HB RETIREMENT®

FINANCIAL MARKET SNAPSHOT

Strong Covid Vaccine Data Drives Markets Higher

December 2, 2020

All market indices pushed higher in November, driven primarily by hopes for a successful Covid vaccine rollout coupled with greater visibility of the election results and the potential for a smooth transition to a new administration. Additionally, there were reports late in the month that bipartisan conversations were taking place in Congress regarding a second round of fiscal stimulus.

November's market rally was driven by a much broader range of companies rather than a few mega-cap tech stocks that we have seen for most of 2020. Announcements from Pfizer (PFE) and Moderna (MRNA) regarding successful vaccine trial data coupled with hopes for an economic recovery drove a rotation of equity capital into the energy, industrials and financials sectors during the month. Overall, November saw the S&P 500, Dow, and Nasdaq all up between 11%-12%, while the Russell 2000 was up 18.3%; and the S&P 500 energy sector increased 26.6%.

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Additionally, the CBOE Volatility Index (VIX) is now back at the lowest level since late February, and the Russell 1000 Value Index (RLV) has outperformed the Russel 1000 Growth Index (RLG) in each of the last three months. However, year-to-date, the value index is still down 3.0% compared to the growth index, which has increased an impressive 31.5% this year. Consequently, we believe that the "catch-up" trade could be a potential theme that might playout during 2021 driven by subsiding Covid case numbers and a potential return to "normalcy." Although any new normal will most likely look different going forward.

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Table 1: Notable Returns / Yields / Spreads: Aug. '20 - Nov. '20
Source: Bloomberg
Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month

	Ticker	Aug '20	Sep '20	Oct '20	Nov '20
S&P 500 Index	SPY	7.0%	-3.9%	-2.8%	10.8%
Russell 1000 Growth Index	RLG	10.2%	-4.8%	-3.4%	10.1%
Russell 1000 Value Index	RLV	3.9%	-2.6%	-1.5%	13.2%
MSCI EAFE Index	MXEA	4.9%	-2.9%	-4.1%	15.4%
MSCI Emerging Markets Index	MXEF	2.1%	-1.8%	2.0%	9.2%
BBG Barc. US Agg Bond Index	LBUSTRUU	-0.81%	-0.05%	-0.45%	0.98%
10-Year Treasury Yield	USGG10YR	0.70%	0.68%	0.87%	0.84%

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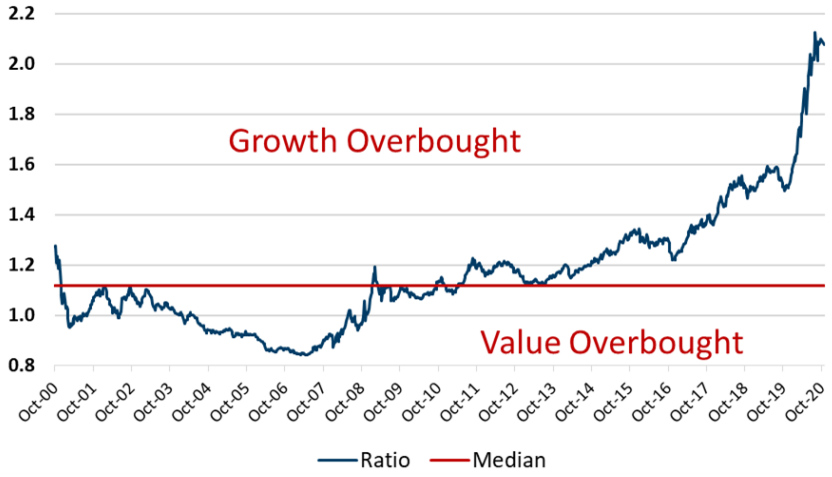
As the chart above shows, during the 1H of 2020 market decline, growth significantly outperformed both as stocks fell and again as stocks recovered lost ground. This was, in part, driven by the fact that many growth companies have business models that offer relatively high recurring revenue streams. Consequently, the buoyancy of growth strategies has been led by tech and communications stocks, while value strategies have been weighed down by their exposure to energy stocks.

Figure 1: S&P 500 Growth vs. S&P 500 Value
Source: Bloomberg



Financial services and consumer defensive stocks, both value-oriented sectors, also explain some of the underperformance. The large-value category has a 6.2% weight in consumer defensive and 18.5% in financial services sectors compared with the large-growth category's 4.1% and 10.9% exposure, respectively.

Analysts' 2021 S&P 500 price targets are starting to emerge, with JPMorgan forecasting a move to 4500 (+24%); Goldman Sachs forecasting 4300 (+18%); and BMO Capital Markets seeing 4200 (+15%) by year end.

Recall that on March 23, the S&P 500 was down 30.4% year-to-date, but as of the end of November the index is now up 14.0% for the year. Since the market low in March, we have witnessed a profound turnaround, as the market appears to be looking forward into 2021 and potentially factoring in a successful Covid vaccine rollout and, to a lesser degree, a second fiscal stimulus package. In fact, 2021 S&P 500 price targets are starting to emerge, with JPMorgan forecasting a move to 4500 (+24%); Goldman Sachs forecasting 4300 (+18%); and BMO Capital Markets seeing 4200 (+15%) by year end.

Election Uncertainty Subsides

Two runoff elections in Georgia on Jan. 5 still remain, which will determine if Republicans retain their majority in the Senate. However, the market appears to be focusing more on potential Biden cabinet nominees and how they might impact the new administration's policies going forward. However, the Georgia Senate races could play role in the confirmation process and, as a result, some of Biden's nominees may face a tougher path to confirmation. Despite any potential political rhetoric, we anticipate there will be a relatively smooth transition of power.

President-elect Joe Biden has announced his plans to nominate Janet Yellen to head the US Treasury Department, which the market appears to have reacted positively to the news. Her appointment is especially noteworthy at a time when monetary and fiscal policy will determine what the US economy looks like in the next few years. As a consequence, we might see even closer coordination of fiscal and monetary policy in 2021, which might be supportive of a sustainable growth outlook and financials markets in general. At present, both the Treasury and the Fed are expected to push ahead with expansionary policies, although a Republican Senate will likely continue to resist fiscal measures it deems too large. We note, that if confirmed, Ms. Yellen would be the first woman to lead the Treasury in its 231-year history.

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Other potential cabinet nominees include: Antony J. Blinken (Secretary of State), Jake Sullivan (National Security Adviser), Linda Thomas-Greenfield (U.N. Ambassador), John F. Kerry (Special Presidential Envoy for Climate), Avril D. Haines (Director of National Intelligence), Alejandro N. Mayorkas (Secretary of Homeland Security) and Neera Tanden (Director of the Office of Management and Budget).

Hopes for a Covid Vaccine Driving Markets Higher

On Nov 9th, Pfizer (PFE) and Germany-based partner BioNTech (BNTX) announced that the team's COVID-19 vaccine candidate indicated an efficacy rate above 95% at seven days after the second dose.

The study consisted of 43,538 participants, with 42% having diverse backgrounds, and no serious safety concerns have been observed. If the vaccine is approved, the company is prepared to roll out doses rapidly. Regulators at the FDA planned to take about three weeks to review Pfizer's vaccine before an outside panel of experts meets to review the application the second week of December. That meeting has been scheduled for Dec. 10th. Pfizer CEO Albert Bourla stated during an interview in early November that 50 million doses should be available by year end with an additional 1.3 billion doses will be available in 2021.

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Moderna (MRNA) also announced on November 16th that its vaccine is 94.1% effective, and that their study of 30,000 people has met the scientific criteria needed to determine whether the vaccine works. In a press release earlier this month, Moderna noted that the FDA's Vaccines and Related Biological Products Advisory Committee will likely schedule a meeting to review the vaccine's safety and efficacy data for Dec. 17th, with first injections to potentially begin by Dec. 21st. Moderna's CEO, Mr. Stéphane Bancel said the company was "on track" to produce 20 million doses by the end of December, and 500 million to a billion in 2021. Similar to Pfizer's vaccine, each person requires two doses, administered a month apart, so 20 million doses will be enough for 10 million people.

The government has arranged to buy vaccines from both Moderna and Pfizer and to provide it to the public free of charge. Moderna has received a commitment of $955 million from the U.S. government's Biomedical Advanced Research and Development Authority for research and development of its vaccine, and the United States has committed up to $1.525 billion to buy 100 million doses.

At present, more than 70 vaccines are being developed around the world, including 11 that, like Pfizer's and Moderna's vaccines, are in large-scale trials to gauge effectiveness.

A Second Fiscal Stimulus Package!

In the last days of November, reports emerged that a bipartisan group of senators was trying to jump-start stalled coronavirus fiscal stimulus talks during the lame duck session.

Recall that at the end of October, Congressional Democrats and Republicans disagreed on how much "enhanced" unemployment insurance to provide to workers who have lost their jobs. At that time, House Speaker Nancy Pelosi (D-Calif.) was reported to be targeting a relief package worth between $1.8-$2.2 trillion, while Republican Majority Leader Mitch McConnell (R-Ky.) was said to be seeking a smaller bill worth an estimated $500 billion.

A sense of urgency might exist amongst Congressional members, as a number of key CARES Act programs are due to expire on Dec. 31, 2020. This includes an extension of unemployment benefits to 39 weeks instead of the typical 26 weeks established by the states. Those extra weeks will disappear except for those states that already established a longer period of time through 2021.

Another program ending at the end of the year is the Pandemic Unemployment Assistance program. Self-employed workers and contractors normally don't receive unemployment benefits, but the Pandemic Unemployment Assistance (PUA) program allows them to receive weekly funds similar to other unemployed workers. This program is also set to expire on Dec. 31.

Senators reported to be involved in recent discussions include: Chris Coons (D-Del.), Joe Manchin (D-W.Va.), Mitt Romney (R-Utah), Susan Collins (R-Maine), Lisa Murkowski (R-Alaska), Mark Warner (D-Va.), Rob Portman (R -Ohio) and Michael Bennet (D-Colo.), the sources said. Senate Minority Whip Dick Durbin (D-Ill.) has also been reported to be involved in some discussions.

Although early in the process, any potential coronavirus relief package could be attached to a spending bill due by Dec. 11 to ensure its passage. At the present time, we do not believe that the market is discounting a high likelihood of a second stimulus package being pass before year end.

Potential Implications for Our Portfolios

From a portfolio management perspective, we remain cautious but optimistic on equity capital markets as we head into 2021, with potential catalysts that include: a successful Covid vaccine rollout, a second round of fiscal stimulus and an improving labor market.

While we acknowledge that this is not optimal news when comparing our returns against a market benchmark, we remain steadfast believers in both our investment philosophy and process.

The historic speed of the equity markets recovery has left our strategies lagging the high-frequency market action as we have held some cash aside driven by our technical indicators, increased macro uncertainty and greater market volatility. While we acknowledge that this is not optimal news when comparing our returns against a market benchmark, we remain steadfast believers in both our investment philosophy and process.

We do seek to align client portfolios in a manner consistent with our goal of potentially growing client wealth while seeking to mitigate potential market damage

We do not seek to mimic the market's trading speed in today's age, which is highly challenging for both institutional and individual investors alike. However, we do seek to align client portfolios in a manner consistent with our goal of potentially growing client wealth while seeking to mitigate potential market damage. Chasing high-risk market activity, which we experienced throughout most of this year, is indeed, not a part of our approach.

Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

Important Disclosures: *This material is not intended as ERISA, tax or investment advice and is not an offer to sell a security or a recommendation, to buy a security. If you are seeking investment advice specific to your needs, such advice services must be obtained on your own, separate from this educational and informational report. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.*

All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. The prices of small cap stocks are generally more volatile than large cap stocks.

Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The CBOE Volatility Index® (VIX®) is meant to be forward looking, showing the market's expectation of 30-day volatility in either direction, and is considered by many to be a barometer of investor sentiment and market volatility, commonly referred to as "Investor Fear Gauge".

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

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The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

Economic and other investment forecasts set forth may not develop as predicted and there can be no guarantee that strategies mentioned