

October 2020

# DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 10/31/2020

## Global Overview

Global equity markets broadly declined in October, with some pockets of positive performance. A continued increase in the number of COVID-19 infections across Europe and subsequent shutdowns hampered developed non-US markets. The U.S. equity market rallied for most of October only to give up gains in the final week of the month as investor weighed the impact of upcoming elections, and concern about a resurgence of COVID-19 in the U.S. began to take root. Within fixed income, the U.S. yield curve steepened during the month (negatively impacting performance) with some market participants anticipating a stimulus deal following the upcoming elections. Conversely, COVID-related shutdowns prompted a flattening of the yield curve across Europe and resulted in positive returns for the European bond market.

## U.S. Markets & Economy

U.S. equity markets experienced mixed results in October, with the S&P 500 Index posting a negative 2.7% return and the smaller-cap Russell 2000 Index generating a positive return of 2.1% for the month. The U.S. equity market began October with a strong rally following September's decline. However, by mid-month the rally stalled and results seemingly waxed and waned on progress towards another stimulus deal, before ultimately imploding during final week of the month as election and COVID concerns prompted a pullback of 5-7%. Despite the intra-month volatility, U.S. small cap stocks proved to be a bright spot, with the Russell 2000 Index leading the domestic market by posting a positive return of 2.1%. Value outperformed growth across all market caps, led by the Russell 2000 Value Index with a return of 3.6% for October. Utilities and smaller-cap Financials led the markets on a sector basis with Regional Bank stocks posting a return in excess of 15%. The fixed income market was challenged in the month as the yield on the 10-Year Treasury rallied by 19 basis points to 0.88%, its biggest monthly rally in two years. Providing some offset to the negative impact of the rising rates (bond prices go down as rates move higher), credit spreads tightened in the month by 11 basis points for investment grade bonds and 8 basis points for high yield bonds. Buoyed by its higher starting coupon and tightening credit spreads, high yield bonds led the U.S. bond market with the ICE BofA High Yield index posting a return of 0.5% for the month. Reminding investors of the growing level of interest rate sensitivity in the U.S. investment grade market, the longer-duration, government-heavy Bloomberg Barclays U.S. Aggregate index posted a negative return of 0.5% in October.

Economic news for the month was largely positive with initial jobless claims reaching their lowest level since March and reports of a continued expansion of economic activity in both the manufacturing and service sectors. The Federal Reserve also reiterated its guidance that they will keep rates near 0% until inflation has clearly been stabilized at or above 2% and that they would tolerate overshooting the 2% target for some time to ensure the economy would not re-enter a recession. At the end of the month the initial report of third quarter GDP was released and reported at a record setting annual growth rate of 33.1%. Although, this is a very strong rebound in growth, it should be noted that the rebound follows record-setting declines in GDP earlier in the year.

## International Markets & Economy

Non-U.S. equity performance for the month was driven by the impact of COVID-19 on each respective market. Non-US developed markets were heavily impacted by the swift resurgence of the pandemic in Europe as the northern hemisphere entered the fall. As new reports of spiking cases took hold of countries across Europe, policymakers were grudgingly forced to reinstate shelter in place orders in order to curtail the spread of the virus. The developed market MSCI EAFE Index posted a negative result of 4.0% for the month, and the MSCI Europe Index reported a decline of 5.6%. In stark contrast to their developed counterparts, the emerging markets reported strong results in October with the MSCI Emerging Markets index generating a return 2.1% for the month. Although there were some pockets of spiking cases of COVID-19 in Eastern Europe, the majority of emerging markets countries were far less impacted by the virus thus far in the fall and reduced pandemic related restrictions during the month. In addition to the declining impact of the pandemic on local markets, the emerging markets saw some boost from optimism that a potential victory by Joe Biden in the U.S. Presidential election could lead to a reestablishment of trade agreements that were largely vacated or contested under the Trump administration. Optimism about improved trade relations with the U.S. and the pullback in pandemic restrictions helped the MSCI Asia ex Japan index post one of the globe's strongest results for the month with a return of 2.8%.

## In the News

The upcoming U.S. elections on November 3<sup>rd</sup> remain at the forefront in the minds of investors around the globe. With many pollsters and political prognosticators increasingly pointing to a "blue wave," some markets are beginning to shift in anticipation of what economic and policy changes might be implemented under a Biden-led Democratic controlled U.S. government.

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation <sup>2</sup>
	Latest	2020 <sup>1</sup>	2021 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	33.10	-8.54	1.93	6.90	0.86	-	-	1.71
<b>China</b>	11.20	-3.67	4.51	4.20	3.20	6.69	7.05	2.39
<b>Japan</b>	-28.10	-7.32	-0.53	3.00	0.04	104.54	108.88	0.20
<b>United Kingdom</b>	-58.70	-13.96	4.97	4.50	0.26	1.29	1.29	0.46
<b>Euro Area</b>	61.10	-9.10	4.50	8.30	0.12	1.16	1.11	0.37
<b>Germany</b>	37.20	-8.76	1.67	4.50	-0.63	1.16	1.11	0.00
<b>France</b>	95.40	-14.07	5.22	7.90	-0.34	1.16	1.11	0.22
<b>Italy</b>	81.80	-14.01	5.29	9.60	0.72	1.16	1.11	-0.13
<b>Canada</b>	-38.70	-9.43	1.53	9.00	0.67	1.33	1.32	0.38
<b>India</b>	-69.40	-7.28	8.07	7.00	5.88	73.56	71.01	5.63
<b>Mexico</b>	57.40	-8.58	2.00	3.30	6.05	21.28	19.17	4.05
<b>Brazil</b>	-33.50	-9.10	2.40	14.40	7.61	5.76	4.02	2.44

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, Bureau of Economic Analysis, Trading Economics, and *The Economist*

1. Euro Area data forecasted by The World Bank, all other forecasted data from OECD

2. In terms of CPI All Items

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(3.07)	(0.16)	(1.42)	4.36	5.96	8.13	8.64
	BBgBarc US Agg Bond TR USD	(0.45)	(1.30)	6.32	6.19	5.06	4.08	3.55
	Russell 3000 TR USD	(2.16)	1.11	3.14	10.15	10.04	11.48	12.80
	DJ Industrial Average TR USD	(4.52)	0.80	(5.38)	0.34	6.74	11.12	11.82
	NASDAQ Composite PR USD	(2.29)	1.55	21.61	31.59	17.49	16.64	15.84
	MSCI EAFE NR USD	(3.99)	(1.68)	(10.80)	(6.86)	(1.24)	2.85	3.82
	FTSE Treasury Bill 3 Mon USD	0.01	0.03	0.56	0.86	1.62	1.16	0.60
Bloomberg Commodity TR USD	1.41	4.64	(10.85)	(8.75)	(4.41)	(2.73)	(6.36)	
Domestic Equities	S&P 500 TR USD	(2.66)	0.37	2.77	9.71	10.42	11.71	13.01
	S&P MidCap 400 TR	2.17	2.33	(6.63)	(1.15)	2.87	7.39	10.36
	S&P SmallCap 600 TR USD	2.58	1.66	(13.06)	(7.72)	0.20	6.48	10.39
	Russell 1000 TR USD	(2.41)	0.92	3.83	10.87	10.63	11.79	13.05
	Russell 1000 Growth TR USD	(3.40)	1.56	20.11	29.22	18.77	17.32	16.31
	Russell 1000 Value TR USD	(1.31)	0.24	(12.74)	(7.57)	1.94	5.82	9.48
	Russell Mid Cap TR USD	0.64	2.15	(1.72)	4.12	6.77	8.95	11.40
	Russell Mid Cap Growth TR USD	0.12	1.41	14.06	21.14	15.21	14.15	14.13
	Russell Mid Cap Value TR USD	0.93	2.55	(12.03)	(6.94)	0.86	5.32	9.40
	Russell 2000 TR USD	2.09	4.24	(6.77)	(0.14)	2.19	7.27	9.64
	Russell 2000 Growth TR USD	0.76	4.39	4.67	13.37	7.90	10.36	11.95
	Russell 2000 Value TR USD	3.58	4.08	(18.74)	(13.92)	(4.05)	3.71	7.06
International Equities	MSCI ACWI Ex USA NR USD	(2.15)	(0.47)	(7.47)	(2.61)	(0.19)	4.26	3.43
	MSCI EAFE NR USD	(3.99)	(1.68)	(10.80)	(6.86)	(1.24)	2.85	3.82
	MSCI EAFE Growth NR USD	(3.96)	(0.34)	0.46	5.18	4.84	6.64	6.22
	MSCI EAFE Value NR USD	(4.03)	(3.07)	(21.60)	(18.42)	(7.38)	(1.10)	1.29
	MSCI Japan NR USD	(1.60)	6.93	(2.26)	0.33	1.84	5.13	5.82
	MSCI AC Asia Ex Japan NR USD	2.79	4.84	8.36	15.85	4.25	9.52	5.40
	MSCI Europe NR USD	(5.64)	(5.03)	(13.99)	(9.29)	(2.67)	1.62	3.22
	MSCI United Kingdom NR USD	(5.05)	(6.58)	(27.30)	(22.25)	(7.41)	(2.83)	1.10
	MSCI EAFE Small Cap NR USD	(3.48)	2.95	(7.54)	(1.36)	(0.35)	5.38	6.55
	MSCI EM NR USD	2.06	2.64	0.87	8.25	1.94	7.92	2.42
Fixed Income	BBgBarc US Govt/Credit TR USD	(0.60)	(1.80)	7.39	7.08	5.61	4.53	3.81
	BBgBarc US Govt/Credit Interm TR USD	(0.22)	(0.35)	5.69	5.67	4.36	3.37	2.84
	BBgBarc US Govt/Credit Long TR USD	(1.58)	(5.40)	12.39	11.20	9.48	8.34	7.43
	ICE BofA US High Yield TR USD	0.47	0.40	0.17	2.54	3.86	6.14	6.07
	Credit Suisse HY USD	0.39	0.79	(0.23)	2.21	3.59	5.95	5.96
	S&P/LSTA Leveraged Loan TR	0.20	2.34	(0.46)	1.72	2.97	4.09	4.12
	FTSE WGBI NonUS USD	0.25	(0.25)	5.95	4.99	3.88	3.92	1.08
	BBgBarc Gbl Agg Ex USD TR	0.46	0.16	5.26	4.96	3.49	3.62	1.21
REITs	FTSE Nareit All REITs TR	(3.17)	(5.33)	(16.51)	(17.00)	1.68	4.33	8.11
	Wilshire US REIT TR USD	(2.46)	(5.38)	(18.79)	(20.51)	(0.09)	1.98	7.23

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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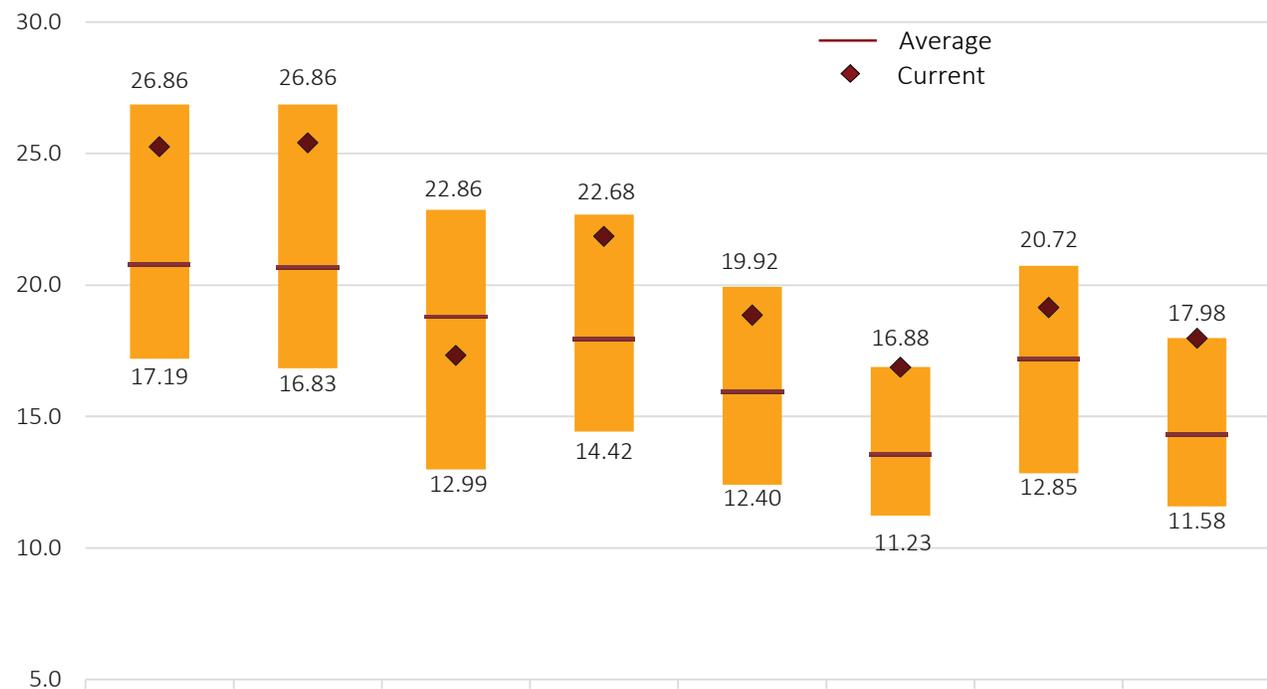
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## S&P 500 Price Level



Source: Standard & Poors

## Current P/E vs. Trailing 5-Year High, Low, Average

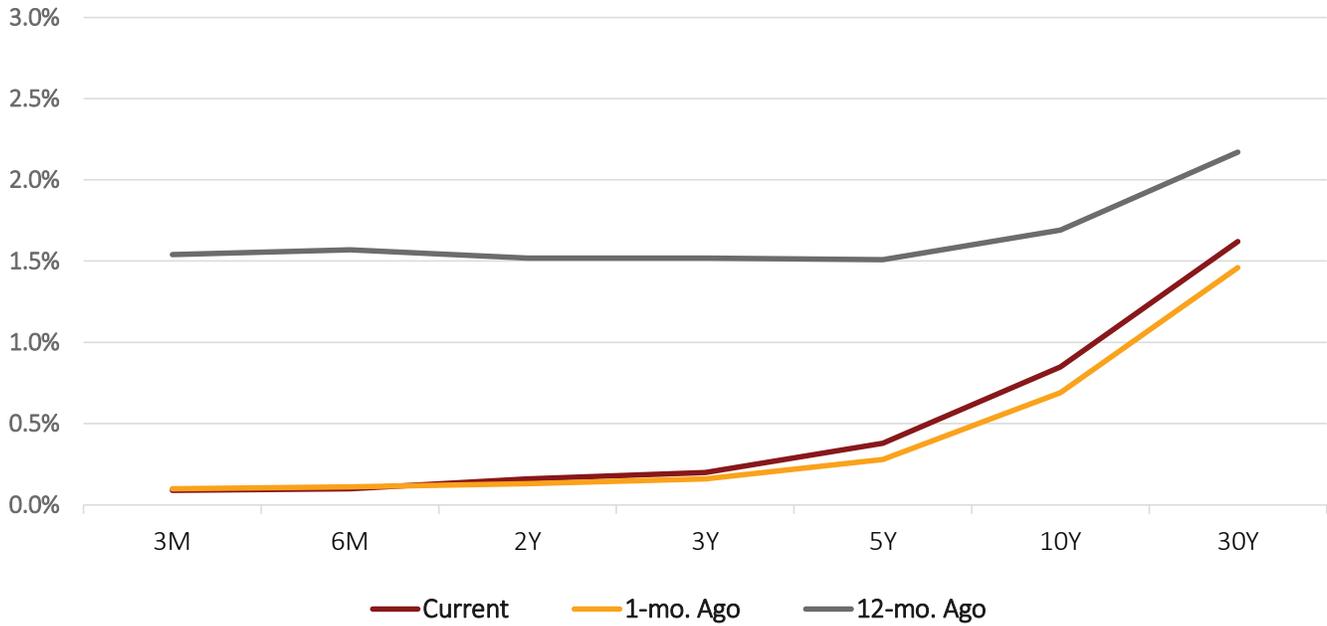


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Aug-20	Aug-20	Nov-17	Aug-20	Sep-20	Oct-20	Sep-20	Oct-20
Low Month	Dec-18	Dec-18	Mar-20	Dec-18	Dec-18	Dec-18	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

## U.S. Treasury Yield Curves

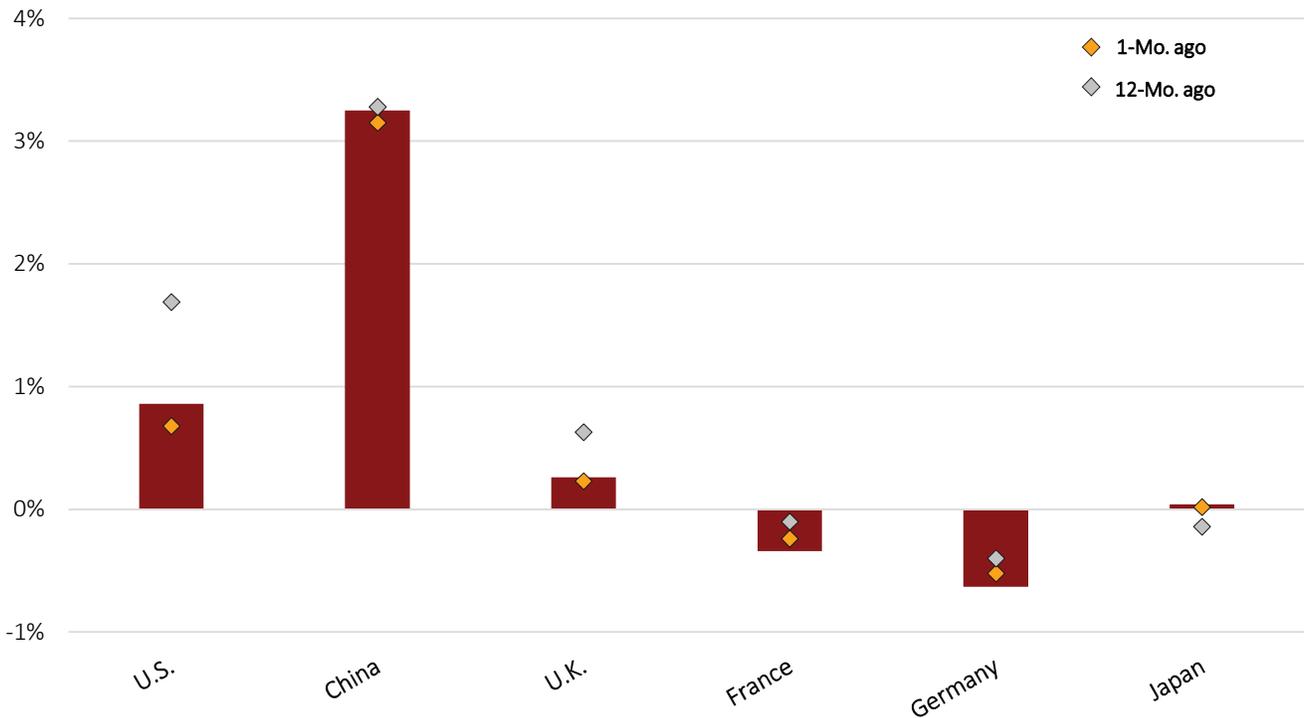
as of 10/31/2020



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

## 10-Year Sovereign Yields

as of 10/31/2020 (most recently available)



Source: Federal Reserve Bank of St. Louis, Wall Street Journal, Trading Economics

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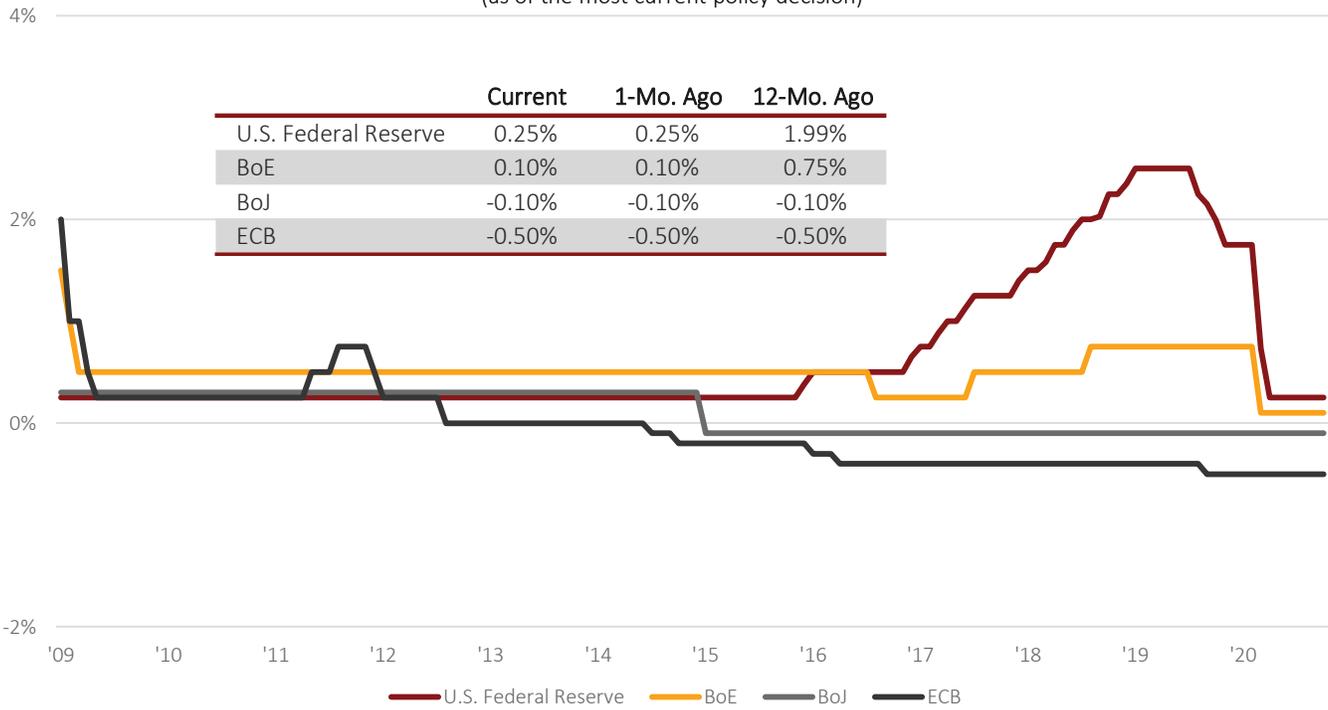
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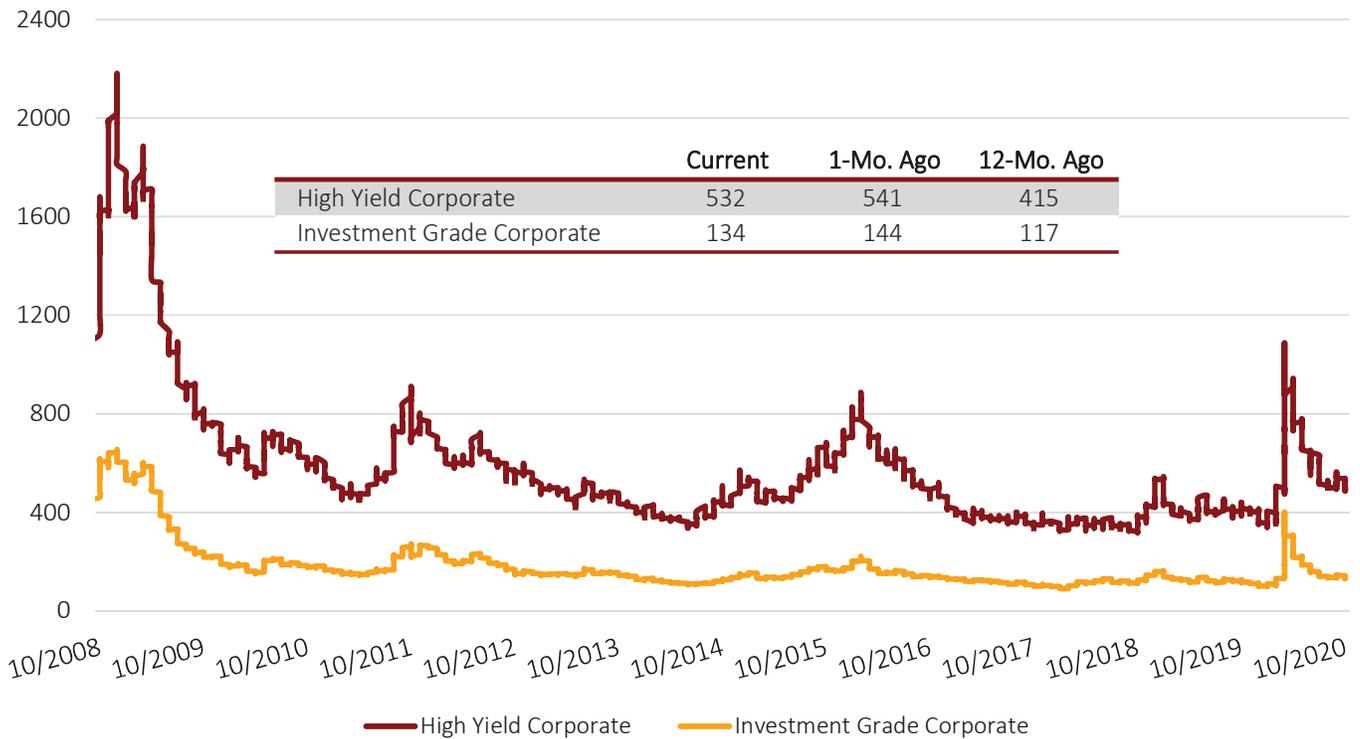
## Central Bank Policy Rates

(as of the most current policy decision)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trade Economics

## Corporate Bond Average Spread (bps)



Source: Bank of America