Equity Market Summary (periods ended Oct. 31, 2020)

U.S. Equity Markets	Month	YTD
S&P 500	-2.7%	2.8%
Russell 1000 Growth	-3.4%	20.1%
Russell 1000 Value	-1.3%	-12.7%
Russell 2000	2.1%	-6.8%
Russell 2000 Growth	0.8%	4.7%
Russell 2000 Value	3.6%	-18.7%

Top/Bottom Sectors	Month	YTD
Technology	-5.1%	22.2%
Consumer Discretionary	-2.9%	19.9%
Communication Services	0.9%	9.5%
Real Estate	-3.3%	-9.8%
Financials	-0.8%	-20.9%
Energy	-4.4%	-50.2%

Non-US Equity Markets (in USD)	Month	YTD
MSCI AC World Ex U.S.	-2.2%	-7.5%
MSCI EAFE (Developed)	-4.0%	-10.8%
MSCI Emerging Markets	2.1%	0.9%
MSCI China	4.7%	21.8%
MSCI United Kingdom	-4.9%	-27.0%
MSCI Brazil	-2.1%	-42.0%

Non-US Regions (in USD)	Month	YTD
Developed Americas	-3.2%	-18.8%
Developed Asia	-1.3%	-5.1%
Developed Europe	-5.6%	-13.4%
Emerging Americas	-0.8%	-36.3%
Emerging Asia	3.2%	11.4%
Emerging EMEA	-3.9%	-22.2%

Election:

Over the long-term business and earnings cycles drive equity prices but in the short-term political outcomes and actions can have a large influence. We are seeing that exact scenario play out in U.S. equity markets over the past week as the "Blue Wave" scenario is being "priced out" of the market and gridlock is being "priced in." The odds of higher taxes and a more restrictive regulatory framework decline significantly should the Republicans retain control of the Senate. Month-to-date the S&P 500 has returned 7.5% and the technology heavy Nasdaq 100 has risen an even stronger 9.3%, as the risks of a forced break-up of the mega-cap tech companies has declined. Post 1980 (the modern era of the Federal Reserve) there has been little difference to stock market returns between single party rule and divided government. Over the past 40 years a single party has been in control 25% of the time and the average return for the S&P 500 has been 13.1% during those years and 12.4% during the other 75% of calendar years. While undoubtedly fiscal policy can and does have a significant impact on the economy and corporate earnings, the lesson may be the tried and true "Don't Fight the Fed" regardless of which party may be in power.

COVID-19:

- COVID-19 continues to spread and the global rate of infection is doubling every eight weeks, although that figure is deteriorating rather rapidly. Total cases grew by 35% in October, relative to 70% in July. The most significant deterioration is in Europe where cases are doubling once every four weeks, three times the pace of the U.S. There are now 49 million cases and 1.2 million deaths worldwide. Global daily new cases are averaging 500,000 over the past week, a 70% increase from levels of a month ago. Daily average new cases in the U.S. are averaging more than 90,000 which is 22% above the prior peak of mid-July.
- Deaths are slowing to a doubling once every 13.5 weeks, from once every 10.1 weeks at the end of July. In the U.S. cases are doubling once every 12 weeks, a significant deceleration from the July/August level of six weeks. Although, this figure is also deteriorating. Daily new deaths are averaging 6,500, up 30% over the past month and nearing the peak of 7,000 in mid-April.
- Positive test rates in the U.S. have deteriorated to 7.0% from 4.3% a month ago, despite testing levels having increased by 7% over the past month (higher numbers of tests administered has historically correlated with lower positive test rates). While testing the U.S. continues to improve (and to be sure the U.S. remains well ahead of levels in Europe, excluding the U.K.) testing levels are still well below the levels needed to reduce positivity rates below 5% and allow for effective contact tracing and quarantining to slow the spread of the virus. Even at 1.2 million tests per day it would take three months just to administer one round of testing of all the students, education workers and healthcare workers in the U.S.
- We remain convinced that full recovery is dependent on a widely available and effective vaccine and the odds of an early 2021 option continue to rise. There are currently nine vaccines in Phase 3 Clinical Trials and a total of 36 vaccines in some stage of clinical trials on humans.

Economy:

- 2Q'20 U.S. real GDP fell 31% Q/Q annualized, a post-WWII record. 3Q'20 GDP then rose an eye-popping 33% Q/Q annualized. Despite the strong rebound full year GDP is expected to decline 4-5%, slightly worse than the peak to trough decline in the Global Financial Crisis. So while the trend and growth rates of economic output are certainly directionally correct, the absolute level is far from optimal.

(Continued on page 2)

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(Continued from page 1)

- Initial jobless claims remain significantly elevated at greater than 750,000 per week which is above even the highest figures of the Global Financial Crisis, but the trend is at least in the right direction as current figures are 25% below levels of six weeks ago. However, the potential for a second wave of layoffs is of significant concern as non-farm payrolls are still 11 million below peak levels.
- Europe appears headed for a double dip recession as virus counts are skyrocketing and shutdowns are taking place across the continent. For the global economy, the weakness in Europe is partially offset by strength in Asia as China is back to pre-pandemic economic output. But without the benefit of a synchronized global recovery, additional stimulus is needed in the U.S. to keep the economy expanding.
- As discussed in previous letters, housing remains a significant bright spot with new and existing home sales hitting post Global Financial Crisis highs. With mortgage rates near all-time lows the surge in the housing market is not likely to abate anytime soon.

Earnings:

- To date, 416 (83%) S&P 500 companies have reported third quarter earnings. Earnings are down 8.2% Y/Y vs. an expected decline of 21.4%, and revenues are down 2.5% Y/Y, vs. an expected decline of 4.4%.
- Mega-cap tech delivered strong earnings beats with AAPL, AMZN, FB, GOOGL, and MSFT topping expectations by 22% in aggregate.
- 86% of companies have reported better than expected earnings, the highest figure in at least 30 years, with an aggregate earnings beat of 20%, compared to a long-term average of just over 3%. Consumer Discretionary stocks are reporting the largest earnings and revenue beats, and earnings for the sector are now expected to fall 6% Y/Y vs. an expected decline of 34% at the beginning of the quarter.
- Information Technology, Health Care, Consumer Staples and Utilities are the expected to report a Y/Y rise in earnings at 6.6%, 9.9%, 4.0% and 1.0%, respectively.
- Industrials and Energy are expected to have the largest earnings declines at staggering drops of 54.5% and 108.6%, respectively. The sectors are also expected to see by far and away the largest revenue declines at 16.5% and 35.0%, respectively.
- 3Q'20 share-weighted earnings for the S&P 500 are expected to fall $31 billion Y/Y to $317 billion.
- Current consensus forecast for S&P 500 CY'20 earnings are $136 per share, down 16.5% Y/Y, before rising to an all-time high of $168 per share in CY'21 and $194.5 in CY'22.

Financial Markets:

- Equity markets logged their second straight monthly decline in October with a 2.7% decline for the S&P 500. However, the index has risen 7.5% thus far in November and is up 58.6% since the lows of March 23rd.
- The dominance of growth stocks abated modestly over the past two months, as the Russell 1000 Growth fell 6.4% for the period relative to a 3.7% drop for the Russell 1000 Value.
- The performance of the average stock in the S&P 500 has improved meaningfully relative to the index over the past two months but the average stock still trails the index by more than 7% YTD and the average Information Technology stock trails the benchmark sector return by 14% YTD.

Summary:

The economy is improving but unemployment remains high and that is an unstable state for the economy. Earnings continue to surprise significantly to the upside, which may indicate the economy is performing better than current estimates. However, we believe the U.S. economy remains in need of another round of fiscal stimulus and the risks of a "double dip" recession are rising along with virus case counts. While the odds of a national lockdown remain low, lockdowns in any form, no matter how necessary to stem the spread of the virus, do meaningful damage to the economy. The Fed can certainly stabilize and lift financial markets but the Fed can't create demand; therefore, fiscal policy needs to fill the void.