

Weekly Market Update (November 30 – December 06, 2020)

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### **Stocks continue to build on their November gains heading into final month of turbulent 2020**

This was a week that saw stocks edge higher, as the market's historic rally extended into the first week of December.

Despite a notable slowdown in hiring that was revealed in the November United States jobs report, major indexes closed at record highs and Treasury yields rose, reflecting expectations for additional fiscal stimulus. **Oil** extended its gains to a nine-month high after OPEC and its allies agreed to increase production more gradually than previously planned, and the **United States Dollar** hit a new two-and-a-half-year low against major currencies.

Markets added to their gains last week, with the spotlight on the following 3 factors:

#### *1 - Vaccine progress*

The mass distribution of a vaccine sometime next year represents a point for economic recovery. Markets have focused on post-vaccine recovery in recent weeks, supporting the 13% gain in the S&P 500 since the start of November.

#### *2 - The current state of the economy*

While the prospective vaccines pave the way for growth in the new year, current conditions are showing the issues created by surging Covid-19 cases and the resulting shutdowns across many regions in the United States and the developed world.

Retail spending, manufacturing activity and the labor market are all exhibiting resiliency but also signs of stress. We expect the rebound to stall somewhat in the coming months before regaining momentum in the new year.

#### *3 - The potential for a fiscal package to bridge the gap between vaccine progress and the state of the economy*

Negotiations in Congress over a fresh round of fiscal aid showed minimal signs of progress last week, but an immediate deal is far from being agreed, as Democrats and Republicans remain divided on the size and targets of a new aid package.

It is assumed that the broader budget negotiations in coming days will include incremental fiscal-relief measures, but a more comprehensive deal may not fully emerge until early 2021. With the prospects of a vaccine improving, fiscal stimulus will be important in bridging the financial gap for households and small businesses until the economy is fully reopened next year.

On **Monday**, market saw the ever-common pattern of major indexes declining due to month-end profit taking.

The S&P 500 dropped 0.5%. After an intraday recovery in technology stocks, the Nasdaq was down only 0.1%. The Dow Jones declined 0.9%. Overall, 9 out of the 11 S&P 500 sectors finished in lower territory.

Ongoing Positive vaccine news and the recovery in technology stocks allowed the information technology and health care sectors to post gains.

Health care rose after *Moderna* announced that their vaccine was 94.1% effective in preventing Covid-19 and 100% effective in preventing serious health problems.

They are now applying for emergency-use authorization for their treatment.

On **Tuesday**, major indexes erased Monday's pullback as funds continued to flow into cyclical securities.

The S&P 500 grew 1.26%, the Dow Jones added 0.83%, and the Nasdaq increased 1.32%.

The market was again bolstered by the potential for a Covid-19 vaccine approval as well as renewed hope of fiscal stimulus.

Fed Chair Jerome Powell testified before Congress, highlighting the need for emergency lending programs and a larger fiscal stimulus. Treasury Secretary Steve Mnuchin emphasized that point by encouraging Congress to use the \$455 billion set aside by the CARES Act funds for fiscal relief.

On **Wednesday**, major indexes started slightly lower but posted modest gains by close.

Overall, positive vaccine news continued to dilute pessimism from rising infection rates and stalled fiscal stimulus talks.

By close, the Dow Jones was up 0.2%, the S&P 500 grew 0.18% and the Nasdaq registered a small gain of 0.05%.

Fiscal stimulus made it once again into the headlines with reports suggesting that Democrats and Republicans continue to be deeply divided on the issue.

The Federal Beige Book, which is a qualitative review of economic conditions - formally referred to as the 'Summary of Commentary on Current Economic Conditions' - showed some economic slowing in certain districts due to rising Covid-19 cases however, most districts still showed modest or moderate growth.

The UK approved Pfizer and *BioNTech's* Covid-19 vaccine and will begin distribution this week.

The market shifted between up and down movements due to all these headlines but seemed to finish off on a moderately bullish note.

On **Thursday**, indexes posted modest gains on Covid-19 headlines.

Vaccine optimism and potential for fiscal stimulus, coupled with rising infection rates, continued to dominate the news cycle.

*Pfizer* reported that they would only be able to deliver about half of the vaccines they projected to deliver in 2020. The company does however remain on target to deliver all expected doses in 2021.

Based on these headlines, the Dow Jones grew 0.29%, the S&P 500 was up by 0.06% and the Nasdaq added 0.23%.

On **Friday**, major indexes pushed towards the upside as vaccine optimism won out over concern for rising infection rates. The Nasdaq increased by 0.7% and the S&P 500 pushed up 0.88%. The Dow Jones rose by 0.83%.

Value equities performed slightly better than growth equities, with materials, energy and industrials posting the strongest gains.

Communication and Consumer discretionary services were pushed down by underperforming *FAANG* stocks - *Facebook, Amazon, Apple, Netflix* and *Google*.

### Earnings Reports

- *Dollar General* reported earnings per share of \$2.31 and revenue of \$8.20 billion in Q3. Both earning-per-share and revenue were higher than expected. Dollar General executives reported higher demand in stores due to Covid-19.
- *DocuSign* reported earnings per share of \$0.22 and revenue of \$382.9 million in Q3. Both their earnings-per-share and revenue came in above expectations. Analysts attributed *DocuSign's* strong performance to continued high demand for their eSignature offerings due to the pandemic. Additionally, *DocuSign* increased their net dollar retention as well as new customer count.
- *Salesforce* reported earnings per share of \$1.74 and revenue of \$5.42 billion in Q3. Both their earnings-per-share and revenue came in higher than expected. Some analysts however were concerned about a drop in Q3 billings as well as margin pressure from their upcoming acquisition of *Slack*. Salesforce also announced that their CFO would be retiring. The market was mixed on the news. Some analysts were concerned about the acquisition's price tag.
- *Kroger* reported earnings-per-share of \$0.71 and revenue of \$29.72 billion in Q3. Earnings per share were slightly higher than expected, while revenue was slightly lower than expected.

### Corporate News

- *Kohl's* shares were up after announcing a partnership with Sephora. *Kohl's* will install 850 Sephora shops inside of their own by 2023.
- *Zoom* shares were down. The company posted strong Q3 earnings and revenue but still missed lofty expectations.

## Economic News

- November's ADP employment report missed expectations, showing nonfarm payrolls growing by 307,000 compared to the expected 405,000. The services sector showed a slowdown in growth, while leisure & hospitality posted the strongest improvements.
- The ISM manufacturing index fell in November for the first time since April but still remained elevated.
- Initial jobless claims dropped to their lowest level in three weeks, clocking in at 712,000.
- November payrolls missed estimates, clocking in at 245,000 compared to the expected 610,000. Government payrolls declined by 99,000, while retail jobs also fell, however, the transportation and warehouse industries both saw growth in their payroll numbers.
- Average hourly earnings came in slightly higher than expected, the average workweek came in at 34.8 as expected, and the unemployment rate fell slightly more than expected to 6.7%. The dropping unemployment rate correlated with a decline in employment participation rates.
- The U.S. economy added 245,000 jobs in November, missing estimates amid a spike in Covid-19 infections and renewed restrictions in activity. The unemployment rate declined to 6.7% from 6.9%, but the participation rate also declined, indicating that more people exited the labor force. The silver lining is that the downshift in job gains could apply pressure to lawmakers to reach an agreement for a new stimulus package before the end of the year.
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- The S&P 500 companies have an improved earnings outlook for Q4. Analysts raised their earnings estimates by 2.8%. This is the largest increase in earnings-per-share estimates since the first quarter of 2018.



## Economic Calendar

Time (GMT+2)	Event	Impact
04:00 07.12	CNY Trade Balance USD (Nov)	Medium
07:00 07.12	JPY Leading Economic Index (Oct) PREL	Medium
09:00 07.12	EUR Industrial Production s.a. (MoM)(Oct)	Medium
01:01 08.12	GBP BRC Like-For-Like Retail Sales (YoY) (Nov)	Medium
01:50 08.12	JPY Gross Domestic Product (QoQ)	High
12:00 08.12	EUR Gross Domestic Product s.a. (QoQ)(Q3)	High
12:00 08.12	EUR Gross Domestic Product s.a. (YoY)(Q3)	High
15:30 08.12	USD Nonfarm Productivity(Q3)	Medium
03:30 09.12	CNY Consumer Price Index (YoY)(Nov)	High
09:00 09.12	EUR Trade Balance s.a. (Oct)	Medium
17:00 09.12	CAD BoC Rate Statement	High
17:00 09.12	CAD BoC Interest Rate Decision	High
02:00 10.12	EUR European Council Meeting	High
09:00 10.12	GBP Manufacturing Production (MoM)(Oct)	Medium
09:00 10.12	GBP Industrial Production (MoM)(Oct)	Medium
09:00 10.12	GBP Gross Domestic Product (MoM)(Oct)	Medium
14:45 10.12	EUR ECB Interest Rate Decision	High
14:45 10.12	EUR ECB Deposit Rate Decision	High
15:30 10.12	USD Consumer Price Index excl. Food & Energy (MoM)(Nov)	High
15:30 10.12	USD Consumer Price Index excl. Food & Energy (YoY)(Nov)	High
15:30 10.12	EUR ECB Monetary Policy Statement and Press Conference	High
21:00 10.12	USD Monthly Budget Statement (Nov)	Medium
02:00 11.12	EUR European Council Meeting	High
N / A 11.12	GBP Financial Stability Report	Medium
09:00 11.12	EUR Harmonized Index of Consumer Prices (YoY)(Nov)	High
15:30 11.12	USD Producer Price Index ex Food & Energy (YoY)(Nov)	Medium
17:00 11.12	USD Michigan Consumer Sentiment Index (Dec) PREL	High
N / A 11.12	USD COVID-19 Vaccine announcement	Medium