BALDINI
INVESTMENT STRATEGIES

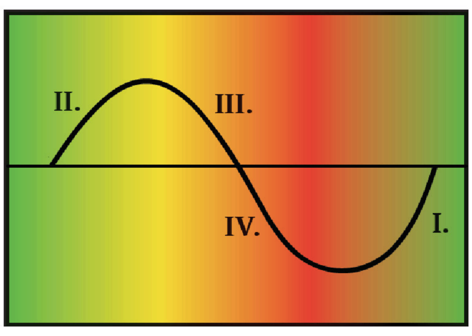
November 2020

Month in Review

The S&P 500 lost 2.7% in October as investors reacted negatively to news of rising coronavirus cases in the US and Europe, fading hopes for more fiscal stimulus, and growing uncertainties related to the election. Strong gains early in the month were given up as renewed concerns around the pandemic took their toll. Offsetting the gloom, incoming economic data contained some positive surprises that helped stem the tide. It's time to check our indicators and see how the fear and uncertainty that have gripped the markets have affected them. I have also provided a brief summary of my thoughts on the market going forward.

I. CREDIT CYCLE

PHASE II: EXPANSION



Election uncertainty has not dented the credit markets as the Federal Reserve continues to support them with its massive bond-buying program dubbed "QE4ever". In a 60 Minutes interview in May, Fed Chair Jerome Powell was asked where the Fed gets the money to buy trillions of dollars-worth of bonds and other assets. "As a central bank, we have the power to create [print] money digitally. We do that by buying Treasury bills or bonds or other government-guaranteed securities. And that actually increases the money supply," he explained. "The asset purchases that we're doing are a multiple of the programs that were done during the last crisis [italics added]." In addition to the Fed's outright purchases, Economist Ed Yardeni notes that nonfinancial corporations backed by the Fed raised a record $1.44 trillion over the past 12 months through August. Money is the fuel that powers the credit cycle and by the Fed's own admission this credit cycle is on steroids.

II. RISK LEVEL INDICATORS

LOW | *GUARDED* | *ELEVATED* | *HIGH* | *SEVERE*

US STOCKS: LOW

The Risk Level for **US STOCKS** is **LOW** despite a surge in volatility mid-month. Election uncertainty, the lack of a fiscal relief package and burgeoning COVID-19 virus cases nationally led to a 9% pullback from the high on October12 which left the S&P 500 index barely positive for the year and the small-cap Russell 2000 down nearly 8%. Over the short-term, the markets will be driven by the news cycle but longer-term the business cycle will likely prevail, especially so early in the recovery, and carry stock prices higher over the next six to twelve months.

INTERNATIONAL STOCKS: MIXED

The Risk Levels for **INTERNATIONAL STOCKS** continues to be split, with the Risk Level for Developed Markets rising to **HIGH** while remaining **LOW** for Emerging Markets. Europe is suffering a second wave of coronavirus infections with all major European countries now reporting new highs in infection rates. Against this backdrop, growth has started to move lower as containment measures take hold. In contrast, China's success in controlling the virus has allowed its economic recovery to gain steam. After a strong bounce over the summer, China now looks set to be one of the only major nations that will see positive economic growth in 2020 year-over-year. Strong returns from Chinese stocks helped emerging market equities post a gain in October.

US FIXED INCOME QUALITY: HIGH

The Risk Level for **US FIXED INCOME QUALITY** has risen to **HIGH.** The yield on Treasury bonds posted the largest monthly climb in over two years ahead of the US presidential election. Expectations for fiscal stimulus after the election and better-than-expected economic data contributed to the rise in bond yields. Treasuries sold off despite sharp declines in US and European equities recalling the pandemic driven selloff at the start of the year when institutional investors sold Treasuries--their most liquid assets--to raise cash. This time the selling was more likely related to repositioning portfolios ahead of the election in case of a Democratic sweep which could result in an even wider US fiscal deficit and potentially higher inflation.

III. LOOKING AHEAD

GROWTH BOMB

There are so many reasons to fear for the future in this contentious election environment that it is refreshing to hear from two market gurus who think the best is yet to come. Mike Wilson, Chief Investment Officer for Morgan Stanley, looks past the election and predicts the US economy will be very strong next year no matter who wins. He believes a viable vaccine and more effective treatments will allow the economy to fully reopen by spring which will be the driver of economic activity next year. Another Wall Street wizard, Jim Paulson of the Leuthold Group, says the US economy could be set for a surge in growth as consumers start to spend the money they saved during the COVID-19 pandemic. "More than $2.5 trillion of sidelined savings is the fuel for a growth bomb waiting to explode," Paulson said. "With a pool of excess idle fuel [savings], it has only taken a bit more confidence to produce a healthy advance in the economy." Let the fireworks begin!

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