



Monthly Scorecard

October 7, 2020

Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	9/30/20	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	27,781.70	-2.18	8.22	-0.91	5.70	10.15
S&P 500	3,363.00	-3.80	8.93	5.57	15.14	20.03
Nasdaq	11,167.51	-5.11	11.23	25.40	41.06	41.84
Russell 2000	1,507.69	-3.34	4.93	-8.70	0.37	-8.59
Russell 3000	1,968.09	-3.64	9.21	5.41	14.99	18.34
S&P 500 Equal Wgt.	4,396.19	-2.53	6.75	-4.75	2.48	5.96
MSCI AC World	565.15	-3.20	8.24	1.78	11.01	13.20
MSCI Europe	119.56	-3.23	4.45	-8.45	-0.27	-0.38
MSCI EAFE	1,855.32	-2.59	4.87	-6.69	0.99	0.27
MSCI Asia-Pacific	170.05	-1.19	8.65	1.87	11.58	8.87
MSCI Emerg. Mkts.	1,082.00	-1.62	9.65	-0.96	10.84	9.01
60/40 Allocation ¹	N/A	-2.3	5.61	6.06	11.88	19.22
S&P 500 Sector	9/30/20	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Consumer Disc.	1,207.69	-3.62	15.06	23.38	28.89	31.93
Consumer Staples	659.14	-1.48	10.38	4.13	7.79	25.95
Energy	227.49	-14.51	-19.72	-48.09	-45.24	-55.76
Financials	400.28	-3.48	4.44	-20.25	-11.93	-8.48
Health Care	1,231.02	-2.15	5.87	5.01	20.11	15.82
Industrials	650.68	-0.76	12.47	-3.99	1.29	2.66
Information Tech.	2,054.56	-5.37	11.95	28.69	47.23	59.88
Materials	400.01	1.34	13.31	5.47	12.19	15.22
Real Estate	218.95	-2.04	1.92	-6.77	-7.28	15.65
Comm. Services ²	195.49	-6.47	8.94	8.60	18.37	25.10
Utilities	301.86	1.13	6.14	-5.68	-4.97	20.78
FI, FX, & Commod.	9/30/20	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
U.S. Treasuries ³	0.69%	0.14	0.17	8.90	8.04	19.36
Invest-Grade Credit ⁴	2.01%	-0.29	1.54	6.64	7.90	21.92
High-Yield Credit ⁴	5.77%	-1.03	4.60	0.62	3.25	9.82
WTI Crude Oil ⁵	\$40.22	-5.61	2.42	-34.13	-25.61	-45.09
Dollar Index ⁵	\$93.89	1.89	-3.60	-2.60	-5.53	-1.31
Gold ⁵	\$1,885.82	-4.17	5.89	24.29	28.07	58.35

¹60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate.

²Communication Services returns include data from the previously labeled Telecom sector for returns including dates prior to 9/30/18. ³Yield reflects 10-year U.S. Treasury, total returns reflect Bloomberg Barclays U.S. Treasury Index. ⁴Yield and total returns reflect that of the respective Bloomberg Barclays Index. ⁵Spot prices and price returns.

Source - Bloomberg, RBC Wealth Management

Priced (in USD) as of September 30, 2020, market close (unless otherwise stated). Produced: Oct. 7, 2020 07:58ET; Disseminated: Oct. 7, 2020 08:35ET

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A year of surprises, a month of surprises

2020 has been a year where the traits of being nimble, prepared, and adaptable have been necessary. We have been experiencing a pandemic of proportions not seen in over 100 years, referring to most large outdoor bees as “murder hornets,” and seeing signs in the windows of restaurants and stores about a coin shortage in the U.S. If that’s not enough, October 2020 will have TWO full moons, a harvest full moon that appeared on October 1 and a blue moon on Halloween. A full moon happens on Halloween every 18–19 years, according to the Farmer’s Almanac. With the craziness of 2020, why would anyone be surprised a full moon on Halloween will grace us this year? Surprises have been constant throughout the year. The market had one of the quickest drops on record in March, and touched new highs for the S&P 500 by August. September reversed the lower volatility trends from August posting twice the number of negative days (10). Similarly, August only produced three days where the S&P 500 moved over 1% (positive or negative), while September had 12. Although the S&P 500 was down 3.8% in September, the ninth month is widely considered by investors to be one of the worst-performing of the year, so much so, the month is dubbed the September Effect. October typically provides performance relief with positive returns, on average, except in an election year.

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Wealth Management

A question that appears to have arisen this summer is, should Tesla be added to the FAANGM stock list, creating FAANGMT?

A history lesson

The average performance of September since 1928, has been a decline of 1.03% (see below table). The worst September (1931) saw an approximate 30% decline and the best (1939) a gain of just over 14%. But investors tend to look forward as much as they try to rhyme the past with the present. October has produced a positive return of 0.47% since 1928, with a decline of approximately 22% in 1987 and the best year producing just above 16% in 1974. But, 2020 is special because of the election, so we dug further and found over the 23 years since 1928 when an election was forthcoming, October, on average, continues a negative trend as seen on average in September. However, encouragingly, the number of positive years outweighed the number of negative years compared to September where September has experienced an equal number of positive and negative months in an election year.

S&P 500 September and October monthly returns analysis

	Price return for S&P 500	
	September	October
Average of all years since 1928	-1.03%	0.47%
Average of election years since 1928*	-0.46%	-0.24%
Percentage of election years negative	50.0%	39.1%
Percentage of election years positive	50.0%	60.9%
Worst election year since 1928	-9.08%	-16.9%
Best election year since 1928	5.42%	7.62%

* Based on 24 periods of data for September, 23 periods for October

Source - RBC Wealth Management, Bloomberg; data through 9/30/20

Leadership has languished, and the indexes have followed

At this point, the FAANGM grouping of stocks likely needs no further definition. A question that appears to have arisen this summer is, should Tesla be added to the FAANGM stock list, creating FAANGMT? Although Tesla is not yet in the S&P 500, it is listed in the table below due to its meteoric rise in 2020, and almost daily capturing of news headlines. This group of stocks performed remarkably well through August, but experienced malaise in September. This lackluster performance compared to performance through August could have been caused by a number of factors:

- 1) SoftBank, the Japanese conglomerate, was unveiled as the “Nasdaq whale” buying up options in tech stocks leading to very large trading volumes and likely a “melt up” in tech stocks;
- 2) Elevated price-to-earnings valuations (P/E) with the S&P 500 trading at 21.7x its next-twelve-months (NTM) earnings (expected by consensus) compared to an average of 16x over the last 20 years, with a similar trend in the P/E of the Nasdaq at 32.3x NTM earnings expected by consensus, versus an average of 18.3x since 2007;
- 3) Continued digestion by investors of the end-of-August news by the Fed that it had formally adopted an Average Inflation Target into its Statement on Longer-run Goals and Monetary Policy Strategy with inflation around 2.5% for a period of time; and
- 4) Increased uncertainty as the election draws near.

September was a negative month for all three of the major indexes (Dow Jones declined approximately 2.2%, S&P 500 3.8%, and Nasdaq, the worst, down 5.1%), yet the performance divergence year to date remains wide.

FAANGMT performance

FAANGM average weight		Year-to-date stock performance (8/31/20)	September stock performance 9/30/20
Company (ticker)	S&P 500		
Facebook Inc. (FB)	2.3%	42.9%	-10.7%
Apple Inc. (AAPL)	6.6%	75.8%	-10.3%
Amazon.com Inc. (AMZN)	4.8%	86.8%	-8.8%
Netflix Inc. (NFLX)	0.8%	63.7%	-5.6%
Alphabet Inc. (GOOG/GOOGL)	3.2%	21.7%	-10.1%
Microsoft Corp. (MSFT)	5.7%	43.0%	-6.7%
Tesla (TSLA)	0.0%	495.6%	-13.9%
Total	23.4%		

Source - RBC Capital Markets; FactSet data through 9/30/20

It's all about the bench, 'bout the bench, 'bout the bench

September was a negative month for all three of the major indexes (Dow Jones declined approximately 2.2%, S&P 500 3.8%, and Nasdaq, the worst, down 5.1%), yet the performance divergence year to date remains wide. This might be explained in the table below, as the consensus EPS estimates are less negative for the Nasdaq in 2020 compared to the S&P 500 and see greater growth in 2021. Outside the U.S., trends were broadly negative in September with the MSCI AC World down approximately 3.2%, MSCI Europe experiencing an almost identical performance, MSCI EAFE declining 2.6%, with MSCI Asia-Pacific and MSCI Emerging Markets down only 1.2% and 1.6%, respectively.

Beginning on the positive side when reviewing sector performance, Materials and Utilities were both barely positive around 1% for the month, as investors likely drifted toward perceived safety and value a bit more, with Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, and Real Estate all down in the low-single-digits, with mid-single-digit declines in both Information Technology and Communication Services, with Energy the worst performer, declining 14.5% for the month.

Earnings-per-share estimates for the S&P 500 and Nasdaq

	2017	2018	2019	2020E	2021E	2022E
S&P 500	\$130.89	\$158.85	\$161.13	\$131.05	\$164.82	\$190.47
Y/Y growth	—	21%	1%	-19%	26%	16%
Nasdaq Composite Index	\$270.14	\$320.72	\$316.49	\$277.72	\$374.62	\$443.11
Y/Y growth	—	19%	-1%	-12%	35%	18%

Source - RBC Wealth Management; FactSet; data through 9/28/20

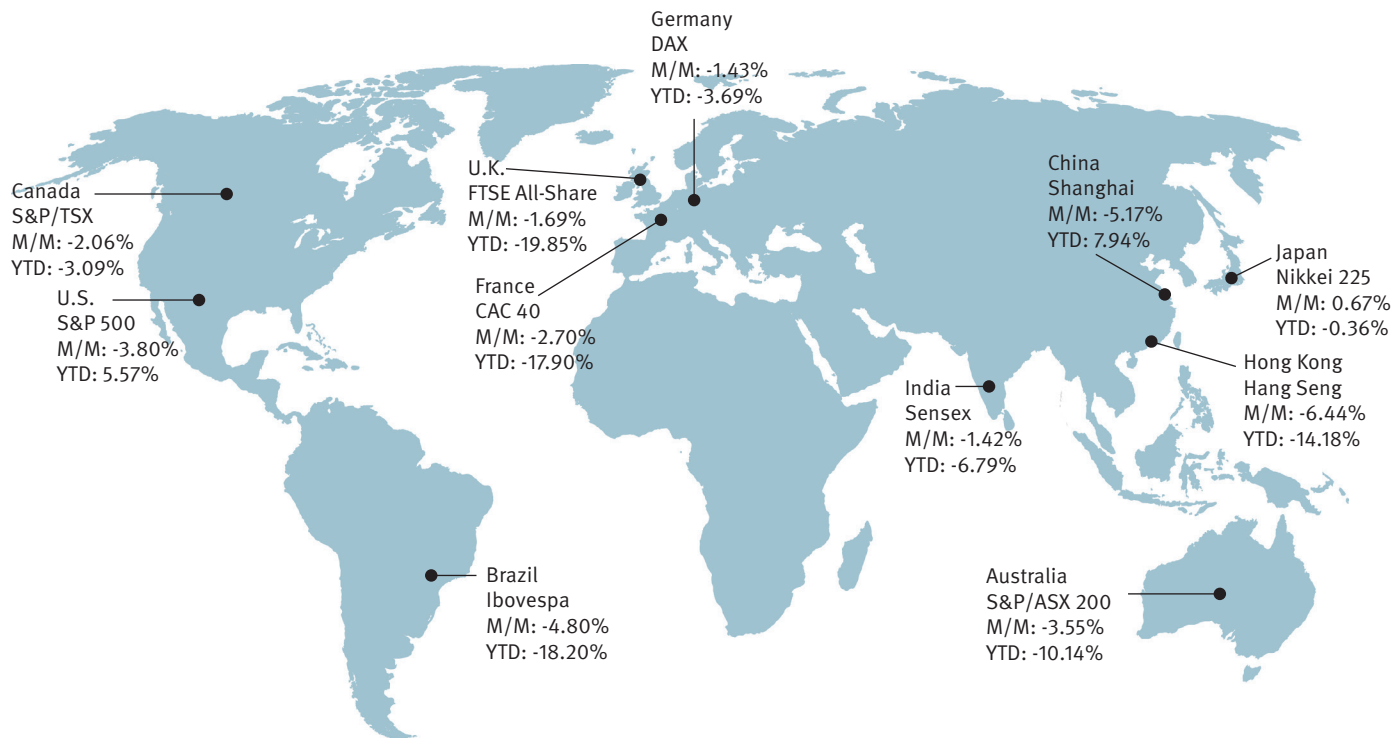
Trick or treat?

Our research source stated that cash on the sidelines is \$4.3 trillion today, which can be an opportunity to support volatility in the market if investors have missed the rebound and may be waiting for another chance to put capital to work. Investor sentiment is mixed with the American Association of Individual Investors retail investor sentiment negative, while RBC Capital Markets polled 90 institutional investors during September and the results showed investors feel more optimistic than in June (50% are bullish or very bullish compared with 42% in June) based on a pick-up on the economic outlook and fiscal stimulus,

but still concerned with stock market valuations and elections. Given the data in the first table on the historical outcomes for October in any given year and an election year, being prepared for many scenarios in October seems prudent. As we all know, 2020 has been full of surprises, and two full moons during the month could make anything possible.

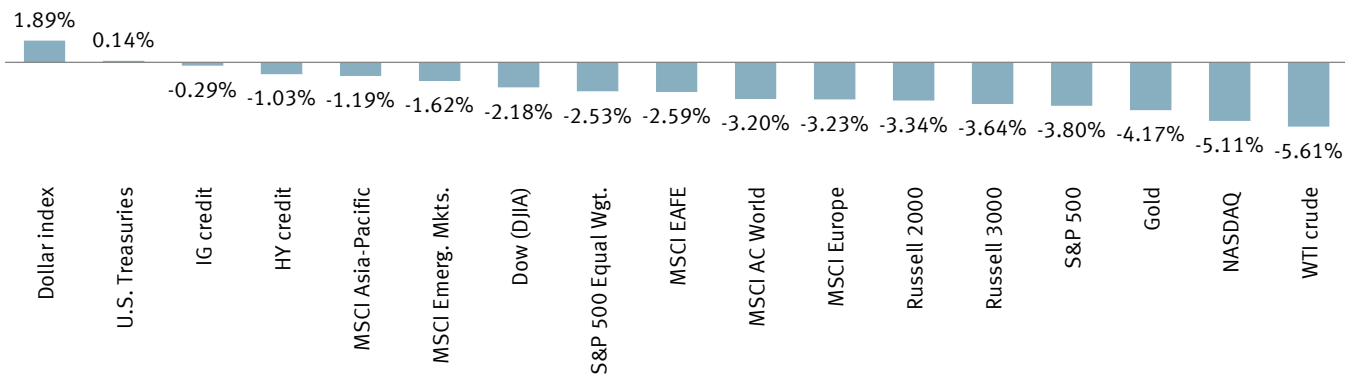
World markets

August month-over-month and year-to-date total return



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – September 2020



Source - Bloomberg

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			Count	Percent
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