



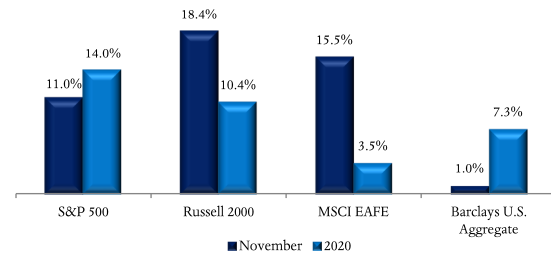
MARKETS

November was punctuated by several market moving events. US election results, which point towards a split Congress, were cheered. Thereafter, over three successive Mondays, investors were greeted with positive vaccine efficacy announcements, signaling the prospect of the end of the Covid-19 crisis, which ignited risk assets.

The S&P 500 index posted its best November since 1928 (+11.0%) leaving the benchmark +14.0% thus far in 2020. However, it was the smaller capitalization stocks that led the way higher, with the Russell 2000 index rising +18.4% (+10.4% ytd), its largest monthly advance since inception in 1984. In a robust rotation into value and cyclical stocks, the year's heretofore biggest losers gained the most in November. Overseas stocks also posted impressive gains for the month, as illustrated by the MSCI EAFE (+15.5% in November; +3.5% ytd). Similarly, the Euro Stoxx 600 index jumped +13.9%, but still remained -3.9% for 2020. In Asia, Shanghai stocks rose a more modest +5.2% (+13.8% ytd) while Tokyo's Nikkei 225 index leaped +15.0% (+13.8% ytd). Overall, global value stocks returned +15.1% in November, outperforming growth, which returned 10.9%.

In fixed income markets it was the riskier high yield and emerging markets that outshone lower risk ones (the 10-year US Treasury Note ended the month with a yield of 0.84%, down 4 basis points) as positive Covid-19 vaccine news increased optimism for a cyclical recovery in 2021. The US high yield bond index returned +4.0% in November (+4.2% ytd), while the Bloomberg Barclays US Aggregate index rose +1.0% (+7.4% ytd).

Commodity markets were also strong in November on improved prospects for a resumption in global growth. In the energy complex, WTI crude oil rocketed higher by +26.7% last month, yet still remains -25.7% ytd. Agricultural prices advanced +4.1%, while metal val-



ues rose +5.6% (copper prices reached a seven-year high). Conversely, precious metals took a post-election pause, led by gold (-5.4% in November; +17.1% ytd).

GEOPOLITICS

The US election, which garnered an unprecedented amount of votes, including large numbers of pandemic induced mail-ins, resulted in victory for Joe Biden, now deemed President-elect. While the Trump campaign has filed legal challenges to contest several state results, this is unlikely to affect the outcome, given the margin of victory. Indeed the transition process from a Trump to a Biden administration is now underway.

With regard to Congress, the Democratic Party retained control of the House, albeit with a smaller majority. Control of the Senate will be decided post January 5, 2021 by two special run-off elections in Georgia. If either of the incumbent Republicans hold onto their seats, which is likely, the party will retain its majority control in the upper chamber, leading to a split Congress.

Looking ahead, there are a few key policy implications of a Biden presidency. We expect the incoming president to take a more diplomatic and less confrontational approach in foreign policy matters. Also, a reunification of the US with its global peers in an effort to combat climate change, with the president-elect intending to re-join the Paris Climate Agreement. This is expected to help drive a domestic green agenda which will promote economically stimulative policies.

UNITED STATES

The economic recovery in the US continues to proceed at a solid pace, but there appear to be some speed bumps on the horizon. The purchasing managers' index (PMI) for November showed that both manufacturing and services activity was improving, with the indices rising more than expected. However, November labor market data showed the addition of 245,000 jobs, a marked downshift from recent months. Notably, while the unemployment rate ticked-down to 6.7%, the number of adults that have exited the labor force rose by 560,000, indicating an increasing degree of permanent job losses. This shift, in-turn, led to softer consumer confidence measures for November, with the index declining from 101.4 to 96.1. Overall, Q4 2020 GDP is currently tracking at a 5.4% annualized growth rate, an uptick from last month's forecast of 4.8%, stemming from strong consumer spending and durable goods orders, thanks in-part to prodigious fiscal and monetary stimulus.

In a noteworthy appointment by the incoming Biden administration, former Federal Reserve chairman, and activist, Janet Yellen was called-on to become the first female Treasury Secretary. Mrs. Yellen is considered an "uber-dove" in favor of significantly more fiscal stimulus to prop-up the US economy.

EUROPE

The Eurozone's recovery process has temporized on account of a second wave of the Covid-19 pandemic and the resulting region-wide lockdowns. Restrictions have once again created an economic air-gap in service oriented sectors, pushing out the ultimate recovery by at least one quarter. While the services component of the Purchasing Mangers Index fell 4.9 points to 41.3% in November, indicating contraction, the manufacturing PMI showed resiliency, slowing by a mere 1.0 point to 53.8%, firmly in expansionary territory. Local producer prices declined -2.0% year-over-year in October. Separately, unemployment declined to 8.4% from 8.5% previously. While it now seems apparent that local

November 2020 Economic Statistics

	Nov-20	Dec-19	Dec-18
Federal Funds Target Rate	0 - 0.25%	1.50-1.75%	2.25-2.50%
Consumer Confidence Index	96.1	126.5	128.1
Manufacturing PMI Index	57.5%	47.2%	54.1%
Unemployment Rate	6.7%	3.5%	3.9%
JPY / USD	104.27	108.61	109.56
USD / EUR	1.1928	1.1210	1.1469
Gold / oz.	\$1,777.02	\$1,517.01	\$1,282.73
Oil (WTI)/bbl	\$45.34	\$61.06	\$45.41

economies will contract in the fourth quarter, businesses are feeling increasingly positive regarding future activity, thanks to prospects for a vaccine.

On the fiscal policy front, the leaders of Poland and Hungary effectively vetoed the European Union's €750 billion recovery fund and €1.8 trillion seven-year budget because the funding is conditional on meeting "rule of law" commitments. Negotiations are ongoing, but the intervention raises the risk of delaying members' access to funds.

The UK government has reintroduced restrictions to contain the latest outbreak of the virus, and concurrently extended their job furlough scheme, through the end of March. As a result, The Office for Budget Responsibility forecasts that government borrowing will hit £384 billion this year, equivalent to 19.4% of GDP, a figure not seen since World War II. Efforts by the Bank of England to manage Gilt yields (10-year at 0.31%), and ease the financial burden of mounting deficits, have been relatively successful. In order to further ensure stability, the central bank has announced that it will expand its asset purchase facility by a further £150 billion, £50 billion more than had been expected. Meanwhile, Brexit negotiations are still ongoing at the eleventh hour, with three critical issues still to be resolved: fishing rights, government support for industry and how a deal will be enforced.

ASIA

Asia's largest economies have managed to escape prolonged fallout from the coronavirus pandemic, in large

part because of significantly better containment measures. In China, industrial production rose 6.9% last month and the overall economy is on track to return to its pre-Covid growth trend of circa 6.0% in the current quarter. Japan reported its economy expanded 5.0% in Q3, the fastest pace on record for the world's third largest economy, allowing it to emerge from recession.

OUTLOOK

An end to the Covid-19 crisis is now in sight, thanks to positive Phase III trial results from the Pfizer/BioNTech and Moderna Covid-19 mRNA vaccines. However, the path to recovery is unlikely to be smooth and may last the better part of next year. In the meantime, governments will grapple with controlling the spread of the virus, especially during the coming winter period in the northern hemisphere. In Europe, significant restrictions to curb the spread of Covid-19 look to be effective, with new infections now falling sharply from their latest peak. In the US, the situation has continued to escalate, with new cases rising. There are now eight US states where business are mostly closed, and two with stay-at-home orders. Unfortunately, this brings with it a significant decline in retail and services activity. In all, global economies have shown resiliency and adaptability. World GDP is only about 3% below year ago levels, and world trade has recovered to a mere 1.5% shy of its pre-virus peak. Granted, the downside has been mitigated by robust fiscal and monetary stimulus on a globally concerted level, which has led to the largest annualized increase in personal income in decades. Looking ahead, in the US, there appears to be support for a \$908 billion federal stimulus bill. It is expected to include \$288 billion in small business aid, \$180 billion in unemployment benefits (\$300 per week; which is below the \$600 per week stimulus of April), \$160 billion in state/local government support, and \$17 billion to prop-up the airline industry. At stake is that 12 million Americans lose unemployment stipends on December 26, and the "eviction ban" expires on December 31. Further, there is no contemplation of the issuance of another one-time aid check to citizens. Thereafter, it remains to be seen whether this package is sufficient to bridge the gap until the ad-

vent of widespread inoculation and improved mobility.

As we go to press all four major US equity indexes are near record highs. All-time high prices have led to a commensurate rise in valuations. The S&P 500 index currently trades for 19x 2022 earnings, which is reflective of the current levels of interest rates. The recent increase in market breadth from historical extremes, favoring cyclicals and value oriented equities, is a welcome development. There is the potential for the extreme valuation divergence between growth and value stocks to further narrow as the pandemic subsides and lockdowns ease, strengthening economic growth. This should bode well for equities broadly and especially for our roster of active stock-picking managers.

Fixed income investors are currently faced with negative real (inflation adjusted) yields in US Treasury securities. Overseas, absolute negative yields are seen in almost all sovereign bonds in Europe and Japan, approximating \$17.5 trillion. Present day markets have also set lows in US junk (4.70%) and investment grade corporate (1.85%) bond yields. Thus, risk averse investors face a dilemma: suffer a loss of purchasing power over time, or seek increasing risk in return for modest real returns. We would also add that the Federal Reserve has amassed \$7.2 trillion of assets on its balance sheet, in support of US governmental budget deficits (\$3.2 trillion in 2020) which have led to the accumulation of \$27.3 trillion of national debt. More broadly, total debt has increased to nearly \$80 trillion in the US and \$277 trillion globally. Given the aforementioned conditions, and our belief that the current levels of debt and deficits are of concern, especially with inflation beginning to percolate in many areas, we continue to recommend a conservative posture with regard to fixed income securities, including the avoidance of long duration and lower quality assets.

In an effort to best navigate prevailing market conditions, we would also like to highlight several opportune risk-adjusted and non-market correlated strategies including long/short credit, merger arbitrage, hedged European equity, energy/water infrastructure, distressed real estate, and biomedical technology.

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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.