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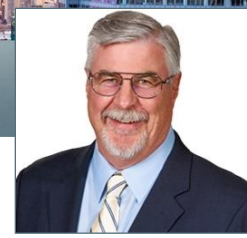

PWM Weekly Observations

November 28, 2020

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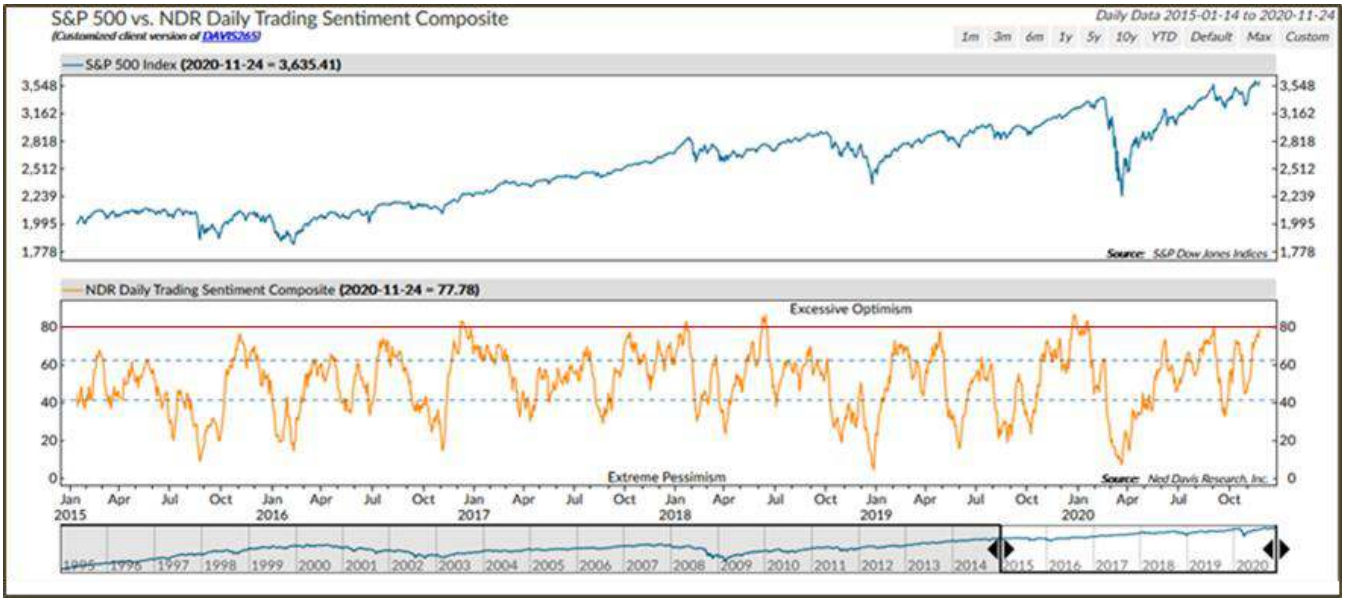
Are Investors Out Over their Skis?

Ed Yardeni, a noted economist, posted a chapter from his book ***"Fed Watching for Fun & Profit"*** on Twitter. In particular, he posted the chapter on Janet Yellen, the former FED Chair and now Treasury Secretary in waiting. Yardeni and Yellen share a common training as they are both products of the Graduate Economics program at Yale. In that chapter, Yardeni notes that Yellen has commented that capitalist economies cannot operate at full employment without routine intervention by economists and he describes her as 'among the most dovish members of the FOMC (Federal Open Market Committee, which determines the direction of monetary policy via open market operations). As a result, Yardeni has referred to her as the Fairy Godmother of the Bull Market.

President–Elect Biden's choice of Yellen as Treasury Secretary is seen as signaling more dovish economic policies over the next four years and, it is these policies that have been a primary driver of financial markets. As we have stated time and again, when the FED injects liquidity into the economy, that money needs to find a home, and that home is primarily in financial markets, that is, stocks. The FED has the tools and is very efficient at injecting money into the financial system to calm financial markets, but largely without the tools to directly impact the real economy. As Yardeni notes, *"Ordinarily, the Fed's role is to engender a sense of calm in the eternally jittery financial markets, not to crusade against urban poverty."*

For now, at least, markets appear willing to bid prices higher as betting against accommodative monetary policy has historically been a loser's game. But after 12 years of the FED driving markets, we need to consider how long this can actually last. Or put more succinctly, are we a bit out over our skis?

This question appears apropos in light of the following chart from Ned Davis Research, which shows a composite of market sentiment (orange line at bottom).



Source: Ned Davis Research. Past performance may not be indicative of future results.

A reading of over 62.5 is considered excessive optimism and we are currently approaching a level of 80. (We drew the red line at approximately a level of 80 to make the current position more clear.) We have reached this level several times over the five years shown in the chart and typically it is marked by a period of underperformance from this level. In fact, as shown below, market gains from levels above 62.5 have been meager over this 5 year period.

S&P 500 Index Performance **Chart View:** 2015-01-05 to 2020-11-24		
NDR Daily Sentiment Composite is	% Gain/ Annum	% of Time
Above 62.5	2.02	26.60
41.5 - 62.5	9.63	44.70
Below 41.5	20.40	28.70
Buy/Hold = 10.49% Gain/Annum		

Source: Ned Davis Research

Past performance may not be indicative of future results.

We agree with the old market adage that we don't want to fight the FED, but that does not imply blind faith in the FED, or policy makers in general. As Yardeni notes:

> *"…Yellen claimed (in a 1999 speech) that while most economists "appreciate the role of markets and incentives," only Yalies can see when they aren't working properly and know how to fix them: "I have noticed that Yalies often have a sharper eye for identifying market failures and greater concern for policies to remedy them than economists from institutions I will leave nameless." Her comments made me wonder whether at any time in her professional life Yellen considered the possibility that government policies can cause markets to fail, requiring more government policies to fix the failure that the government caused in the first place. At Yale, there were no courses in the unintended negative consequences of well-intentioned macroeconomic policies."*

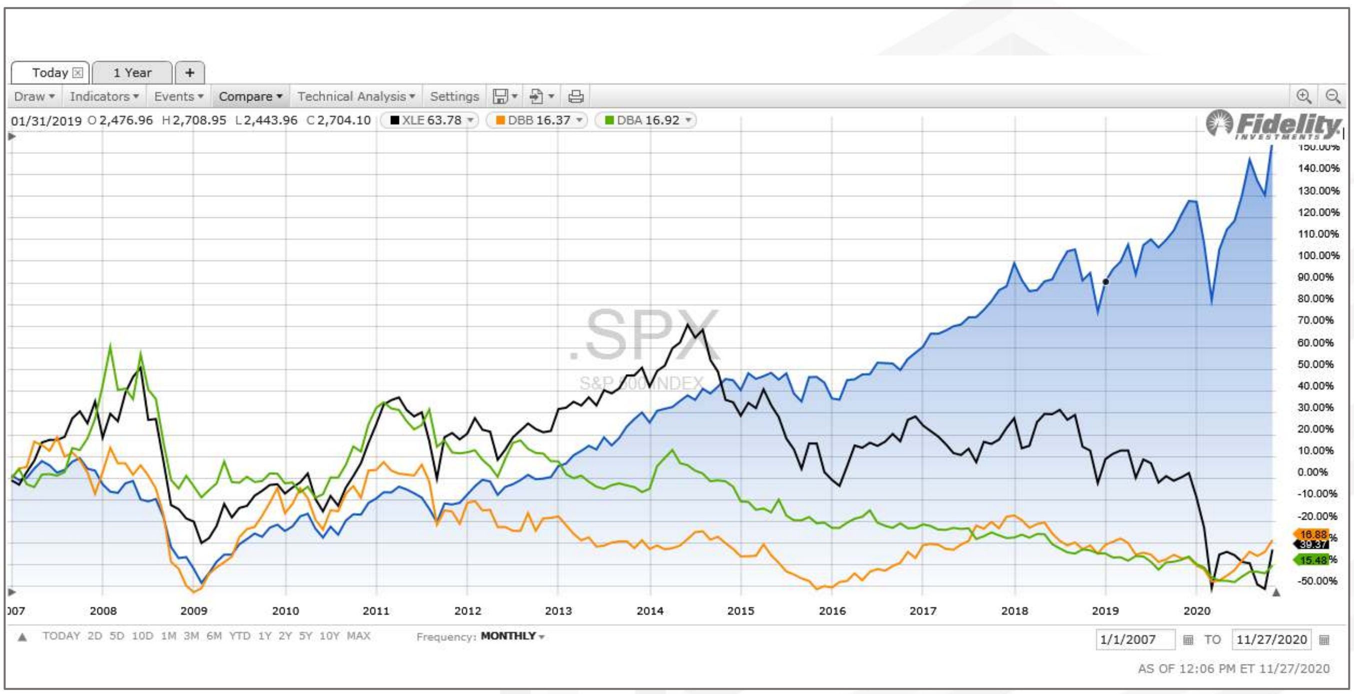
We have said that we are optimistic looking forward, and we are still optimistic because despite the rash of COVID cases nationwide, vaccines are agonizingly close at hand. This will allow the laggards in the real economy to recover and brings us closer to full economic recovery. While our investment approach at PWM is balanced, tactical traders need to approach this market with a measure of caution. For the moment, we appear to be out over our skis.

Commodities - The Hidden Bull Market

Market news this year has been dominated by technology stocks, particularly, the "COVID Winners" like Zoom Video, but more recently, the market participation has broadened to include traditional cyclical stocks, like industrials and materials, in anticipation of a more complete economic recovery. Sectors that have largely been ignored are looking more attractive and that has already begun to be reflected in prices.

Case in point is commodities, which have been beaten down over the last 5 years as economic growth was meager worldwide, and industry was plagued with excess capacity. After five years, much of the natural correction that occurs in difficult times has already occurred and as demand picks up when COVID is finally conquered, there is plenty of upside in this beaten up sector. Energy is the largest slice of the commodities complex and the energy sector has been the poster child for poor performance for the last 5 years.

The chart below shows the S&P 500 (blue shaded area), the XLE energy ETF (black line), the DBB base metals ETF (orange line) and the agricultural ETF (green line). Energy has been underperforming for the last 5 years and other commodities for almost 10 years!



Source: Fidelity Investments. Past performance may not be indicative of future results.

There are several drivers of the switch from outperformance in the early 2000's to the debacle of recent years. The massive growth of the Chinese economy in the early 2000's drove commodity prices higher across the complex, but energy demand; metals, especially copper; and agricultural demand soared, driving prices higher. The Great Financial Crisis of 2008-09 was not only a crisis here, but one that spread worldwide, and commodity prices came crashing back to earth. Chinese economic growth peaked in 2007 at over 14% and, has declined to just over 6% in 2019. That growth is still impressive, but not nearly enough to maintain high commodity prices.

What we have seen in 2020 is yet another drop from the worldwide COVID shutdown early in the year and, some recovery after that with metals and agricultural prices recovering back above late 2019 levels with only a partial recovery in place. Energy remains well below 2019 levels, but declines in US oil production is having a positive effect on prices. Natural gas is showing a similar trend, albeit, not as pronounced.

The bottom line is that these cyclicals are recovering and probably represent the hidden bull market that you never hear about on financial news. For those with a contrarian appetite for stocks, these sectors can be as good a place as any to hunt for ideas. There is every reason to expect that full economic recovery from COVID will increase demand in these sectors and, that will come on the heels of a correction in overcapacity. Any economic textbook will tell you that a rising demand and declining capacity are a great combination for higher prices. Obviously, there are no guarantees here, as they always say, past performance in not necessarily indicative of future results, but if the vaccines perform as advertised, the odds look attractive.

PWM portfolios carry commodity exposure as a standard practice with the aim of maintaining portfolio diversification and capturing these hidden bull markets.

What We're Reading

- Ranking Asset Classes by Historical Returns
- Political Fallout: 14 million Workers Face Losing Unemployment Benefits on 12/31
- Lawsuit Filed Seeking to Decertify Georgia Election Results
- Trump Campaign's Pennsylvania Lawsuit Fails Again
- Suspected Iranian Nuclear Mastermind Fakhrizadeh Assassinated Near Tehran
- Ten COVID-19 vaccines seen by mid-year, head of global pharma group says
- Bitcoin's Price Plunged and Explanations Abound **(Barron's, subscription req'd)**
- Silver Prices to Benefit from Surge in Solar Panels and 5G **(Barron's, sub. req'd)**
- Covert Israeli-Saudi meeting sends Biden a strong message on Iran
- This Weekend Is a Chance to Save Small Businesses

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Markets This Week

This week featured a great run for all major equity markets as well as the main sectors within our economy. Leading the way was Energy which was up another 8.66% following two consecutive strong weeks. As mentioned in the weekly, and Indicative here, Energy coupled with Commodities, has recently outperformed its counterparts. Financials followed Energy as the next highest sector with gains on the week and as reiterated earlier, we are starting to see small-caps participate showing broader market performance. Gold was down a great -4.50% along with Long-Term Treasuries and the US Barclays Aggregate Fixed Income market which both saw negative moves albeit both were less than -1.00%. I think it's an understatement to say the market moves this week are considerably strong.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	2.35%	14.61%	20+ Yr. Treasuries (TLT)	-0.80%	19.64%	Consumer Disc. (XLY)	2.95%	27.33%
Dow (DIA)	2.29%	6.80%	Barclays US Aggregate (AGG)	-0.03%	7.06%	Info. Technology (XLK)	2.12%	35.18%
NASDAQ (QQQ)	2.97%	41.18%	Intermediate Municipal (MUB)	0.06%	4.33%	Financials (XLF)	4.75%	-5.60%
Russell 1000 Growth (IWF)	2.35%	32.08%	US Corporate Bonds (LQD)	0.31%	10.19%	Health Care (XLV)	0.59%	8.85%
Russell 1000 Value (IWD)	2.80%	0.10%	Barclays US High Yield (HYG)	0.57%	2.13%	Utilities (XLU)	0.35%	1.35%
Vanguard Mid-Cap (VO)	2.63%	14.08%				Industrials (XLI)	2.49%	10.79%
Vanguard Small-Cap (VB)	3.22%	12.63%				Energy (XLE)	8.66%	-31.78%
						Materials (XLB)	2.80%	18.74%
International Equities	**1 week**	**YTD**	**Commodities**	**1 week**	**YTD**	Consumer Staples (XLP)	0.63%	8.34%
MSCI EAFE (EFA)	1.93%	4.73%	Commodities (PDBC)	3.22%	-11.90%	Comm. Services (XLC)	2.74%	23.23%
MSCI Emerging (EEM)	2.00%	12.17%	Gold (GLD)	-4.50%	17.42%	REITS (VNQ)	0.33%	-6.17%
						Homebuilders (XHB)	1.35%	28.34%

The table above is an analysis of the weekly and year to date returns of various markets/sectors that we follow (More RED = worse performing markets/sectors; More GREEN = best performing markets/sectors). Source: IEX Trading & PWM Research.

Retirement Planning:

Roth IRA Conversions: Pay Now, Live Tax-Free Later

Why now may be the time to convert your traditional IRA to a Roth to avoid future taxes.

Estate Planning:

Gift-Giving and Other Planning Under the New Political Landscape

Based on the tax plan proposed by President-Elect Biden, the federal estate and gift tax (and generation-skipping transfer tax) exemption might be reduced from its current amount of $11.58 million to a level that predates the 2017 tax law changes.

Tax Planning:

The CARES Act added a new $300 charitable contribution deduction for 2020.

The CARES Act, which was signed into law this spring, included a “partial above the line deduction” for charitable contributions.

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Health:

[Experts: COVID Vaccine May Cause Side Effects]

Experts attending a meeting of an advisory committee to the U.S. CDC stressed that Americans who get a shot shouldn't be surprised if they feel under the weather for a few days afterwards.

Entrepreneur:

[How Podcasting Can Help You Sell More Digital Products]

Podcasts are one of the most powerful ways to build rapport with your audience and one of the best ways to build a brand.