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MARKET MINUTE

2020 VOLUME: NOVEMBER REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Tom Seay, Senior Managing Director, Research.

OVERVIEW

The positive coronavirus vaccine news was the "shot-in-the-arm" that turned November into one for the record books. The MSCI World Index returned 12.8% in November, the second-best monthly return on record.[1] The S&P 500, Dow Jones Industrial Average, and Russell 2000 each hit an all-time closing high. The markets' jubilation will be tested as Washington debates additional fiscal stimulus, the economy struggles as another COVID-19 pandemic wave slams countries throughout the world, and the logistics of getting the vaccine out to the public are developed. But forward-looking investors appear willing to tolerate the short-term ups and downs comforted with the knowledge that the end of COVID-19 days is in sight.

DOMESTIC EQUITY

As of November 30, 2020

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	12.1%	7.1%	6.1%	8.1%
S&P 500	10.9%	8.0%	14.0%	17.4%
Russell 2000	18.4%	20.9%	10.4%	13.6%
Russell 1000 Growth	10.2%	6.5%	32.4%	36.4%
Russell 1000 Value	13.5%	12.0%	-1.0%	1.7%

U.S. equities rallied sharply in November following the Presidential election and improving news surrounding several potential COVID-19 vaccine releases. Small caps (Russell 2000) outperformed large caps (S&P 500) by 7.5% as investors continued their rotation into the small cap space given hopes for a domestic economic rebound and more appealing relative valuations. In the large cap space, value stocks (Russell 1000 Value) outperformed growth stocks (Russell 1000 Growth) by 3.0% as investors rotated into more cyclical companies and sectors amid expectations for an economic rebound. Despite the rebound in the US Equity market from its lows in March, politics and COVID-19 still have the potential to spark market volatility given their potentially broad economic implications.

INTERNATIONAL EQUITY

As of November 30, 2020

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	13.5%	11.0%	5.0%	9.5%
MSCI EAFE	15.5%	10.9%	3.0%	6.4%
MSCI Emerging Markets	9.2%	11.5%	10.2%	18.4%
MSCI EAFE Small Cap	13.7%	9.8%	5.2%	9.8%

Overall, November was a strongly positive month for international equities primarily due to optimism related to viable vaccines available for global use beginning in early 2021. Developed markets surged the most in November being led by Japan and Europe (MSCI EAFE + 15.5%). There was a strong rotation into value-oriented stocks—particularly energy and banking— as the MSCI ACWI ex US value sector outperformed the MSCI ACWI ex US growth (18% vs. 10%). Although emerging markets (MSCI Emerging Markets) produced solid returns (+9.2%) they were up less than the S&P for the month, as China lagged but Latin American equities outperformed. Non-US equity markets witnessed strong inflows of funds during the month as investors favored seeking cheaper stocks outside of the US. The US dollar generally weakened throughout November.

FIXED INCOME

As of November 30, 2020

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	1.0%	0.5%	7.4%	7.3%
BarCap Global Aggregate	1.8%	1.9%	7.7%	8.4%
BarCap US High Yield	4.0%	4.5%	5.1%	7.2%
JPM Emerging Market Bond	3.7%	3.6%	4.0%	6.0%
BarCap Muni	1.5%	1.2%	4.6%	4.9%

Reflecting the risk-on attitude, the risker sectors of the fixed income markets were the star performers. Long-term U.S. Treasuries outperformed intermediate bonds and "CCC" rated bonds significantly outperformed "AAA" rated bonds. Additionally, emerging market debt (JPM Emerging Market Bond) not only benefited from tighter spreads but also from a weaker dollar, resulting in a strong 3.7% return for the month.

Although U.S. Treasury rates barely changed during the month, lurking in the background is the fear of inflation due to the record amount of monetary stimulus injected into the financial markets. Should asset price inflation transform to consumer price inflation, the current low interest rates may set the record lows for the history books.

CLOSING

The COVID-19 economic upheaval was self-imposed (lockdowns), rapid, and deep (depression era unemployment and economic decline). Much of the economy has recovered but many businesses have been permanently shuttered. History has shown that US corporations adapt to the new landscape, innovate to meet customer needs, and invest for tomorrow's challenges. Patient, long-term oriented investors should look past the uncertainty of the next few months and remember that it is prudent to remain invested as the US equity market discovers new reasons to march on to new record highs.

Sources:

1 Bloomberg