Monthly Scorecard

November 4, 2020 | Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	10/31/20	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	26,501.60	-4.52	0.80	-5.38	0.34	10.69
S&P 500	3,269.96	-2.66	0.37	2.76	9.70	25.41
Nasdaq	10,911.59	-2.26	1.75	22.57	32.94	52.63
Russell 2000	1,538.48	2.09	4.24	-6.78	-0.16	4.70
Russell 3000	1,923.70	-2.16	1.11	3.13	10.14	24.99
S&P 500 Equal Wgt.	4,364.57	-0.61	1.20	-5.33	0.58	13.48
MSCI AC World	551.00	-2.41	0.30	-0.66	5.44	19.41
MSCI Europe	113.46	-5.61	-4.74	-13.59	-8.71	1.99
MSCI EAFE	1,780.08	-3.99	-1.61	-10.39	-6.38	4.61
MSCI Asia-Pacific	171.74	1.02	5.00	2.96	8.06	21.66
MSCI Emerg. Mkts.	1,103.46	2.08	2.70	1.13	8.59	21.90
60/40 Allocation[1]	N/A	-1.77	-0.3	4.18	8.29	22.61
S&P 500 Sector	**10/31/20**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	1,172.03	-2.93	2.47	19.76	24.69	44.34
Consumer Staples	639.46	-2.81	0.29	1.20	4.91	19.64
Energy	216.82	-4.42	-19.12	-50.38	-46.44	-52.35
Financials	396.09	-0.81	-0.17	-20.90	-14.70	-4.71
Health Care	1,184.32	-3.68	-3.24	1.15	10.06	19.56
Industrials	641.01	-1.43	6.25	-5.36	-1.23	13.45
Information Tech.	1,948.66	-5.10	0.59	22.13	34.48	64.85
Materials	396.87	-0.78	5.00	4.65	11.27	26.29
Real Estate	211.46	-3.33	-5.26	-9.88	-10.27	13.71
Comm. Services[2]	196.55	0.79	2.81	9.46	15.81	33.78
Utilities	316.92	5.04	3.41	-0.93	0.59	24.44
FI, FX, & Commod.	**10/31/20**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[3]	0.88%	-0.94	-1.89	7.88	6.95	18.80
Invest-Grade Credit[4]	2.03%	-0.18	-1.84	6.45	7.05	23.51
High-Yield Credit[4]	5.78%	0.51	0.42	1.13	3.49	12.17
WTI Crude Oil[5]	$35.79	-11.01	-11.12	-41.39	-33.94	-45.20
Dollar Index[5]	$94.04	0.16	0.74	-2.44	-3.40	-3.18
Gold[5]	$1,878.81	-0.37	-4.91	23.83	24.18	54.66

[1] 60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate.
[2] Communication Services returns include data from the previously labeled Telecom sector for returns including dates prior to 9/30/18. [3] Yield reflects 10-year U.S. Treasury, total returns reflect Bloomberg Barclays U.S. Treasury Index. [4] Yield and total returns reflect that of the respective Bloomberg Barclays Index. [5] Spot prices and price returns.
Source - Bloomberg, RBC Wealth Management

Priced (in USD) as of October 31, 2020, market close (unless otherwise stated).
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Where's the rearview mirror?

If ever there were a month in which returns mirrored the global narrative, this was it. European COVID-19 cases spiked and economies overseas enacted shutdowns. Europe (-5.6%) was the worst-performing region. The U.S. saw infection rates climb, but didn't see the economic shutdowns that Europe did. U.S. stocks moved lower but outperformed their European counterparts. There was risk-off sentiment in the U.S., and Utilities outperformed the next-closest sector by more than 400 basis points. Richly valued Tech stocks sold off. Oh, by the way, value outperformed growth as seen in the Russell 2000 climbing 2.1%. Emerging markets even worked, climbing 2.1%.

All of this falls against the backdrop of global equities declining 2.4% in October. U.S. stocks were broadly lower, with the exception of small caps, as the S&P 500 fell 2.7%. The NASDAQ was slightly better while the Dow Jones fell 4.5%.

Sector performance saw Utilities gain 5.0%, while the only other sector posting a gain for the month was Communication Services. All other sectors were lower, with Tech falling the most. The sector declined 5.1% on the back of weakness seen in Software and Services. Additionally, Apple dropped 6.0% and Semiconductors fell 3.5%, led lower by Intel's 14.5% decline. Energy and Health Care were the second- and third-worst sectors, led lower by Exploration & Production companies and Biotech's near 10% decline.

RBC Wealth Management

Despite the rapid selloff in the back half of October, it never actually matched the fear-filled levels seen during the depths of the COVID-19 selloff.

While the S&P 500 only declined 2.7% in October, investors can be forgiven for feeling like it was even worse after the index declined 7.5% on a peak-to-trough basis and saw one of the fastest three-day declines of the year. In fact, the S&P 500 declined 5.6% over the three-day trading period ending October 28. This was just the third time that's happened since the depths of the COVID-19 lows (also seen previously in early September and mid-June). It speaks to the volatility being experienced in 2020 and the overall discomfort felt by investors.

15 worst three-day declines for the S&P 500 in 2020

Date	Decline
Mon, Mar 9	-12.3%
Wed, Mar 18	-11.5%
Thu, Mar 12	-9.7%
Fri, Mar 20	-8.9%
Wed, Mar 11	-7.8%
Thu, Feb 27	-7.7%
Tue, Feb 25	**-7.3%**
Thu, Jun 11	**-7.1%**
Tue, Sep 8	**-7.0%**
Mon, Mar 23	**-6.7%**
Wed, Feb 26	**-6.6%**
Fri, Mar 13	**-5.9%**
Wed, Oct 28	**-5.6%**
Fri, Feb 28	**-5.6%**

Note: The date shown represents the last day of the three-day trading period declines.
Source - RBC Wealth Management, FactSet; data through 10/31/20

However, it's important to note that the magnitude of the three-day decline has shrunk consistently since March. There were several double-digit declines in a single day and over the course of three days in March. June saw a 7.1% contraction over the course of three days; September saw a 7.0% drop. In contrast, October saw just a 5.6% decline. These shrinking contractions are incrementally positive in their own way and pair well with what we're seeing from a broader volatility perspective.

The S&P 500 has been under significant stress in 2020 as measured by the CBOE Volatility Index (VIX). We've covered the prospect of better-than-average returns during periods of heightened volatility in previous versions of this publication and in our Taking stock series. We won't belabor the point again, but rather want to highlight how much more volatile 2020 has been than the overall period after the Great Recession.

To wit, 70% of the VIX readings above 40 since 2010 have happened in just the 10 months thus far in 2020. Put differently, there have only been 50 days over the last 10 years in which the VIX ended at 40 or higher. Thirty-five of these were in 2020, with two months still to go in the year. This pattern also holds over other elevated levels of the VIX, with 43% of days above 30 occurring in 2020, as have 53% of days above 35. Clearly, volatility is heightened when the majority of all days above 35 and 40 on the VIX are concentrated in just 2020.

2020 clearly owns the greatest share of extreme volatility in the post-Great Recession period. Any mean reversion in volatility should be a tailwind for equities.

Number of days the VIX has spent above certain index levels

	Above 15	Above 20	Above 25	Above 30	Above 35	Above 40
Since 2010	1,548	685	357	186	92	50
2020 YTD	190	177	148	79	49	35
2020 % of total	12.3%	25.8%	41.5%	42.5%	53.3%	70.0%

Source - RBC Wealth Management, FactSet; data through 10/31/20

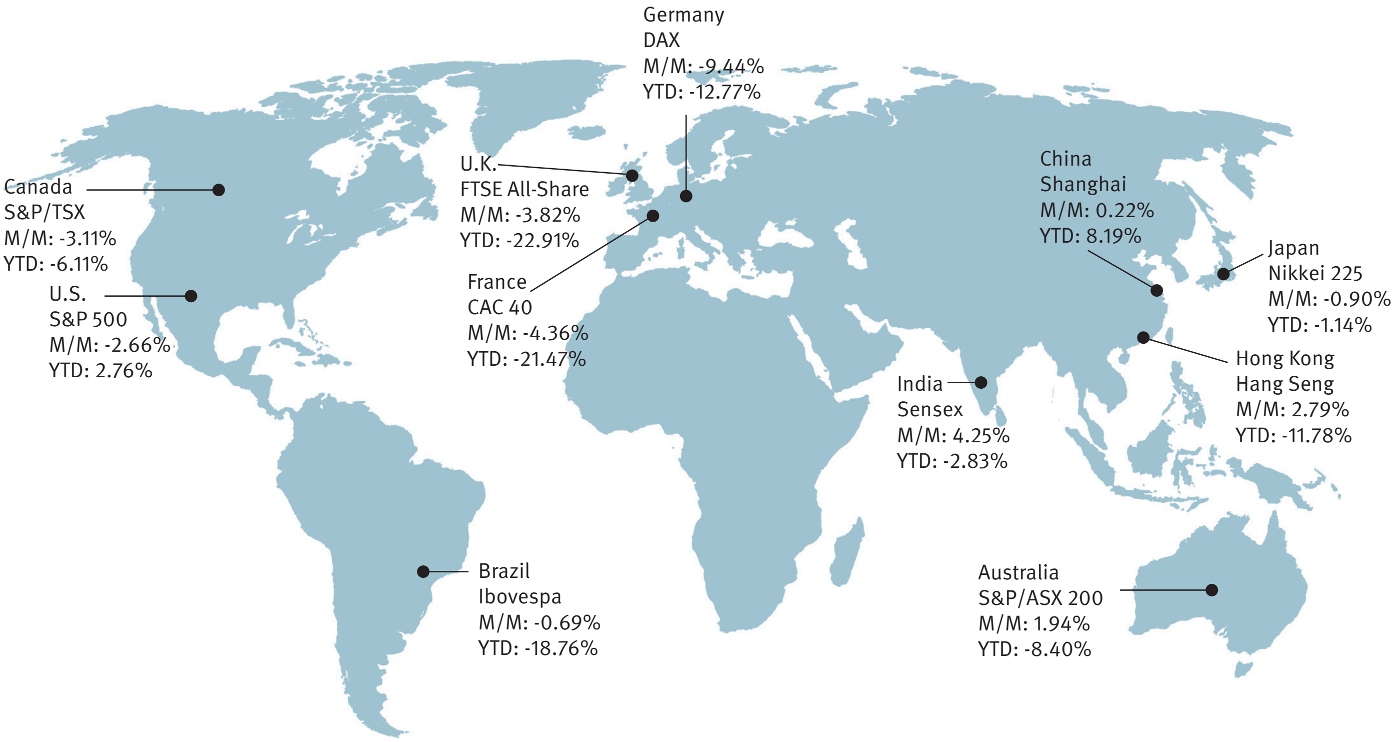
This is important to highlight because mean reversion means volatility is likely to be lower in 2021 than it will prove to ultimately be in 2020. When you couple this mean reversion expectation with the shrinking magnitude of three-day moves, it's reasonable to believe volatility is on a path lower despite normal spikes along the way. The beauty of this backdrop, in our view, is that equity returns generally prove favorable when volatility starts a period at elevated levels and moves lower. In the most extreme sense, this effect is seen in the immediate aftermath of market bottoms and volatility peaks. While we don't expect April and May returns to repeat themselves, we do expect moderating volatility in tandem with an increased probability of favorable equity market returns.

The final piece to this puzzle is seasonal returns. November marks the start of the better half of calendar year returns, as November through April has historically outperformed May through October. Additionally, over the last 20 years, November has been the second-best month with an average return of 1.3%, which only lags April's 2.3% average return.

The bottom line is that the election will soon be in the rearview mirror, heightened COVID-19 cases and infection rates should soon be old data, not new, and this pairs well with underlying volatility and market trends. As these headline concerns fade, volatility should continue to fall in a big picture sense, and favorable seasonal return dynamics may take hold and assist equity returns in the next 12 months.

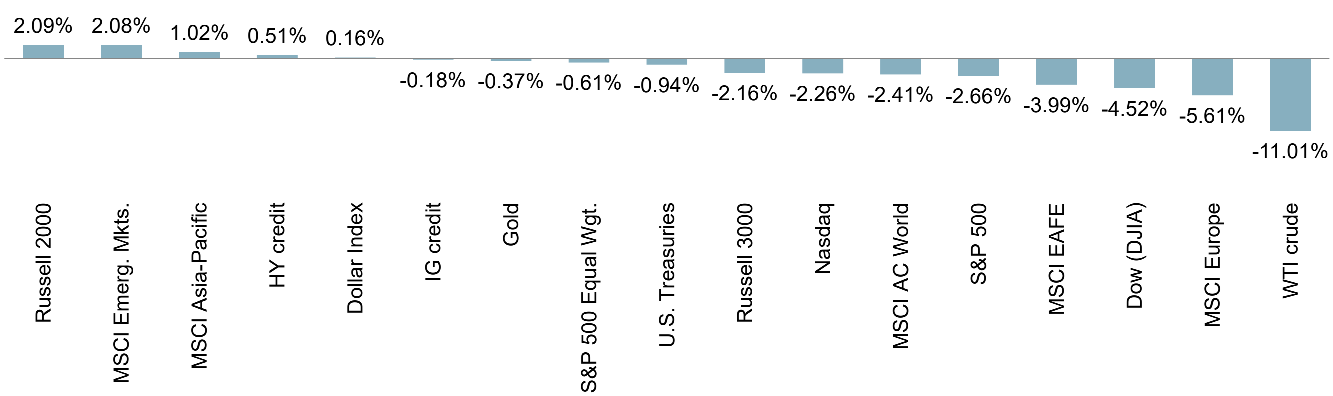
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – October 2020



Source - Bloomberg

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Buy [Outperform]	788	52.96	248	31.47
Hold [Sector Perform]	619	41.60	135	21.81
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