

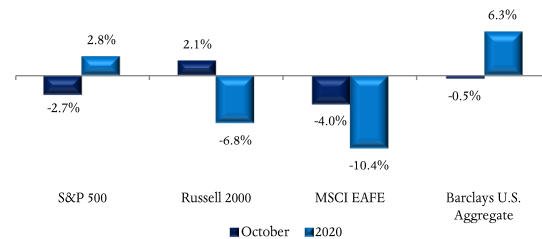


MARKETS

October's news flow was dominated by two topics, the resurgence of Covid-19, and the US elections. Early-month equity gains were extinguished after the announcement of newly enacted lockdowns across Europe, and political uncertainty in America, led to profit taking. The S&P 500 stock index retreated -2.7% in October (+2.8% ytd). However, the smaller capitalization Russell 2000 benchmark recovered a further +2.1% during the month, but still remains down -6.8% thus far in 2020. Overseas equities, as measured by the MSCI EAFE index, declined -4.0% in October (-10.4% ytd). European stocks remain the laggards, dropping -5.1% for the month (-15.6% ytd). Asian shares were among the strongest. Strong Chinese economic data drove the Shanghai index higher (+0.2% in October; +8.2% ytd), while Tokyo's Nikkei 225 benchmark was subdued, drawing down -0.9% during the month (-1.1% ytd).

The strength typically exhibited by fixed income during risk-off periods was absent in October, as the US 10-year Treasury yield rose by 18 basis points, to 0.88%. US credits also considerably underperformed their equity counterparts, with spreads widening to levels last seen in May. In Europe, virus concerns pushed 10-year German Bund yields 10 basis points lower to end the month at -0.63%, while regional credit managed modest positive returns. The Bloomberg Barclay's US Aggregate bond index declined -0.4% in October (+6.3% ytd).

Energy prices increased +0.5% in October, led by gains in coal and natural gas, while WTI crude oil declined to \$35.79 per barrel, the lowest level since May. Agricultural prices jumped circa +2.0%, while food prices increased 3.3%, perhaps linked to coronavirus related disruptions. Further, industrial metals prices were mixed, while precious metals dropped nearly 2% (gold ended the month at \$1,877.96 per ounce).



GEOPOLITICS

Democratic presidential nominee and former Vice President Joe Biden came into election day with a seemingly large eight-point lead in numerous national polls, and ahead in several key swing states. There were also indication of a Democratic sweep of the House and Senate, dubbed the Blue Wave. In a closer than expected roller-coaster race, that achieved record voter turnout but was plagued by delays due to large amounts of mail-in submissions, Mr. Biden was declared the victor. The incoming 46th president of the United States, earned the majority of Electoral College and popular votes. However, there was no clear sweep given that the balance of power in the Senate awaits two runoff elections in the traditionally Republican state of Georgia, in early January. Should the Democrats win these races, the Senate would be balanced, with Vice President-elect Kamala Harris able to break any tie. In the unlikely event that the Democrats come to control both houses of Congress, the clean sweep may usher in a more rapid and robust fiscal package to combat the economic effects of the pandemic. However, it would also increase the potential for higher taxation.

UNITED STATES

Across America, daily coronavirus cases have risen significantly, reaching 120,000 per day, a doubling from the summer lows, and appear poised to climb further. The mid-west is now bearing the brunt of new infections. Hospitalizations and ICU utilization are both ris-

ing, leading to the possibility of the health care system becoming stressed over the winter months. The increase in cases has, however, not impeded the reopening of the US economy, with 29 states now fully open. As an illustration, activity data in the five most populous states has increased, yet remains 30% below year-ago levels. Importantly, in a major victory in the fight against the pandemic, pharmaceutical company Pfizer, and its partner BioNTech, announced that their experimental vaccine was more than 90% effective in preventing Covid-19, based on initial data from a large study. No serious side effects have been reported, indicating an overall very positive result. In addition, the mRNA vaccination appears to be effective after only four weeks, which means that one does not have to wait long for protection. While these are first signals (primary vaccine data is still not available for analysis, and various logistical issues must be worked out), it feels like a watershed moment for both public health and the economy.

On the labor front, US October non-farm payrolls rose 638,000, despite a 147,000 drop in temporary Census employment, leading to another large decline in the unemployment rate, to 6.9%, suggesting that the labor market recovery still has plenty of momentum. The positive trend in manufacturing also continued, with the PMI advancing almost 4 points further into expansion, with a reading of 59.3%. Similarly, consumer spending indicators remained robust, with small business credit card sales 31% higher than early March levels. Light vehicle sales also improved further, registering only a -3% decline in October (as compared to a trough of -47.5%).

With regard to monetary policy, the Federal Reserve remains committed to its current program of purchasing \$120 billion of federally guaranteed Treasury and Mortgage backed securities per month. Further, the central bank expects short term interest rates to remain pegged at the zero bound for several years to come, awaiting full employment, even at the expense of inflation levels in excess of their targeted 2% level.

October 2020 Economic Statistics

	Oct-20	Dec-19	Dec-18
Federal Funds Target Rate	0 - 0.25%	1.50-1.75%	2.25-2.50%
Consumer Confidence Index	100.9	126.5	128.1
Manufacturing PMI Index	59.3%	47.2%	54.1%
Unemployment Rate	6.9%	3.5%	3.9%
JPY/USD	104.64	108.61	109.56
USD/EUR	1.1647	1.1210	1.1469
Gold/oz.	\$1,877.95	\$1,517.01	\$1,282.73
Oil (WTI)/bbl	\$35.79	\$61.06	\$45.41

EUROPE

A second wave of coronavirus infections has engulfed Europe. New highs in infection rates are being reported daily, but recovery rates have also risen significantly. Initial, targeted, restrictions have had limited success with a number of countries, including Spain, France, Germany, UK and Italy, re-imposing national lockdowns. Against this backdrop, high frequency measures of European activity have started to move lower as containment measures take hold. Survey data have also highlighted a bifurcation between the manufacturing sector, which has continued to recover, and service sectors, which are once again subject to restrictions, to the detriment of consumer confidence. To support the labor force, all of the major euro area economies are providing further fiscal support. Yet, eurozone unemployment levels have risen to 8.3%.

The perennial issue of Brexit is approaching the endgame. The EU began legal action against the UK government as a result of their internal markets bill. This led to the European Council meeting of mid-October (which was previously seen as a key deadline) passing without a deal being struck. Even though negotiations were briefly paused, talks are now intensifying as both sides wish to settle on a trade deal before year-end.

ASIA

China was the first country to suffer from the virus and has retained stringent controls since, leading to near zero new daily cases of late. In turn, October finally saw the relaxing of movement between provinces that

the country has kept in place since the outbreak. China's success in controlling the virus has allowed its economic recovery to gather pace, with third-quarter GDP growth printing at 4.9% year-over-year, with the potential for positive economic growth for the full-year 2020. A resurgence in Chinese consumerism bodes well for the global economy as local imports play catch-up, with the most recent data showing a +13.2% increase year-over-year.

OUTLOOK

The start of the fourth quarter appears to have provided clarity regarding US politics as well as shining a light at the end of the coronavirus tunnel. Positive vaccine progress, together with the sheer amount of stimulus being provided to bolster both consumer and industry offers perspective for a return to steady state growth towards the end of next year. However, there remain questions regarding the scale and scope of policy responses required over the winter, a period when the progression of the virus is projected to worsen, before improving. While uncertainties still remain with regard to US fiscal policy, it is undeniable that further support is warranted and that the Democrats are motivated to increase the social safety net for Americans. One path is via higher minimum wages, which should ultimately help the entire consumer driven economy. Another potential positive economic catalyst is infrastructure investment, which would boost employment, in an area that is sorely needed after decades of neglect.

President-elect Biden's "green" agenda, has the potential to help the environment over time, while boosting America's standing in the competitive field of associated technologies (including renewable energy, a zero carbon ecosystem, and the electrification of transportation, to name a few). For instance, General Motors has released a "go to market" for its electric vehicle (EV) platform, which calls for all its EVs to be made in-house, based on five drivetrains and three motors, integrated with the auto maker's Ultium battery. On the policy making front, the US has consistently lagged Europe and China and, looking forward, this may change. The CFTC has made the case for a carbon tax and for incorporating climate change risks into all federal financial oversight functions. In a glimpse

of the future, Apple Computer (following Amazon's lead) announced a 100% carbon neutral commitment by 2030. Further, there is the potential for a Biden administration to champion direct government spending on clean energy. The President-elect's "build an equitable clean energy future" plan outlines up to \$2 trillion in spending over the next four years. From an investment perspective, these trends have important implications for commodities, as well as sectors such as automotive, energy/renewable power, and technology.

With a vaccine in sight, and the global economy likely to reach equilibrium in 2021, investors are apt to take a longer-term view of asset prices. This bodes well for our favored high quality global equities, which offer reasonable valuations as well as solid dividend yields. Looking ahead, there is also the potential for the value oriented style, driven by cyclical stocks, to regain traction after a long period of underperformance. In light of the Federal Reserve's ongoing aggressive monetary stimulus, in response to persistent deflationary forces, the central bank's open market committee has telegraphed that it expects to allow inflation to exceed its 2.0% target for an extended period. Note: the Consumer Price Index has risen +1.7% (ex-food and energy) over the past year. This steadfast commitment to easy monetary policy, coupled with near zero interest rates, in the face of rising inflation, is likely to allow for persistently higher equity valuations.

For risk averse investors, the implications are that they must endure muted prospective returns. The risk-free US 10-year Treasury Note currently yields 0.95%, providing a negative real return after accounting for inflation and taxation. As such, we continue to recommend short duration, or variable rate, corporate credit as well as tax-free municipal securities, where there are relative value opportunities.

For investors seeking better risk adjusted returns for their portfolio's we have pinpointed select alternative strategies that serve the role. In addition, we have most recently identified unique opportunities in energy infrastructure, distressed real estate, and biomedical technology.

Important Disclosure and Terms of Use: Property of Papamarkou Wellner Asset Management, Inc. For targeted distribution only and not a solicitation. This report may not be displayed, reproduced, distributed, transmitted, or used to create derivative works in any form, in whole or portion, by any means without express written consent by Papamarkou Wellner Asset Management, Inc. or its operating subsidiary, Papamarkou Wellner & Co., Inc. MEMBER: FINRA/SIPC. All opinions expressed within unless otherwise stated are those of Papamarkou Wellner Asset Management, Inc. based on the most recent market, security, and economic data available.

Sources: Barclays, Bloomberg, Bureau of Labor Statistics, Conference Board, Department of Agriculture, Federal Reserve, Financial Times, IMF, Institute for Supply Management, MSCI, Reuters, Russell, Standard & Poor's, and the Wall Street Journal.