2.06 | MCV -1.31 | IEQ -2.99 | HYB 0.29 | MCG -1.85 | RE -2.92 |
| | LCV 0.25 | EM -1.15 | IBD 0.39 | IEQ -1.06 | USB -0.07 | HYB 0.22 | MCV -0.03 | USB 0.20 | SCV -1.53 | SCG -1.16 | EM -0.72 | LCG -0.42 | LCG -1.48 | MCG -0.24 | MCG -0.84 | USB -0.18 | LCV 0.14 | MCV -2.36 | RE -1.48 | SCV -3.36 | USB -0.18 | SCG -1.89 | LCG -3.37 |
| Low | USB 0.14 | LCG -2.01 | USB -0.32 | LCG -1.59 | IBD -0.08 | USB 0.13 | RE -0.43 | IBD -0.33 | RE -1.60 | RE -1.17 | IEQ -1.18 | RE -0.62 | RE -1.62 | SCG -0.27 | SCG -1.27 | IBD -0.36 | HYB 0.12 | SCV -2.47 | SCV -1.78 | LCG -3.75 | IBD -0.53 | LCG -2.29 | IEQ -3.55 |

## Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

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.

Advisory services offered through Prime Capital Investment Advisors, LLC. (“PCIA”), a Registered Investment Adviser. PCIA doing business as Prime Capital Wealth Management (“PCWM”) and Qualified Plan Advisors (“QPA”).

QUALIFIED PLAN ADVISORS