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Stocks performed very well in November. Large cap stocks in the S&P 500 were up 10.9% for the month and 14.0% year-to-date. Small cap stocks in the Russell 2000 had an outstanding month up 18.4% but are up only 10.4% year-to-date. International stocks in the MSCI EAFE index were also higher, up 15.5% this month making them positive for the year, up 3.0% year-to-date. Emerging markets stocks were up 9.3% for the month and 10.2% so far in 2020. The Barclays US Aggregate Bond Index was up 1.0% for the month bringing its year-to-date return to 7.3%.

The Bureau of Economic Analysis released its second estimate of economic activity in the third quarter confirming an annualized growth rate of 33.1% after a decline of -31.4% in the second quarter. Government actions related to COVID 19 continue to drive the strength of economic recovery but optimism that a light is appearing at the end of the tunnel emerged this month with the announcement that at least 2 vaccines will be ready to administer within weeks. This optimism was a significant factor that led to the stock market rally in November.

Third quarter corporate earnings reported by the Bureau of Economic Analysis as of November 25 showed that profits from current production increased $495.3 billion or 27.1% (quarterly rate) after a $208.9 billion or -10.3% decline in the second quarter. These results were impacted by the Paycheck Protection Program and other provisions of the CARES Act in both quarters.

As COVID numbers have continued to rise, investors have become more concerned about the impact of shutdowns on economic activity. We have seen shutdowns in Europe as well as limited shutdowns in parts of the US. This round of shutdowns so far has been more limited in nature than the initial shutdowns and mostly shorter in duration. The shutdowns are especially hard on small businesses who are directly affected and don't have the resources to deal with the lost revenue. Many that close temporarily will not be able to reopen.

The election caused some volatility in the market but for the most part markets were satisfied that the outcome of divided government would prevent major policy changes in the near term. Another stimulus package is expected to be passed before inauguration which will help the people who are struggling from the pandemic. The unemployment rate has come down to 6.7% which is less than half of what it was at the peak.

The Fed is leaving short-term rates at 0%-0.25% for the foreseeable future. Even if inflation goes above their 2% target, they will look at a longer-term average before raising rates. Inflation has so far remained contained.

The policy moves of the Fed and of Congress have helped the markets rebound from their lows but in the future, investors will likely begin to worry about the long-term impact of these policies. The most likely impact will be some combination of slower long-term economic growth as we deal with the budgetary impact of much higher national debt and higher inflation which could flow out of the sharp increase in the size of the Fed balance sheet. For now, these concerns are back of mind since we won't likely see these issues begin to emerge for at least 18 months to 2 years from now.

Even though valuations are stretched, most analysts believe that market conditions point to a high likelihood of favorable performance in coming months as the economy begins to reopen as vaccines are administered widely. Diversification and maintaining an allocation in line with your risk tolerance are good strategies for investors. If you have any questions about your account, please do not hesitate to contact us.