



## NOVEMBER-DECEMBER 2020 COMMENTARY

Equity markets across the globe posted spectacular US Dollar-based returns in November. Within fixed income markets, US credit and non-dollar bonds posted strong gains. European equities have recovered from their pre-pandemic levels and are approaching all-time highs after enduring painful losses in September and October. The recovery in European equities is key to broadening the rally in global equities which has been led by US and Asian stock markets so far.

### EuroStoxx 600 (in US dollars)



There are several factors driving capital markets higher that suggest further gains may be achievable. Highly effective vaccines have been developed and are starting to be distributed in the US and abroad and the first inoculation has been administered in the UK. US corporate fundamentals have been resilient in the midst of the pandemic, and earnings growth forecasts heading into 2021 should be strong given the soft comparisons of 2020. Also, progress is being made in corporate fundamentals in the rest of the world heading into the new year. Furthermore, the interest rate environment globally remains

supportive of economic activity and the capital markets overall. While rates have been climbing in the US and the UK, the ascent has been gradual. The yield on the 10-year US Treasury bond has risen about 40 basis points since the all-time low reached in early August while the equivalent UK gilt has risen 16 basis points.

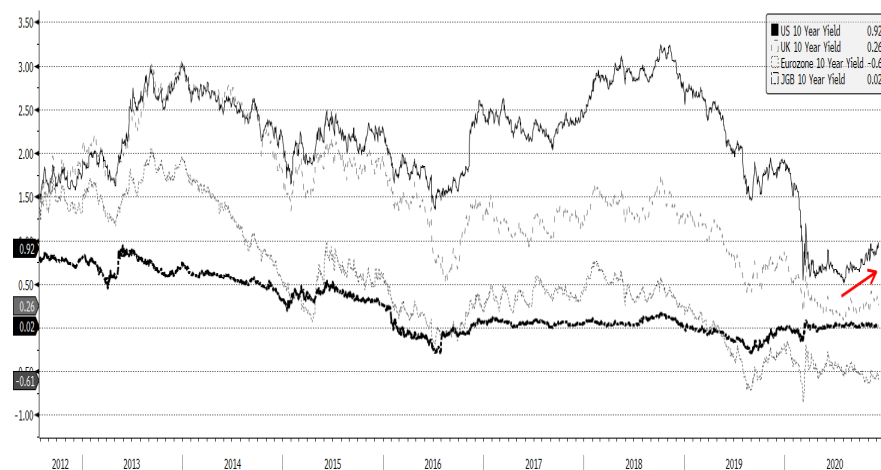


The gradual ascent of yields in these two key government bond markets may indicate that further economic improvement is approaching. Meanwhile, comparable interest rates in Japan are barely positive with the yield on the 10-year JGB at 0.2% and Eurozone yields in the segment remain persistently negative, currently -0.6%.

While capital market trends appear to be solid and aggregate measures of economic activity indicate further improvement, there are still problematic areas, particularly in the labor market. The US unemployment rate currently stands at 6.7% and has been steadily improving since the end of April, but initial and continuing jobless claims remain stubbornly high and worse yet, are concentrated at the lower end of the wage spectrum. These trends may deteriorate in the near term as COVID-19 cases spike across the nation. From a human condition perspective this is tragic, and we are concerned for those impacted in any way by the pandemic. These challenges are not unique to North America, and governments around the world are likely to remain highly accommodative in terms of both monetary and fiscal policy in the months and quarters ahead which, in turn, will likely be supportive of capital markets.

The following page details a summary of our portfolio positioning and the major risks we are following:

**Global 10 Year Government Bond Yields**



*Charts courtesy Bloomberg LP © 2020*



## PORTFOLIO POSITIONING

After some level of clarity arose post-US national elections we deployed our cash stock piles to US equity and fixed income. We now have a slight overweight allocation to global equities and modest overweight to global fixed income relative to our benchmarks, and consequently are underweight cash. Within global equities, we are overweight with respect to the US, modestly overweight to Asia x-Japan and neutral with respect to Emerging Markets. We are neutral with respect to Eurozone stocks and underweight Japan. Within fixed income, we are strongly overweight in the US with a preference for mortgages and investment grade corporate credit. We have little to no exposure to non-US fixed income in our all-ETF portfolios, although there is more exposure to non-US through Green Bonds in our ESG series portfolios. All portfolios holding fixed income maintain lower duration than the benchmark.

## RISK OUTLOOK

- National elections in the US have concluded, but while there is a consensus media call that Mr. Biden is President-Elect, the Electoral College does not cast its 538 votes until the first Monday following the second Wednesday in December (December 14, 2020). Margins in several battleground states remain extremely thin and lawsuits are being filed by Mr. Trump's camp contesting the legitimacy or timing of absentee or mail-in ballots. Low-probability outcomes that become reality can upset markets, so we remain watchful for any changes that could force market participants to reorder the assumptions on which they have been trading for the last many sessions.
- Social unrest is a major concern from a number of quarters. Protests from people aligned with both political camps have gone off-script and out-of-bounds by devolving into rioting, looting, vehicular assault, and other societally and economically damaging activities. We are concerned that the community damage caused in many cases overlaps where the impacts of COVID-19 are being most acutely felt and will hold back these communities from fully participating in the recovery that is underway which will stunt capital formation and job creation.
- The dreaded second wave of COVID-19 is upon us, striking Europe particularly hard and forcing governments to reinstitute economic lockdowns. The small-L libertarian streak in Americans makes it unlikely we will see a return to the Springtime shutdowns in coronavirus hotspots much less an Asian- or European-style total lockdown. At the headline level this makes it likely Europe in particular will economically lag other parts of the world while the US recovery will largely grind on with more targeted curtailing of economic activity like reducing concentrations at social gatherings and implementing late-night curfews on dining and drinking establishments. Regardless, we have to be mindful that rising infection rates as we enter the Winter months will have a meaningful effect on community healthcare infrastructure and will retard business and raise cost broadly, which will be a damper on upside potential. Mitigating that risk are promising signals on monoclonal antibody therapies and the staging of



vaccines for distribution in early- to mid-2021 creating the promise of a restoration of normality (or “new” normality).

- One of our long-term risk themes continues to be our focus on Chinese Communist Party actions which have not materially shifted for the better in the COVID era. From aggression in the Asia-Pacific region to military tension along the border with India to suppression of Hong Kong citizens’ rights and the lack of contrition for their early role in failing to stop COVID-19 in its tracks, all may contribute to China-directed backlash or retaliation. There does seem to be regional coherency in the response as nearly all Pacific nations have aligned with the US against Chinese aggression. We continue to find it odd that the CCP has chosen hostility when they arguably need the rest of the world for their own recovery efforts in their weakened economic condition. From lack of respect for intellectual property rights to involvement in global criminal drug trafficking to financial crimes and human rights abuses bordering on genocide, the country is finding it harder to get the global community to look the other way.
- Accelerating and likely permanent changes to consumer behavior and global supply chains that in many cases were already under way and have been amped up by CoV-2 are likely to create further near- and long-term disruption but also opportunity as more local, sustainable and safe sources of goods and services emerge. While seemingly imminent therapies are coming which have the potential to curtail or end the pandemic, 2020 has fundamentally reordered what it means for businesses to be resilient and what is required to operate reliably and efficiently under a variety of externalities. In main street terms, the “old ways” are not coming back and markets will need to process and reorient capital around the new order.

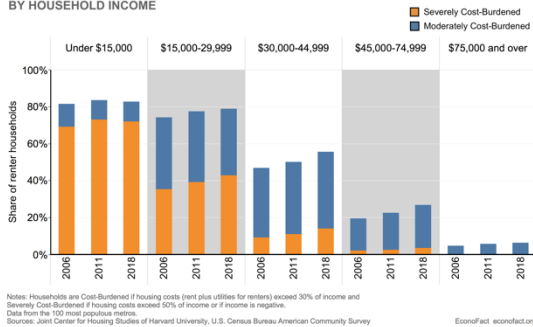
## ESG CONSIDERATIONS

Housing insecurity is a present and recurring theme across ESG investment portfolios, and that insecurity in the US is as acute as if not more than perhaps any time since the Great Depression. The question of course is how housing insecurity as a theme presents itself in the context of balanced stock-and-bond portfolios. We see it addressed in two ways – the first is the essential humanity of being sensitized to the flow of capital and business and governmental decisions which put families at threat for homelessness. This is the ever-present question of how to make money as an investor without it coming at the direct cost to our communities and planet. The second links to enlightened self-interest – housing insecurity is an investment risk.

In terms of the United Nations Sustainable Development Goals, access to shelter is directly linked to #1 No Poverty, #2 Zero Hunger, #3 Good Health and Well-Being, #4 Quality Education, #6 Clean Water and Sanitation, #8 Decent Work and Economic Growth, and #10 Reduced Inequalities. Housing insecurity often feeds a vicious cycle where health, education, nutrition, and work are destabilized, which reinforces the inability to obtain housing. In the present pandemic environment, lost jobs and lost wages have pushed, or are about to push, numerous people who were already at risk of losing housing off the proverbial cliff.



**RIISING COST BURDENS FOR RENTER HOUSEHOLDS**  
BY HOUSEHOLD INCOME



According to data compiled from Harvard and the US Census Bureau by EconoFact (econofact.org), prior to the pandemic renter households were already vulnerable, with roughly 80% of those earning \$30,000 a year or less spending at least 30% of income on housing, and for those earning less than \$15,000 a year nearly all are spending at least 50% of income. To put that in perspective, the proposed but not enacted national \$15/hour minimum wage translates to about \$30,000.

The current job situation is not just tied to government-mandated reductions and closures, although that has been an overwhelming challenge in direct-service industries like restaurants and movie theaters where many low-wage hourly jobs exist(ed). Universities that have moved to partial or complete virtual instruction have cut staff that would ordinarily support in-person populations including food service workers and custodians. Similarly, white-collar businesses that have virtualized to stay safely operational have emptied out corporate offices that would have been cleaned and their staffs fed, and surrounding businesses like cleaners, restaurants, and gas stations that support the commuter population have seen their customer flow vanish. This story repeats itself in all corners of the economy.

Consequently, already economically marginalized workers who saw earnings reduced or wiped out went from their rent taking a third to a half of their income to taking everything and then some. Recognizing the imminence of the threat, the Centers for Disease Control and Prevention issued a moratorium on evictions lasting from September 4, 2020 to December 31, 2020. According to the National Low Income Housing Coalition, more than 6.5 million renter households are at risk of eviction at present. This is not just a problem for those who would become homeless. The estimated cost of those households failing, described according to the Innovation for Justice Program's "Cost of Eviction Calculator", is over \$60 billion and as much as \$129 billion.

There is also a present cost that drags on communities, markets and the tax base since the state and Federal moratoria may (temporarily) prevent evictions, but they do not make landlords and property owners whole. These landlords, many of whom are private individuals and small businesses, are left holding the proverbial bag with no recourse to make up lost rental income. This means the inability to maintain properties, the inability to pay property and business taxes, and in certain cases means even pushing property owners into default on their mortgages, all of which spills into the broader economy and the markets that purchase those mortgages and the municipal bonds funded by those tax receivables.

The economic cliff people are facing with the expiration of jobless assistance and the concurrent ending of the eviction moratorium means a surge of homelessness and the aforementioned \$60+ billion in consequences, but also does little for landlords and supporting businesses who are permanently impaired because there will not be replacement demand with joblessness still running millions above pre-pandemic levels.





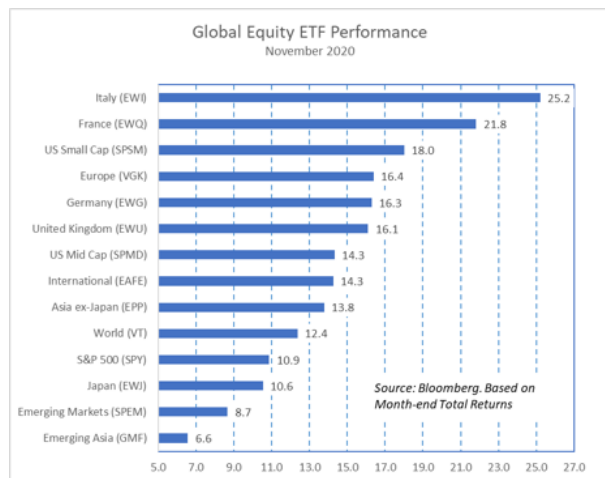
ESG-oriented investment managers, aware of the interconnectedness of these challenges, focus on investing in ways that create more just and equitable access to economic opportunity and housing, which often starts with access to basic needs like nutrition and education. Managers look at wage and hiring practices, tending to avoid businesses that do not offer stable work with stable and fair income, which includes businesses that only pay tip wages and expect their workers to make a living income through gratuities, and businesses that leverage the gig economy model to not have to meet traditional standards of compensation, benefits and security.

On the affirmative and inclusive side of the ledger, these managers favor investments that extend economic opportunity and access to banking and credit for underserved workers and communities, investments in businesses that treat, protect and compensate employees as critical stakeholders in the success of the total enterprise, and financing instruments that facilitate development of and access to quality affordable housing. As we have discussed previously, protecting worker interests results in more resilient businesses and supply chains, which as we have graphically seen through 2020 has the potential to guard against risk to capital and create opportunities for outperformance.



## NOVEMBER 2020 CAPITAL MARKET REVIEW

November witnessed sharp rallies across global equities and credit markets. The strongest rebounds were delivered in European equity markets which have been significant laggards so far this year.



### Equity Markets\*

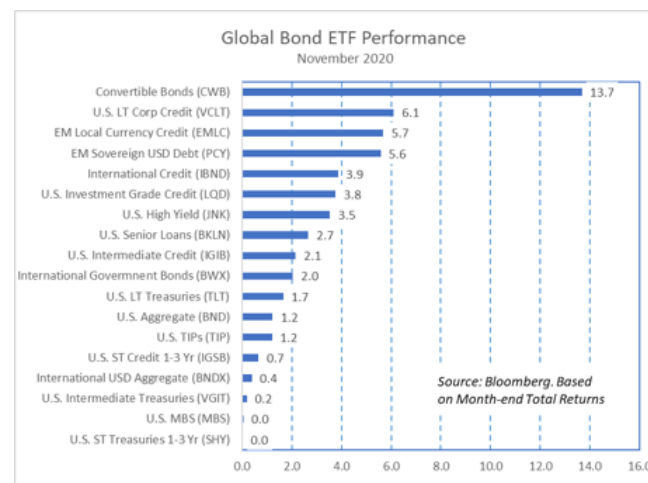
Global equities leaped an impressive 12.4% during the month. Key European markets led the way with Italy, France and Germany outperforming, posting US dollar-based returns of 25.2%, 21.8% and 16.3% respectively.

In the US, returns were strong with Small and Mid Cap stocks outperforming. US Large Caps lagged but posted the strongest November ever. Emerging Markets, among the leaders for several months, were in the back of the pack in November.

### Bond Markets\*

The yield on the US 10-year Treasury Bond was essentially flat in November, rising a modest 4 basis points. The relatively benign interest rate environment helped propel credit sensitive segments of fixed income higher. US convertible bonds rallied strongly keeping pace with returns in US equities. US long and intermediate term credit also outperformed.

International fixed income continues to benefit from dollar weakness. The US Dollar, as measured by the Bloomberg Dollar Spot Index, continued its descent falling 2.35% in November.



\*The returns cited reflect total return performance of exchange traded funds listed in the corresponding bar charts



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It is important to remember that there are risks inherent in any investment and that there is no assurance that any money manager, fund, asset class, style, index or strategy will provide positive performance over time.

Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in U.S. and longer-established non-U.S. markets.

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