November 09, 2020

MARKET PERSPECTIVE *from the Investment Advisory Group*

Market Exhales, Supporting Our Base Case

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What Happened

Good news on the coronavirus vaccine front and further clarity on the presidential election outcome propelled markets sharply higher. A clinical study showed that the vaccine developed by the partnership between Pfizer and BioNTech prevented roughly 90% of infections, an efficacy rate well above pre-trial expectations. The vaccine must still seek emergency use authorization and undergo safety testing, but the clinical trial marks a promising milestone in the battle against COVID-19. Consequently, the S&P 500 is trading at a record high, while perceived safe haven assets, such as US government bonds and gold, are selling off.

Our Take

The positive vaccine news and market action over the past week support our bull market outlook. It also reinforces one of the main points we have been making this year—while elections matter, other factors matter more. We believed that progress towards coronavirus vaccines and therapeutics would have a greater impact on the economy, markets and sectors over the next year(s).

Questions surrounding the vaccine remain. However, the path to the other side of this pandemic is becoming clearer. Given stocks are typically valued on cash flow generation over multiple years, this news should further help investors look through the current rise in COVID-19 cases and potential slowing in parts of the global economy. That said, the US economy has remained resilient, as further evidenced by the strong employment report on Friday.

Notably, as of midday Monday, the S&P 500 is up more than 10% over just the past six days. Since WWII, this has only happened 12 previous times. This included the onset of the 1974, 1982, 2002 and 2009 bull markets as well as the market's initial surge from the March low this year (table included at end).

Following such strong price action, short-term market returns have been mixed. However, a year later, the S&P 500 has averaged a gain of 20% and was up every time except one, which was following the March 2000 signal. That signal occurred late into an extended bull market and economic expansion with the Federal Reserve tightening right before the technology bubble burst. Needless to say, the backdrop is quite different today; monetary policy is very easy, and our work suggests we are in the early innings of an economic expansion. Similarly, we have

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only seen three other instances where the S&P 500 has had five 1% up moves over a six-day period, as has occurred recently. Those dates included 1962, 1974, and 1982—each of which was early into a new bull market, though of course the sample size is very small.

Bottom Line & Positioning

What we are seeing today is that by the time clarity comes, the market has already moved. This is part of the reason we raised equities and reduced fixed income in early October when perceived uncertainty was high. That said, we still expect there will be fits and starts with the market and economy given uncertainty around the distribution of the vaccine and safety questions. Control of the US Senate also remains unresolved. However, the weight of the evidence in our work suggests the primary trend remains higher.

From a positioning standpoint, we maintain an equity bias relative to fixed income. We still favor the US relative to international markets. Within the US, we have been maintaining a modest growth tilt but transitioned our sector strategy to a mix of growth and cyclicals. The vaccine news reinforces our upgrade to materials and industrials over recent months and is good for many of the beaten-up value areas. We still have a positive view of technology but would expect the sector to lag shorter term as more economically-sensitive sectors stand to benefit from progress on coronavirus vaccines. This news is also benefitting small- and mid-cap equities, where earnings and relative price trends have been improving. Our modest position in gold, which was used as a partial hedge against election uncertainty and COVID-19, is under pressure today, as one would expect with some clarity. But given rising debt levels, still some uncertainty surrounding the vaccine and election results as well as potential US dollar weakness, we are maintaining the position for now.

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S&P 500: Returns Following Periods of >10% Gains Over 6 Days

Date	2-Weeks Later	1-Month Later	3-Months Later	6-Months Later	12-Months Later
6/2/70	-2%	-6%	5%	12%	29%
10/10/74	1%	7%	4%	21%	27%
8/20/82	9%	10%	22%	30%	45%
10/11/82	-1%	6%	9%	15%	27%
11/3/87	-3%	-10%	1%	4%	11%
10/16/98	4%	8%	19%	24%	19%
3/22/00	-1%	-4%	-1%	-3%	-26%
7/30/02	-2%	2%	-1%	-4%	9%
10/15/02	0%	0%	4%	0%	19%
11/3/08	-12%	-10%	-14%	-5%	8%
3/13/09	8%	11%	25%	38%	52%
3/30/20	8%	12%	16%	28%	
*11/9/20	?	?	?	?	?
Average	1%	3%	8%	13%	20%
% Positive	50%	67%	75%	67%	91%

Data Source: SunTrust IAG, FactSet.
*10%+ gain for current period based on midday S&P 500 price
Study only takes first instance (removes clusters)
Past performance does not guarantee future results.

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CN2020-2396 EXP12-2020

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