Buoyed by strong corporate earnings and a series of encouraging reports of vaccines applying for approval, U.S. stocks posted their greatest monthly performance in more than 33 years in November. The S&P 500 Index rose 10.7% during the month, but still lagged the more economically sensitive Dow Jones Industrial Average, which was up 11.8%. Both averages broke new highs, with the Dow rising above 30,000 for the first time. Small cap stocks were up almost 20% and the beaten down energy sector gained almost 30% during the month.

We have commented frequently in past *Outlooks* that the market's recovery from its March lows, while stunning, had also been very narrow. Nearly all of the gains were concentrated in a few mega cap stocks that were unaffected by – or beneficiaries of – the economic effects of the COVID pandemic. So it was encouraging to see breadth improve significantly during the month. The equal weighted S&P index has out-performed the market cap weighted index for the last three months, indicating that the sectors and smaller stocks that have lagged during the market's rise are gaining favor. The mega cap stocks lagged significantly in November, and have generated negative returns since August, while the broad market index is up 3.5%. For the first time in 2020, more stocks (278) in the S&P 500 are up than down year-to-date. This contrasts with the end of October, when fewer than 200 of the 500 stocks were up for the year. More than 90% of all stocks are now trading above their 200-day moving average, the highest level in more than seven years.

In addition to energy, most other cyclical sectors out-performed the market, with industrials up 16% and financials up 12%. The Russell 1000 Value index, which is overweight in economically sensitive sectors, experienced its best month in history, as did the Russell 2000 index of small cap stocks. With all of the major market indices at all-time highs and investor sentiment nearing bullish extremes, certainly the potential for another correction is growing. But the broadening out of the market's advance into previously out-of-favor sectors suggests the likelihood that any correction from here will be shallow and brief. The market's technical condition is improving, not deteriorating; the Fed has pledged to provide the necessary liquidity well beyond the market's discounting horizon; and potential returns from competing investments remain unappealing.

Despite recent weakness in the most recent employment numbers due to closures related to rising COVID counts in many areas, economic data continues to surprise on the upside. Continuing unemployment claims have fallen 62% since the $600 weekly unemployment bonus expired in July, and have declined 76% from the peak in mid-May. The official unemployment rate is now down to 6.9%, sharply below the worst ever peak of 14.7% in April.

Auto sales have risen from 8.6-million units (annualized) in April to 16.2-million units in October, a 90% increase and nearly back to pre-COVID February levels. New and existing home sales, and housing starts and permits, have surged to 14-year highs, driven by lower mortgage rates and strong demand. The National Association of Home Builders (NAHB) recently reported that its monthly gauge of home builders' confidence is at its highest level in 35 years.

Manufacturing, too, continues to enjoy a strong recovery from the April trough. The ISM manufacturing index has gone from an 11-year low of 41.5 in April to a 2-year high of 59.3 in October. A reading of greater than 50 is indicative of continued growth in that sector. Industrial production and new factory orders have improved every month since the dreadful declines in March and April.

Durable and capital goods orders and shipments have bounced back strongly in the last six months, and inventories are beginning to be replenished following the sharp liquidation in the first half of the year, which should further boost GDP growth.

Meanwhile, those sectors of the economy most affected by COVID related restrictions are operating at such weak levels, that even a new wave of shutdowns would likely have little further impact. Disney has announced 32,000 layoffs between now and March 2021, and Southwest Airlines is warning that 7,000 workers may be furloughed next year – the first job cuts in the company's history. But even this news isn't enough to drag down their stock prices, as Disney is trading at all-time highs, and Southwest is up 27% since the end of the third quarter.

Someone waking from a cryogenically frozen state and seeing a stock market that is up 11% for the year, could be forgiven for assuming that it had been a rewarding but uneventful year. They would be half right. For all of the trauma and misfortune inflicted by an unforeseeable, once in a century global event, the capital markets and the economy survived and are on the road to recovery. And if we are to return to "base course", the implication would be that we are still in the early stages of that recovery. Clearly, that is the scenario that the equity market is currently discounting. We're not inclined to adopt a contrarian approach at this point, but we should be prepared for periodic and temporary setbacks along the way.

Having experienced and persevered through this extraordinarily difficult year, two observations that are often forgotten by investors should instead be reinforced. The first is that market forecasts exist primarily to make astrologers look good. All are well intentioned, but the vast majority of forecasts call for the current direction to continue, while the rest are taking a position hoping to be right. Neither knows what they don't know, and it's the unknown that causes markets to change direction. The second observation is that betting against our markets and our institutions is almost always a losing proposition.

We in the Wealth Management Group have been privileged to work with you and help guide you through these difficult times, and we thank you for the trust you have placed in us. Our wish is that you remain safe and healthy through the holidays, and we look forward to the challenges and rewards that await us in 2021 and beyond.

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