Market Update: December 4, 2020

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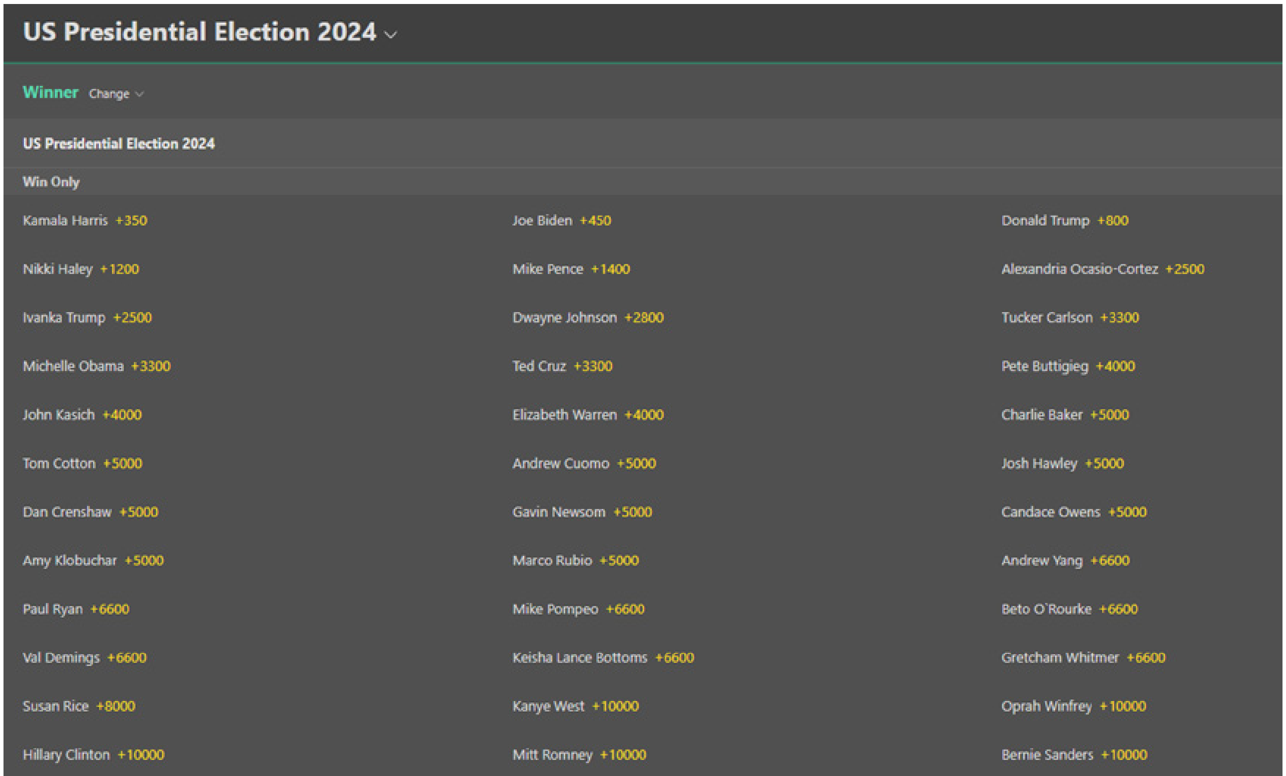
"What I like doing best is nothing"-A.A. Milne

While maybe not in the same sense a young Christopher Robin was explaining to Winnie the Pooh, doing nothing was seemingly the best plan of attack when it came to the Asset Allocation decision for the month of November. With our call from the end of October to bring equities to the high end of their range, we simply sat back and reaped the rewards from a month filled with potential catalysts that all played out seemingly to the positive.

As we mentioned during our recent portfolio reviews, the US election was at the forefront of most investors' minds. Historically speaking, the market does a fantastic job sniffing out potential downside in the weeks prior to an election and any surprises are typically positive. However, in 2020, the presidential candidates carried greater uncertainty than previous elections and the United States as a whole seemed more divided and this happened again. In the last few weeks of October we saw the market sell off ~7%, coinciding with a bottom on October 30th. The first two days of the month, we saw a rally on the back of a higher probability of seeing a "blue-wave" come election night. If the case, this would lead to a larger fiscal stimulus plan. When we woke up on November 4th with a Democratic president but a Republican Senate, we saw the market rally again. The rally this time was fueled by the prospects that so long as the Republicans keep control of the senate, the far-left progressive ideals won't be getting passed in Washington.

Regardless of your political affiliations, market-wise, this was probably the best case scenario. The business-friendly Republican party can still is going to be running the country with the White House possibly beginning to exhibit a little more stability. The caveat here is that Georgia is going to a run-off election for two seats in the Senate. The Republicans only need one to maintain the Senate, which is proving to be an uphill climb for the Democrats. Currently, Vegas odds has the Republicans in the lead for both seats putting the odds of the Democrats winning the Senate at 5-10%. While it ain't over till it's over, it appears as if we can put the 2020 election cycle in the rearview mirror. Looking forward to 2024 bets are already being taken on who's going to win (The Rock is looking good at +2800)…Vegas never sleeps.



US Presidential Election 2024

Winner Change

US Presidential Election 2024

Win Only

Kamala Harris +350	Joe Biden +450	Donald Trump +800
Nikki Haley +1200	Mike Pence +1400	Alexandria Ocasio-Cortez +2500
Ivanka Trump +2500	Dwayne Johnson +2800	Tucker Carlson +3300
Michelle Obama +3300	Ted Cruz +3300	Pete Buttigieg +4000
John Kasich +4000	Elizabeth Warren +4000	Charlie Baker +5000
Tom Cotton +5000	Andrew Cuomo +5000	Josh Hawley +5000
Dan Crenshaw +5000	Gavin Newsom +5000	Candace Owens +5000
Amy Klobuchar +5000	Marco Rubio +5000	Andrew Yang +6600
Paul Ryan +6600	Mike Pompeo +6600	Beto O'Rourke +6600
Val Demings +6600	Keisha Lance Bottoms +6600	Gretcham Whitmer +6600
Susan Rice +8000	Kanye West +10000	Oprah Winfrey +10000
Hillary Clinton +10000	Mitt Romney +10000	Bernie Sanders +10000

Source: bet365

We're very early into news on what Joe Biden's administration is going to look like, but already some important roles are being filled. Janet Yellen appears to be the nod for one of the more important roles as Treasury Secretary. If you're thinking "that name sounds familiar," it should. Yellen was Chair of the Federal Reserve from February 2014 to February 2018 (following a long list of other Central Bank roles throughout her career. Investors can take comfort with this appointment in the short/medium term for a few reasons. Ms. Yellen has a tremendous amount of experience helping guide an economy out of a recession seen not only with her time as Fed Chair but also with her time as Vice Chair from 2010-2014. In addition, she is widely considered as a Market Dove and a proponent of market liquidity/quantitative easing (easy money). For example, Yellen was reluctant to raise interest rates during her time as Fed Chair. After four years of Donald Trump's "drain the swamp" mantra, it appears we're in for four years of "business as usual" from the Biden administration which differs from the initial progressive agenda worry.

As the month went on, we got news on potential vaccines for the Covid-19 virus. On November 9th saw the announcement of a drug backed by Pfizer that has shown to be 90% effective in treatment and then a week later, Moderna announced a drug that is shown to be 94% effective. While a vaccine was an eventual expectation,(last time we looked, there were 8 different drugs in stage 3 testing) the speed at which these will be ready for mass distribution and effectiveness is something that is truly to be marveled. There has never been a vaccine for a major illness that has been produced and distributed within four years of a new disease. It appears as if the science community has absolutely shattered that record. Interestingly, Pfizer's drug has been developed by a German subsidiary that was bought a few years back that has never had a major drug approved before. Moderna has been in the news since May with a potential vaccine and has never had a drug approved before as well. It looks like this will be the quickest developed vaccine in history and manufactured by an entity with no prior experience in having a drug approved. Something to take solace in as it appears innovation in the scientific health community is alive and well.

To say the speed and effectiveness of the potential vaccines caught some market participants flat-footed or improperly positioned would be a bit of an understatement. November 9th was one of the strangest trading days ever seen. The broader market (S&P 500) was up significantly by 1.17% on the day with 368 names up and 137 names down. However, the performance disparity was huge with the best performing name in the index, Carnival Cruise, up 39.29% and the worst performing name in the index, Biogen, was down 28.17%. In fact, this price movement was a complete reversal of what had been working for the entire year and something Morgan Stanley defined as a "15 sigma event" and the biggest dispersion in history (measured back to 1990). For those that remember their introductory statistics classes, this type of event is not supposed to happen. Typically, 99.7% of all observations will happen within a 3 sigma range. To quantify the probability of an event like this happening, it is comparable to the same probability of flipping a coin and correctly calling heads (or tails) 165 times in a row. While possibly a statistics crime, the market doesn't necessarily have a normal distribution, something interesting to a geek like myself. Further, below is a chart displaying 18 winners on that day and 18 losers. The losers that day are the winners of the year. This has got us closely watching, as we head back to a more "normalized" economy.

SPX 2020/11/9-2020/11/9 | News | Export | Settings | Equity Index Movers

Group By None | Date Range 11/9/20 - 11/9/20 | History

Start	3509.44	End	3550.50
Net Chg	+41.06	% Chg	+1.17%
Current	506	#Up	368
Additions	0	#Down	137
Removals	0	#Unch	1

Leaders

	Ticker	End Prc	% Chg	Points	%Idx Mv
1.	CCL UN	19.25	+39.29%	+0.339	+0.83%
2.	SLG UN	60.00	+36.92%	+0.143	+0.35%
3.	REG UW	45.96	+34.98%	+0.227	+0.55%
4.	FRT UN	91.61	+32.90%	+0.188	+0.46%
5.	KIM UN	13.57	+32.26%	+0.173	+0.42%
6.	VLO UN	50.08	+31.20%	+0.585	+1.43%
7.	FANG UW	32.40	+30.96%	+0.146	+0.35%
8.	HST UW	13.64	+30.09%	+0.268	+0.65%
9.	RCL UN	75.43	+28.79%	+0.362	+0.88%
10.	HFC UN	22.56	+28.40%	+0.090	+0.22%
11.	SPG UN	79.10	+27.87%	+0.636	+1.55%
12.	WYNN UW	102.24	+27.69%	+0.259	+0.63%
13.	VNO UN	38.69	+27.40%	+0.157	+0.38%
14.	NOV UN	11.46	+27.33%	+0.115	+0.28%
15.	NCLH UN	21.51	+26.75%	+0.151	+0.37%
16.	LNC UN	42.63	+25.12%	+0.187	+0.46%
17.	MTB UN	123.92	+25.10%	+0.384	+0.94%
18.	FTI UN	7.25	+24.78%	+0.073	+0.18%

Laggards

	Ticker	End Prc	% Chg	Points	%Idx Mv
1.	BIIB UW	236.26	-28.17%	-1.768	-4.31%
2.	ETSY UW	121.20	-17.15%	-0.361	-0.88%
3.	POOL UW	322.30	-15.82%	-0.293	-0.71%
4.	CLX UN	194.91	-10.62%	-0.353	-0.86%
5.	WHR UN	180.69	-10.39%	-0.157	-0.38%
6.	BIO UN	579.96	-9.87%	-0.164	-0.40%
7.	BBY UN	111.00	-9.80%	-0.335	-0.82%
8.	ROL UN	56.94	-9.55%	-0.107	-0.26%
9.	PKI UN	128.09	-9.35%	-0.178	-0.43%
10.	FBHS UN	80.06	-9.17%	-0.135	-0.33%
11.	LOW UN	153.45	-8.94%	-1.373	-3.34%
12.	HOLX UW	68.35	-8.93%	-0.209	-0.51%
13.	PYPL UW	184.72	-8.88%	-2.548	-6.20%
14.	IDXX UW	436.45	-8.71%	-0.427	-1.04%
15.	TTWO UW	159.99	-8.68%	-0.210	-0.51%
16.	NFLX UW	470.50	-8.59%	-2.352	-5.73%
17.	TMO UN	484.99	-8.09%	-2.035	-4.96%
18.	DHI UN	64.95	-8.02%	-0.226	-0.55%

Source: Bloomberg