

## ECONOMIC & MARKET INSIGHTS

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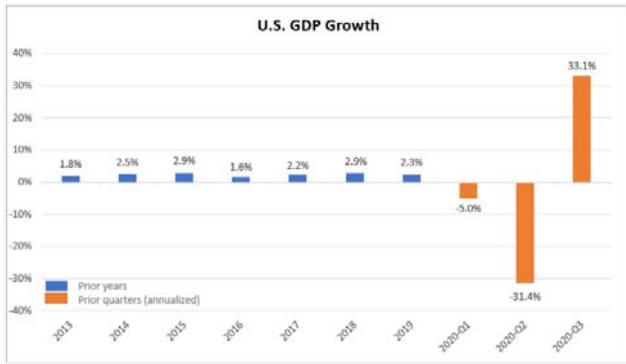
### An Executive Summary for October 2020

October was a challenging month for investors with many of the broad stock and bond markets both posting marginally negative returns. Even as the global economy seemed to be recovering, investors grappled with contentious U.S. elections that were difficult to predict and a resurgence of the coronavirus in the U.S. and Europe. At month-end, additional fiscal support, and progress on a safe vaccine for COVID-19 had not yet materialized. As could be expected in this uncertain environment, stock market volatility was elevated with losses across most geographic regions and sectors. Other market behavior was more surprising. Safe-haven investments such as U.S. Treasuries and gold declined even as traditional “risk on” investments like high yield bonds and industrial commodities outperformed.

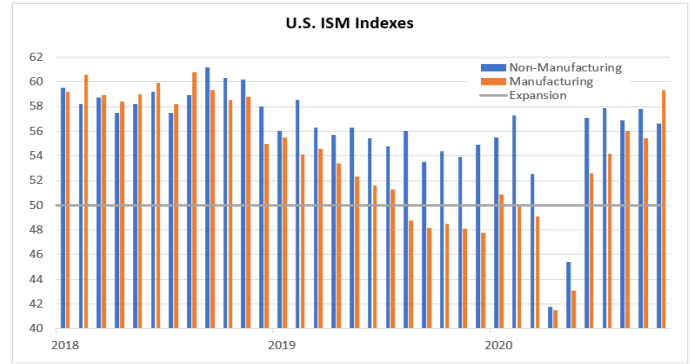
U.S. GDP surged at an annualized rate of 33.1% over the third quarter, ahead of consensus estimates of closer to 31%. Despite the strong rebound, economic activity remained below pre-pandemic levels. In the U.S., job gains have slowed but remained healthy even as temporary government census workers came off the payroll. Unemployment has dropped below 7%, but millions of jobs lost during the pandemic have yet to return. Consumer confidence continued to improve, and retail sales gains have far surpassed expectations. Globally, trading and manufacturing activity continued to pick up, particularly in Asia Pacific. However, major European countries imposed stricter lockdown measures to help contain a recent surge in COVID-19 cases, and local measures to expand business activity in the U.S. moderated. New restrictions and the onset of winter in some areas may slow near-term economic growth.

Although the major stock markets lost ground for the month, emerging markets and small-cap stocks were bright spots. All U.S. equity sectors, except for utilities, retreated for the month. Small companies are believed to particularly benefit from stimulus spending and may have profited from fears that large technology companies had become too expensive. An increase in corporate transaction activity may also be a tailwind for small companies in a post-pandemic economy. Bond market results were also underwhelming, with only high yield and international bonds generating positive returns. Rising interest rates led to negative returns for U.S. Treasuries and most high-grade sectors. High yield bonds outperformed high quality corporate and municipal bonds. The high yield default rate continued to climb, surpassing 6%. With most developed market benchmark rates under 1%, high yield and emerging market bonds are the only source of material bond yields.

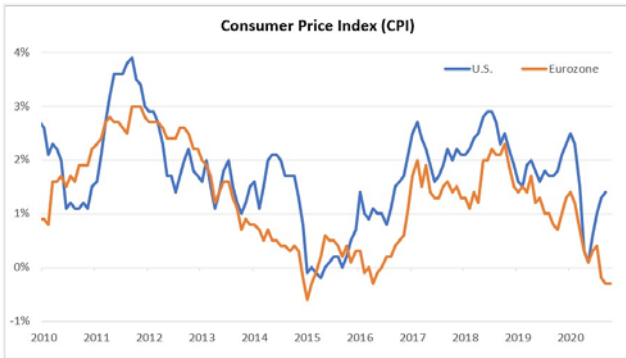
The outcome of the U.S. elections and the potential policy implications have preoccupied investors for months. Despite the political turmoil, it seems the U.S. government will remain divided between Democrats and Republicans. It is important to remember that government spending, taxation, and other policy changes that impact economic growth, consumer behavior, and corporate profitability may be more muted and more gradual than expected. The Federal Reserve will provide consistency and will likely continue policies that keep interest rates low and financial markets functioning. There seems to be bi-partisan support for infrastructure spending and greater regulation of large technology companies. Other sectors, such as energy and healthcare, may face fundamental changes. The past month has once again shown that market behavior is unpredictable, and diversification can protect investment portfolios from some losses. We urge investors not to make significant changes to portfolio allocations based on short-term uncertainty and timing decisions.



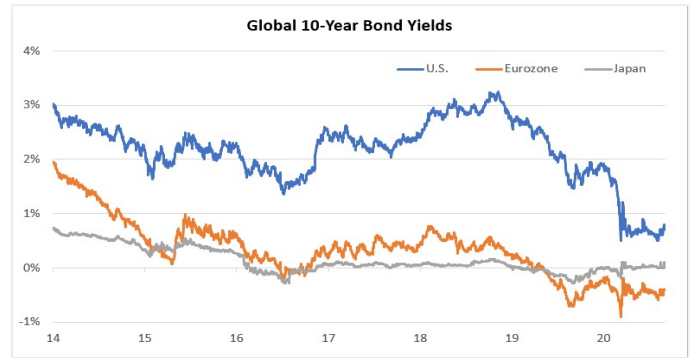
U.S. Department of Commerce



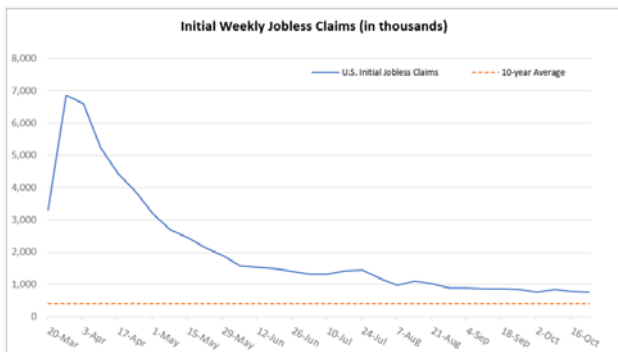
Institute for Supply Management



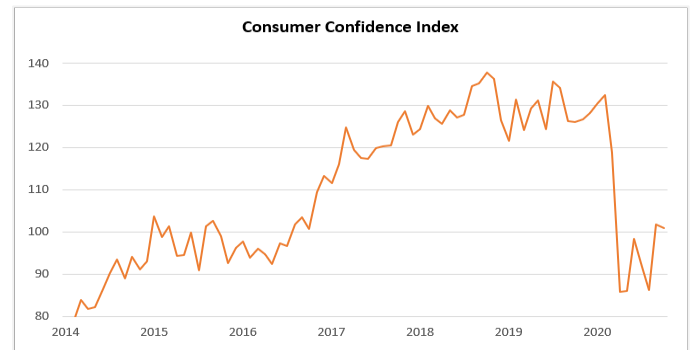
U.S. Bureau of Labor Statistics



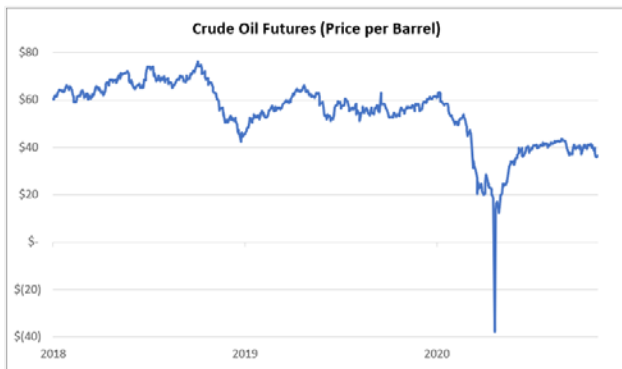
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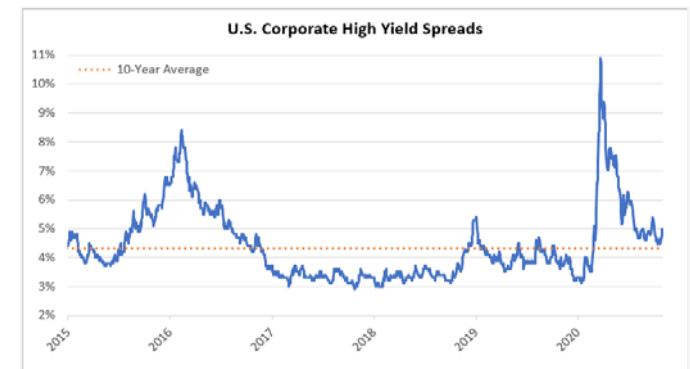
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