PWM Weekly Observations

December 12, 2020

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Rising COVID Cases and Declining COVID Relief = Stalled Markets

COVID cases have been steadily rising and holiday get togethers are expected to reinforce that trend over the coming weeks. Now comes the economic backlash of the response to the virus surge. Initial unemployment claims came in at 853,000, a jump of 137,000 from last week and well above the expected number of 725,000. Continuing claims also rose from 5.527 million to 5.757 million, which is the first increase in continuing claims since August and the largest since May.

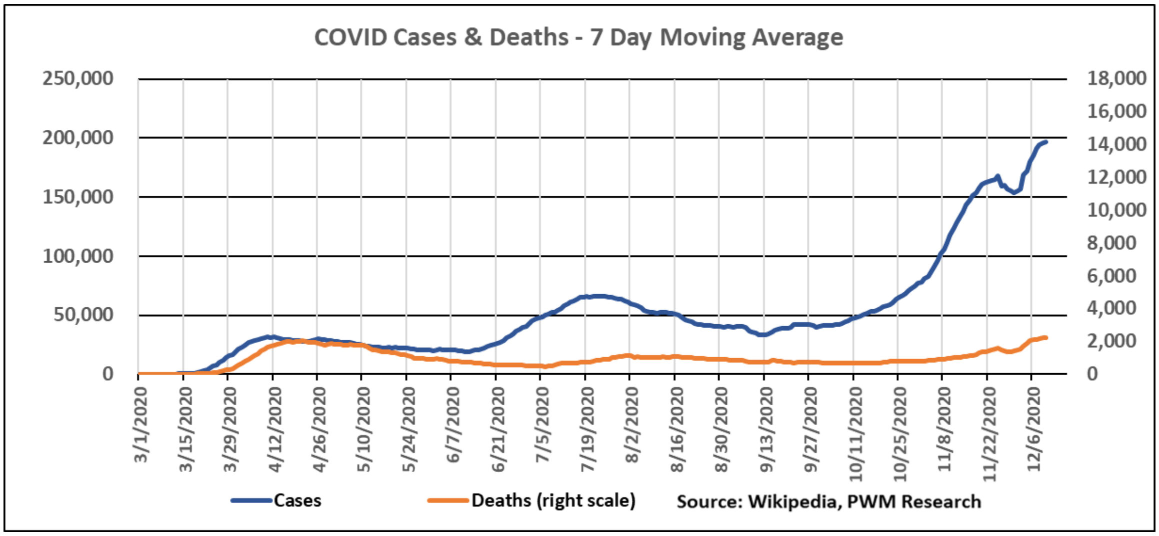
The overall economic trend is sill up, but appears to be steadily weakening. More lock downs, as necessary as they may be, will only make the economy worse. That Implies that we are headed for a show down in Congress over a COVID deal. The market is looking for another stimulus deal and appears to be giving the first signs of a tantrum to demand it. The key question is the same one that has been nagging at us since August – can Congress finally agree to a new deal?

From here on, it's hard to see anything but pressure for a stimulus deal to intensify. The ECB came up with a deal this week (see link in ***What We're Reading***), let's see if Congress will follow. This market appears to be fixated on one issue. If we get a deal, look for markets to respond positively to more money flowing into the economy, if not, look for market weakness to prevail.

COVID Spread and Vaccines

When I watch the news these days, I am often reminded of a Jackson Browne lyric from the song *The Road and The Sky*. The line is "I could be just around the corner from Heaven or a mile from Hell." We think that sums up the entire situation pretty well.

After a brief lull in cases around Thanksgiving, probably due to less testing, we quickly got right back on the upward curve. With Hannukah and Christmas coming, it looks like we are likely to continue the spike into January. We are suggesting that you should be careful out there.



The vaccine news continues to be positive and the Pfizer vaccine appears ready to be approved. In fact, we would not be surprised if it has happened by the time you read this. If that's the case, the Pfizer vaccine should begin to be rolled out starting next week. The Moderna vaccine is not far behind, and other vaccines are likely coming in the first quarter, so there is every reason to be encouraged.

However, understand that these vaccines are under a microscope like no others have experienced. Vaccines are messy. There are adverse reactions, some minor, some serious. There is one thing we can count on - you will hear about all of them. The problem will not be that they occur, which is normal with almost any vaccine. The real issue will be whether these reactions are beyond what would normally be expected. That will take some time to figure out, but it seems to be clear the cure is still much better than the virus. But even the road to Heaven can get very bumpy…

Does ESG Investing Have the Right Stuff?

We are very encouraged with society's increased awareness and focus on issues related to environmental and social issues. An outgrowth of this awareness, the idea of incorporating these considerations, known as ESG – Environmental, Social Governance, as part of the investment process has gained in popularity. We believe this focus on ESG can be a very positive development for society over the long-term, yet feel it is still in the early stages of evolution. This process will require (fixed run-on) a maturation process as the meaning of ESG investing becomes more clearly and universally defined.

One of the longest running concerns about ESG investing has been its lack of performance versus the benchmarks. This criticism is based on the idea that it limits investment options and, as a result, may detract from investment performance versus the traditional indices.

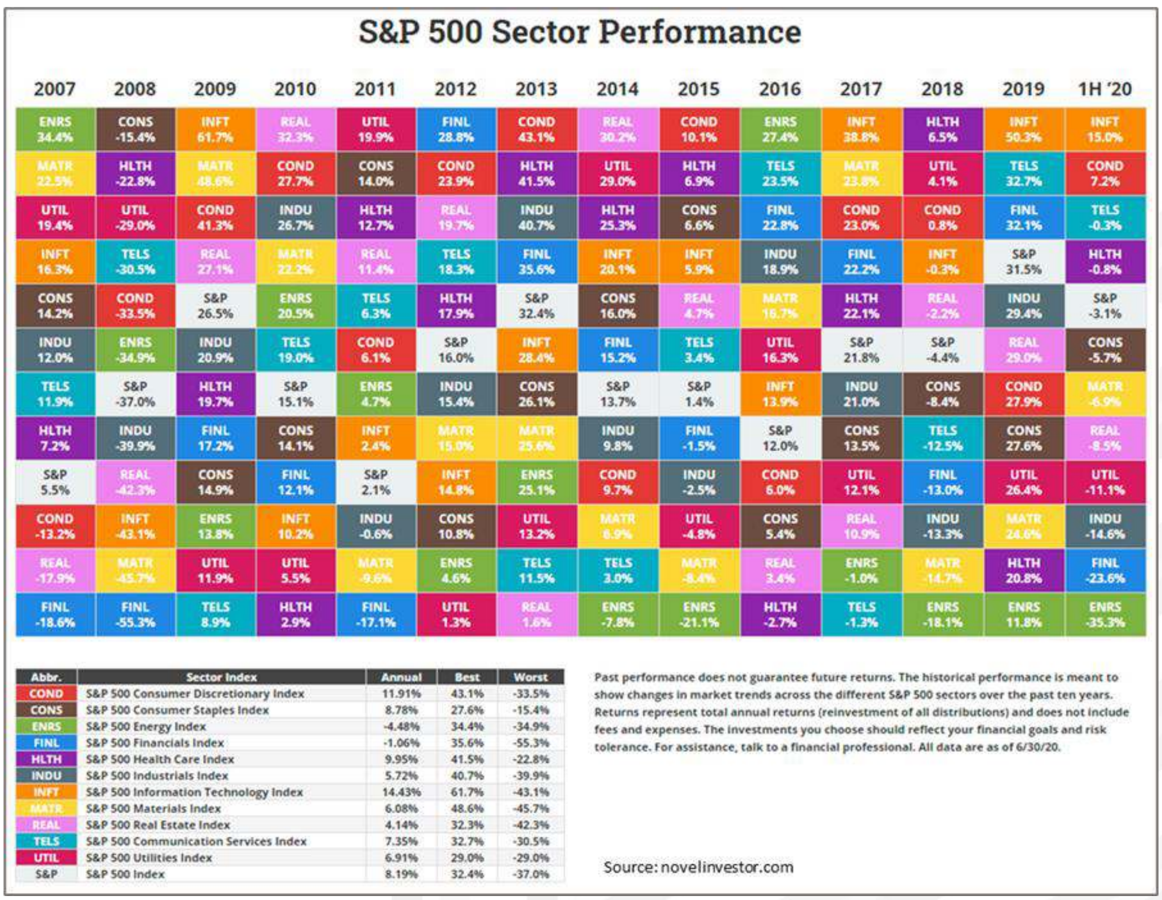
That argument has lost some lost some steam over the past few years as ESG funds have been outperforming broad market indexes. In looking at it from a simple top-down perspective, it appears that one of the reasons could be a result of sector allocation differentials.

The table at right shows the sector allocations for a typical ESG fund and the S&P 500. The differences in sector allocations are not very dramatic, except in Energy (45% underweight) and Utilities (62% underweight). From what we have examined as well as what we would logically expect, this is typical of an ESG fund. We think it's fair to conclude that there are probably no ESG funds that own Exxon, for example.

Sector	iShares ESG Leaders	S&P 500 Index
Information Technology	27.1%	27.4%
Consumer Discretionary	13.6%	11.6%
Health Care	13.5%	14.1%
Communication	11.5%	11.1%
Financials	10.2%	9.9%
Industrials	9.0%	8.4%
Consumer Staples	6.8%	7.0%
Materials	3.0%	2.7%
Real Estate	2.8%	2.6%
Utilities	1.2%	3.2%
Energy	1.1%	2.0%

Source: iShares and Vanguard

The chart below shows annual sector performance since 2007 and clearly shows that Energy has been the worst performing sector in the US stock market for the past three years and for five of the last seven years. (Utilities have also been generally uninspiring.) The one big exception is 2016, when energy led the S&P 500. The weak Energy sector performance alone was likely enough to help ESG funds outperform the broader indexes. Unfortunately, we couldn't test that theory with the iShares fund as it just started in 2019, so we took a look at a large Vanguard ESG with a history back to 2014. The Vanguard FTSE Social Index fund has outperformed the broad Russel 1000 index each year from 2014 through 2019, with one exception – 2016! It makes absolute sense that funds that systematically underweight the energy sectors have outperformed over the last 4 to 5 years. There may well be additional reasons for the recent ESG outperformance, but investors in ESG funds need to carefully consider the factors that drove fund performance and consider whether those are repeatable in the future.



S&P 500 Sector Performance

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	1H '20
ENRS 34.4%	CONS -15.4%	INFT 61.7%	REAL 32.3%	UTIL 19.9%	FINL 28.8%	COND 43.1%	REAL 30.2%	COND 10.1%	ENRS 27.4%	INFT 38.8%	HLTH 6.5%	INFT 50.3%	INFT 15.0%
MATR 22.5%	HLTH -22.8%	MATR 48.6%	COND 27.7%	CONS 14.0%	COND 23.9%	HLTH 41.5%	UTIL 29.0%	HLTH 6.9%	TELS 23.5%	MATR 23.8%	UTIL 4.1%	TELS 32.7%	COND 7.2%
UTIL 19.4%	UTIL -29.0%	COND 41.3%	INDU 26.7%	HLTH 12.7%	REAL 19.7%	INDU 40.7%	HLTH 25.3%	CONS 6.6%	FINL 22.8%	COND 23.0%	COND 0.8%	FINL 32.1%	TELS -0.3%
INFT 16.3%	TELS -30.5%	REAL 27.1%	MATR 22.2%	REAL 11.4%	TELS 18.3%	FINL 35.6%	INFT 20.1%	INFT 5.9%	INDU 18.9%	FINL 22.2%	INFT -0.3%	S&P 31.5%	HLTH -0.8%
CONS 14.2%	COND -33.5%	S&P 26.5%	ENRS 20.5%	TELS 6.3%	HLTH 17.9%	S&P 32.4%	CONS 16.0%	REAL 4.7%	MATR 16.7%	HLTH 22.1%	REAL -2.2%	INDU 29.4%	S&P -3.1%
INDU 12.0%	ENRS -34.9%	INDU 20.9%	TELS 19.0%	COND 6.1%	S&P 16.0%	INFT 28.4%	FINL 15.2%	TELS 3.4%	UTIL 16.3%	S&P 21.8%	S&P -4.4%	REAL 29.0%	CONS -5.7%
TELS 11.9%	S&P -37.0%	HLTH 19.7%	S&P 15.1%	ENRS 4.7%	INDU 15.4%	CONS 26.1%	S&P 13.7%	S&P 1.4%	INFT 13.9%	INDU 21.0%	CONS -8.4%	COND 27.9%	MATR -6.9%
HLTH 7.2%	INDU -39.9%	FINL 17.2%	CONS 14.1%	INFT 2.4%	MATR 15.0%	MATR 25.6%	INDU 9.8%	FINL -1.5%	S&P 12.0%	CONS 13.5%	TELS -12.5%	CONS 27.6%	REAL -8.5%
S&P 5.5%	REAL -42.3%	CONS 14.9%	FINL 12.1%	S&P 2.1%	INFT 14.8%	ENRS 25.1%	COND 9.7%	INDU -2.5%	COND 6.0%	UTIL 12.1%	FINL -13.0%	UTIL 26.4%	UTIL -11.1%
COND -13.2%	INFT -43.1%	ENRS 13.8%	INFT 10.2%	INDU -0.6%	CONS 10.8%	UTIL 13.2%	MATR 6.9%	UTIL -4.8%	CONS 5.4%	REAL 10.9%	INDU -13.3%	MATR 24.6%	INDU -14.6%
REAL -17.9%	MATR -45.7%	UTIL 11.9%	UTIL 5.5%	MATR -9.6%	ENRS 4.6%	TELS 11.5%	TELS 3.0%	MATR -8.4%	REAL 3.4%	ENRS -1.0%	MATR -14.7%	HLTH 20.8%	FINL -23.6%
FINL -18.6%	FINL -55.3%	TELS 8.9%	HLTH 2.9%	FINL -17.1%	UTIL 1.3%	REAL 1.6%	ENRS -7.8%	ENRS -21.1%	HLTH -2.7%	TELS -1.3%	ENRS -18.1%	ENRS 11.8%	ENRS -35.3%

Abbr.	Sector Index	Annual	Best	Worst
COND	S&P 500 Consumer Discretionary Index	11.91%	43.1%	-33.5%
CONS	S&P 500 Consumer Staples Index	8.78%	27.6%	-15.4%
ENRS	S&P 500 Energy Index	-4.48%	34.4%	-34.9%
FINL	S&P 500 Financials Index	-1.06%	35.6%	-55.3%
HLTH	S&P 500 Health Care Index	9.95%	41.5%	-22.8%
INDU	S&P 500 Industrials Index	5.72%	40.7%	-39.9%
INFT	S&P 500 Information Technology Index	14.43%	61.7%	-43.1%
MATR	S&P 500 Materials Index	6.08%	48.6%	-45.7%
REAL	S&P 500 Real Estate Index	4.14%	32.3%	-42.3%
TELS	S&P 500 Communication Services Index	7.35%	32.7%	-30.5%
UTIL	S&P 500 Utilities Index	6.91%	29.0%	-29.0%
S&P	S&P 500 Index	8.19%	32.4%	-37.0%

Past performance does not guarantee future returns. The historical performance is meant to show changes in market trends across the different S&P 500 sectors over the past ten years. Returns represent total annual returns (reinvestment of all distributions) and does not include fees and expenses. The investments you choose should reflect your financial goals and risk tolerance. For assistance, talk to a financial professional. All data are as of 6/30/20.

Source: novelinvestor.com

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What We're Reading

- Here's the truth behind the biggest (and dumbest) battery myths
- Fall of China's 'most profitable' coal miner is a cautionary tale
- California Water Futures Begin Trading Amid Fear of Scarcity
- Ray Dalio Sees 'Flood of Money' With Soaring Asset Prices
- Taiwan waits for Biden as China steps up pressure on the island
- EU unveils plans to avoid Brexit chaos as 'no deal' looms larger
- U.S. FDA set to authorize Pfizer COVID-19 vaccine
- ECB Expands Stimulus Program to Prop Up Pandemic-Hit Economy **(WSJ subs req'd.)**
- Why we are turning bullish for 2021 - Blackrock
- Airbnb (ABNB) and DoorDash (DASH) IPOs
- New York Needs to Raise Taxes, Gov. Andrew Cuomo Says

Markets This Week

A late Friday rally could not overcome the damage from earlier in the week and equity markets generally closed lower. The one exception was Energy, which reacted well to a modest rise in oil prices. Small cap stocks also gained ground. Bonds did their job for the week and rallied, especially the long end of the yield curve as TLT, the long-term Treasury bond fund gained 2.3%. Commodities also rallied, reflecting a general sense that higher inflation is coming.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	-0.96%	15.44%	20+ Yr. Treasuries (TLT)	2.31%	18.57%	Consumer Disc. (XLY)	-1.09%	25.78%
Dow (DIA)	-0.55%	7.40%	Barclays US Aggregate (AGG)	0.37%	6.85%	Info. Technology (XLK)	-1.38%	36.98%
NASDAQ (QQQ)	-1.24%	42.46%	Intermediate Municipal (MUB)	0.33%	4.54%	Financials (XLF)	-1.79%	-5.64%
Russell 1000 Growth (IWF)	-0.85%	33.07%	US Corporate Bonds (LQD)	0.20%	9.61%	Health Care (XLV)	-0.76%	11.08%
Russell 1000 Value (IWD)	-0.71%	1.25%	Barclays US High Yield (HYG)	-0.20%	2.45%	Utilities (XLU)	-0.27%	-1.07%
Vanguard Mid-Cap (VO)	-0.59%	15.67%				Industrials (XLI)	-0.49%	10.73%
Vanguard Small-Cap (VB)	0.56%	15.57%				Energy (XLE)	1.21%	-27.91%
						Materials (XLB)	-1.23%	17.40%
International Equities	**1 week**	**YTD**	**Commodities**	**1 week**	**YTD**	Consumer Staples (XLP)	-0.46%	8.98%
MSCI EAFE (EFA)	-0.50%	5.42%	Commodities (PDBC)	1.41%	-10.66%	Comm. Services (XLC)	-0.06%	25.69%
MSCI Emerging (EEM)	-0.26%	13.70%	Gold (GLD)	0.10%	20.71%	REITS (VNQ)	-2.35%	-6.72%
						Homebuilders (XHB)	-0.33%	25.28%

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:

Why Every American Needs an Advisor

Planners are in better financial shape than non-planners.

Tax Planning:

[Some Smart Money Moves to Make Before the End of the Year]

This is a great time to step back and assess which year-end financial moves you need to make now and revisit your money strategy to set yourself up for a prosperous 2021.

Health:

U.S. Vaccine-Delivery Hope Rests on J&J, Astra Approvals in 2021

The plan to vaccinate most Americans by next summer rests heavily on two Covid-19 shots that U.S. regulators won't get a chance to rule on until early in 2021.

Entrepreneur:

Five Ways Your Business Can Benefit From a Virtual Office

The rise of telecommuting and remote working mean there's less need for a business to operate from a traditional brick-and-mortar location.