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Quarterly Market Review: July – November 2020

Dear Client,

July kicked off the third quarter with a bang as stocks surged throughout much of the month. Investors were encouraged by solid employment growth, a rise in personal income and consumer spending, a surge in the housing sector, and an increase in industrial production. All news was not positive, however. The second-quarter gross domestic product fell more than 31% and many states saw an increase in the number of reported COVID-19 cases.

Nevertheless, investors stayed with equities, pushing values higher for the fourth consecutive month. Tech stocks drove the Nasdaq to a 6.8% gain, followed by the S&P 500 (5.5%), the Global Dow (3.5%), the small caps of the Russell 2000 (2.7%), and the Dow (2.4%). Treasury bond prices climbed, sending yields lower in July. Crude oil prices settled at \$40.40 per barrel, nearly \$1.00 ahead of their June closing values. Gold prices closed July at \$1,990.00, about 11% higher than June's closing price.

The positive run for stocks continued in August, as each of the benchmark indexes listed here advanced notably. The Nasdaq climbed nearly 9.6%, the Dow rose 7.6%, the S&P 500 advanced 7.0%, the Global Dow vaulted 6.0%, and the Russell 2000 gained 5.5%. Crude oil and gas prices rose marginally, while the price of gold fell. Throughout the month, states struggled to settle on appropriate protocols for reopening schools. Testing for the virus increased, and the number of reported COVID-19 cases and deaths rose.

September saw stocks fall on waning hopes of a second round of stimulus. Also, discord between the United States and China ramped up following President Trump's threatened recourse against American companies that create jobs overseas or that do business with China. Technology shares took a sizable hit, particularly early in the month. September saw several days of favorable returns, likely due to bargain hunters. Unfortunately, there wasn't enough buyers to prevent the benchmark indexes from falling lower by the end of each week of the month. September saw each of the indexes fall, led by the Nasdaq (-5.2%), then by the Global Dow (-4.3%), the S&P 500 (-3.92%), the Russell 2000 (-3.45%), and the Dow (-2.28%).

Overall, the third quarter of 2020 produced the second consecutive quarter of notable market gains. Of the benchmark indexes listed here, the Nasdaq again proved the strongest, climbing more than 11.0% for the quarter, followed by the large caps of the S&P 500 and the Dow, which gained 8.5% and 7.6%, respectively.

The Global Dow advanced 5.0% for the quarter, and the small caps of the Russell 2000 ended the quarter up 4.6%. Year to date, the Nasdaq remains well ahead of its 2019 year-end closing value, while the S&P 500 is more than 4.0% over last year's closing mark. The remaining benchmarks continue to gain ground, with the closest to its year-end value being the Dow, followed by the Global Dow and the Russell 2000.

Stocks fell for the second consecutive month in October as rising COVID-19 cases and related deaths shunted signs of an economic rebound. The month began on an upswing with both the Nasdaq and S&P 500 posting their best weekly gains since July, and the Dow finally pushed ahead of its 2019 year-end value.

Unfortunately, reported virus cases began to soar by mid-month, both here and in Europe. Word that Great Britain may impose stricter lockdowns hit stocks there and eventually in the United States.

Another reason for investor trepidation was the ongoing debate over whether and when another round of fiscal stimulus would be in the offing. Throughout the month, there were indications that some aid would be forthcoming before the November election. As of today, we are still no closer to if or when we will see another stimulus.

Nevertheless, there are signs that the economy is gradually picking up steam. Gross domestic product rebounded in the third quarter and job growth continued in September, albeit far below its August pace. Several companies reported strong earnings in the third quarter.

Personal income inched ahead by 0.9% and consumer spending rose 1.0%. Inflation remained well below the Federal Reserve's target of 2.0%, keeping prices for consumer goods and services down. Interest rates for loans and mortgages remain low, helping the housing sector to surge.

By the end of the month, only the small caps of the Russell 2000 were able to forge ahead in value. The remaining indexes suffered monthly losses, led by the Dow, followed by the S&P 500, the Nasdaq, and the Global Dow.

Last week began with more good news on another COVID-19 vaccine, sparking a rally in domestic and global stocks. The Dow set a record as it neared the 30,000 mark, with cyclicals and small caps advancing on hopes of a speedier economic recovery.

The Russell 2000 and the Global Dow each gained more than 2.0%, while both the Dow and the S&P 500 added more than 1.0%. The Nasdaq advanced 0.8%. Among the market sectors, energy, financials, and industrials surged. Crude oil prices and Treasury yields climbed, while the dollar slipped.

<u>Market/Index</u>	<u>2019 Close</u>	<u>Prior Week</u>	<u>As of 11/20</u>	<u>Weekly Change</u>	<u>YTD Change</u>
DJIA	28,538.44	29,479.81	29,263.48	-0.73%	2.54%
NASDAQ	8,972.60	11,829.29	11,854.97	0.22%	32.12%
S&P 500	3,230.78	3,585.15	3,557.54	-0.77%	10.11%
Russell 2000	1,668.47	1,744.04	1,785.34	2.37%	7.00%
Global Dow	3,251.24	3,249.33	3,293.16	1.35%	1.29%
Fed. Funds	1.50%-1.75%	0.00%-0.25%	0.00%-0.25%	0 bps	-150 bps
10-yr Treasuries	1.91%	0.89%	0.82%	-7 bps	-109 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

• **Employment:** Employment increased by 1.4 million in August after adding 1.8 million jobs in July. These improvements in the labor market reflected the continued resumption of economic activity that had been curtailed due to the COVID-19 pandemic and efforts to contain it. Nevertheless, the number of job gains in August is 7.6% below the pre-pandemic level of February, which saw 11.5 million new jobs added. In August, notable job gains occurred in leisure and hospitality, government, retail trade, professional and business services, and education and health services.

The unemployment rate dropped 1.8 percentage points to 8.4% for August as the number of unemployed persons dropped by 2.8 million to 13.6 million. These measures remain well above their pre-pandemic February figures of 4.9% and 7.8 million, respectively. In August, average hourly earnings rose by \$0.11 to \$29.47. Average hourly earnings increased by 4.7% over the last 12 months ended in August. The average

workweek increased by 0.1 hour to 34.6 hours in August. The labor participation rate increased 0.3 percentage point to 61.7%. The employment-population ratio rose by 1.4 percentage points to 56.5%.

- Claims for unemployment insurance continue to drop in September. According to the latest weekly totals, as of September 19 there were nearly 11.8 million workers still receiving unemployment insurance. The insured unemployment rate was 8.1% (9.9% as of August 15).

The highest insured unemployment rates in the week ended September 12 compared to their respective rates on August 8 were in Hawaii (21.3% vs 19.8%), California (16.1%, unchanged), Nevada (14.7% vs 17.3%), New York (13.7% vs 15.4%), Puerto Rico (12.8% vs 19.2%), Louisiana (12.6% vs 13.5%), Georgia (12.2% vs 12.6%), and the Virgin Islands (11.9% vs 12.8%).

During the week ended September 12, 50 states reported 11.8 million individuals claiming Pandemic Unemployment Assistance benefits and 50 states reported 1.8 million individuals claiming Pandemic Emergency Unemployment Compensation benefits.

- **FOMC/interest rates:** The Federal Open Market Committee (FOMC) voted to maintain the federal funds rate range at 0.00%-0.25% following the Committee's September meeting. The FOMC expects to maintain this target range until labor market conditions have reached maximum employment and inflation has risen to at least 2.0%, or exceeds 2.0%, for some time.

The Committee noted that, although economic activity and employment have picked up in recent months, they remain well below their levels at the beginning of the year. The FOMC predicted that the path of the economy will depend on the course of COVID-19, which will continue to weigh on economic activity, employment, and inflation in the near term, while posing considerable risks to the economic outlook over the medium term.

- **GDP/budget:** According to the third and final estimate for second-quarter gross domestic product, the economy decelerated at an annualized rate of 31.4%. GDP decreased 5.0% in the first quarter. Stay-at-home orders issued in March and April in response to the COVID-19 pandemic greatly impacted the economy. Consumer spending was a big drag, falling 33.2%, reeling from the initial effects of the pandemic.

Fixed investment fell 29.2% in the second quarter (-1.4% in the first quarter), and nonresidential fixed investment dropped 27.2% in the second quarter, compared to a 6.7% decline in the prior quarter. Exports were down 64.4%, and imports sank 51.1%. Nondefense government expenditures increased 37.6% due to stimulus spending programs initiated in response to the pandemic.

- The monthly Treasury budget deficit for August was \$200 billion, essentially equal to the August 2019 monthly deficit. Through 11 months of the fiscal year, the government deficit sits at \$3.007 trillion, a 182% increase over the same period from the previous fiscal year. Government outlays for the current fiscal year are 46% greater than expenditures for fiscal year 2019.

- **Inflation/consumer spending:** According to the Personal Income and Outlays report for August, personal income decreased 2.7% and disposable (after-tax) personal income dropped 3.2% after advancing 0.4% and 0.2%, respectively, in July. Consumer spending increased in August, climbing 1.0% for the month, well short of July's 6.2% advance. Inflation remained somewhat muted as consumer prices inched ahead by 0.3% in August after increasing 0.4% in July. Consumer prices have increased by a mere 1.4% over the last 12 months.

- Consumer prices continued to slowly increase in August. Prices for goods and services rose 0.4% in August, marking the third consecutive monthly increase. Over the last 12 months ended in August, consumer prices are up 1.3%. Contributing to August's increase in consumer prices was a sharp rise in prices for used cars and trucks, which climbed 5.4%. Also increasing were prices for fuel oil (3.9%), gasoline (2.0%), and energy (0.9%). Food prices rose 0.1%.

- Prices that producers receive for goods and services rose 0.3% in August after climbing 0.6% in July. Producer prices are down 0.2% over the last 12 months ended in August. A 0.5% spike in prices for services pushed producer prices higher. Prices for goods inched up 0.1%.

- **Housing:** The housing sector continued to post strong sales numbers in August. Sales of existing homes jumped 2.4% last month after climbing 24.7% in July. Over the 12 months ended in August, existing home sales are up 10.5%. The median existing-home price in August was \$310,600 (\$304,100 in July). Unsold inventory of existing homes represents a 3.0-month supply at the current sales pace, down slightly from 3.1 months in July. Sales of existing single-family homes increased 1.7% in August following

a 23.9% jump in July. Over the last 12 months, sales of existing single-family homes are up 11.0%. The median existing single-family home price was \$315,000 in August, up from \$307,800 in July.

- After climbing 13.9% in July, sales of new single-family homes surged again in August, increasing 4.8% for the month. The median sales price of new houses sold in August was \$312,800 (\$330,600 in July). The August average sales price was \$369,000 (\$391,300 in July). August's inventory of new single-family homes for sale represents a supply of 3.3 months at the current sales pace, down from July's estimate of 4.0 months.

- **Manufacturing:** Total industrial production rose 0.4% in August after increasing 3.0% in July. Although industrial production has risen in each of the past four months, it has remained 7.3% below its pre-pandemic February level. Manufacturing output continued to improve in August, rising 1.0% (3.4% advance in July). Most major industries posted increases, but gains have gradually slowed since June.

Mining production fell 2.5% in August, as Tropical Storm Marco and Hurricane Laura caused sharp but temporary drops in oil and gas extraction and well drilling. The output of utilities moved down 0.4%. Overall, the level of total industrial production was 7.7% lower in August than it was a year earlier.

- For the fourth consecutive month, new orders for durable goods increased in August, climbing 0.4% following an 11.7% jump in July. Despite the trend of monthly increases, new orders for manufactured durable goods are 11.3% lower than a year ago. Excluding transportation, new orders increased 0.4% in August. Excluding defense, new orders increased 0.7%. Machinery, also up four consecutive months, led the August increase, advancing 1.5%. Nondefense new orders for capital goods in August increased 7.8%.

- **Imports and exports:** The price index for U.S. imports rose 0.9% in August, following a 0.7% jump in July. Higher prices for both fuel (+3.3%) and nonfuel (+0.7%) imports contributed to the August increase. The rise in nonfuel prices was the largest since April 2011. Driving the nonfuel price increase was a 3.6% rise in prices for industrial supplies and materials. Prices for U.S. exports also rose in August, rising 0.5% after increasing 0.9% in July.

- The international trade in goods deficit was \$82.9 billion in August, up \$2.8 billion, or 3.5% over July. Exports of goods for August were \$118.3 billion, 2.8% more than July exports. Imports of goods for August were \$201.3 billion, or 3.1% more than July imports. Exports of industrial supplies increased 10.6% in August. Imports of consumer goods climbed 7.0% in August.

- The latest information on international trade in goods and services, out September 3, is for July and shows that the goods and services trade deficit was \$63.6 billion, an increase of nearly \$10.0 billion, or 18.9%, over the June deficit. July exports were \$168.1 billion, or 8.1% more than June exports. July imports were \$231.7 billion, or 10.9% more than June imports. Year to date, the goods and services deficit increased \$6.4 billion, or 1.8%, from the same period in 2019. Exports decreased \$257.8 billion, or 17.5%. Imports decreased \$251.3 billion, or 13.8%.

- **International markets:** Europe saw an increase in COVID-19 cases reported, likely impacting stocks. STOXX Europe 600 index lost value by the end of September, Germany's DAX Performance index fell, while the UK's FTSE 100 was flat. France, Spain, and the United Kingdom took steps to stem the latest wave of virus cases. Stocks in China fell as the Shanghai Composite index and CSI 300 lost value. On the economic front, Japan's purchasing managers index remains in contraction territory as calls increase for new stimulus from the Bank of Japan.

- **Consumer confidence:** The Conference Board Consumer Confidence Index® increased in September after declining in August. The index stands at 101.8, up from 86.3 in August. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, increased from 85.8 to

98.5. The Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, increased from 86.6 in August to 104.0 in September.

Thanksgiving week is filled with important reports, which will give a final picture of the state of the economy in October. The second iteration of the third-quarter gross domestic product is out this week.

The first estimate showed the economy flipped from a second-quarter estimate of -31.4% to a 33.1% growth rate in the third quarter.

As a result, we continue to be optimistic about how we are positioned in the markets, participating in the uptrend while protecting against the possibility of uncertainty. We choose to embrace the joy and promise that the holidays bring and wish the same for you and your loved ones. Here is to a safe and peaceful holiday season!

Warmest regards,

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

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