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Market Review **NOVEMBER 2019**

> **“The highs in equity prices have caused implied volatility in stocks to sink to a new low....high equity prices and low volatility have dramatically cut the costs of buying protection and many savvy investors were actively buying put options at reduced premiums in November.”**

The preceding month saw further relative-strength in US large-cap equity performance. US small-caps spent most of last month in a downtrend, but were able to finally close out ahead by the end. Relative-performance of the last 52-weeks has shown more favoritism to larger-cap stocks. Even though both security indices are in possession of gains in the last 52-weeks, lesser volatility experienced in large-caps has allowed for a larger asymmetric payoff for risk-takers.

Large- and small-cap securities listed on primary exchanges have given investors much bullish confirmation in terms of technical breadth. Examining securities only making new highs or lows shows that 72% of that specific group is in the new high camp.

Individual performance of sectors in large-cap indices are behaving rather buoyantly. Excluding energy, prices on the remaining 10 sectors trade at or close to their 52-week highs. Utilities and real-estate were slightly taken aback as of late, probably on rising US Treasury yields. Still, to see most sectors representing the economy trade near perfection seems somewhat atypical. All sectors have provided investors with positive total returns this year.

Style-investing in value stocks has relatively underperformed since the last recession. But value has closed out a third consecutive month of outperforming other investment styles. Value stocks are classified by discounted pricing relative to the broader market and they can even offer higher dividend yields. Usually, risks are greater in value investing relative to other investment styles, which justifies the discounts. The recent rotation into value, however, may signal that some of the worst-case scenarios are beginning to fade out into the background.

Catalysts that helped move stocks were an easing Fed, softer trade tones, and, a corporate earnings slowdown that is expected to come to an end. The Fed has cut its rates 3 times and is probably finished for the year. Although, the Fed maintains support in the financial system by providing about $200 billion of weekly repo-financings. Additionally, the Fed has made public a possible plan where they would purchase US Treasury bills. Markets have responded by renormalizing the yield-curve's slope and raising the bids on riskier assets.

Forward earnings growth is expected to resume again and current earnings estimates relative to equity prices reside well above US Treasury yields. Equity investors observing this are actively rating the prices paid for earnings higher, contributing to this year's total return figure. But the re-rating process is starting to stretch the prices being paid for earnings to levels above historic norms.

The highs in equity prices have caused implied volatility in stocks to sink to a new low. Technicians are gauging this as a new short-term top in equities determined by the price resistances that are often met when volatility reaches a low. In fact, high equity prices and low volatility have dramatically cut the costs of buying protection and many savvy investors were actively buying put options at reduced premiums in November.

Still, there is plenty of ammunition on the sidelines that could eventually find its way into riskier assets. Assets parked in money-market accounts have almost climbed to a post-recession high. The level of available cash sitting idle is estimated near $3.25 trillion. Furthermore, the use of buying stocks on margin has substantially fallen following last year's correction. This year's gains have largely been accomplished without margin-debt. If buyers begin to use margin again there could be another leg-up for equity indices.

There are still noticeable risks in stock markets. Corporations could experience compression in profit-margins from a slowdown in sales and declining capital spending trends may challenge future productivity gains. There is also a massive corporate debt wall that will need re-financing in the coming decade. Risk appetites for the riskiest of assets has obviously lessened to a degree. Small-caps and initial public equity markets are two prime examples. Until counter evidence strikes, sticking with more strongly capitalized investments feels like a relevant lesson for today.

7800 East Union Avenue, Suite 585 • Denver, CO 80237 • P: 720-642-8348 • www.ccaretirement.com

Asset Categories	US STOCKS	FOREIGN STOCKS	US BONDS	FOREIGN BONDS	HARD ASSETS	HYBRIDS
Monthly	3.33%	1.11%	0.24%	-0.59%	-1.55%	1.35%
YTD	22.78%	15.52%	8.50%	7.70%	18.92%	17.18%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING NOVEMBER 30, 2019.

US STOCKS

US Stocks experienced another excellent month in November. The broader category average advanced 3.3%. Large-caps led in the month. Mid- and Small-caps delivered on performance that was only marginally behind. Large-caps spent most of the last month in an uptrend. Mid- and small-caps started the prior month by drifting lower, but advanced into gains towards the end. Large-caps still carry the lead this year with total returns of 25.2%.

FOREIGN STOCKS

Foreign Stocks saw gains in the last month as well. The broader category average etched out total returns of 1.1%. Stronger buying patterns were seen in international mid- and small-caps. They finished with total returns of 2.1%. On the year, performance from developed large-caps and international mid- and small-caps are neck-and-neck. Emerging markets are this year's laggard so far with total returns running around 11.8%.

US BONDS

US Bonds made modest gains in November. The category average advanced in the month from the help of bank loans. Bank loans have struggled the most this year, but were able to finally outperform last month. High-grade corporate bonds are still on track to outperform this year inside the category average. They have provided total returns of 12.5% over a 11-month period.

FOREIGN BONDS

Foreign Bonds lost ground last month. The category average was weighed down by the world bond aggregate. World bonds slipped -0.8% in terms of total returns. The emerging market category was sent down, too. Total return losses were -0.3% in the month for emerging markets. However, emerging markets have offered the greatest relative-strength in the category average this year with total returns of 9.8%.

HARD ASSETS

Hard Assets pulled back some of their earlier gains that have been made during the year. The category average fell -1.6% in the month and was brought down by precious metals. Precious metals pushed down -3.6% last month. Other categories such as energy and real-estate lost on the month as well. Precious metals were hurt on rising global government yields. The two have become increasing negatively correlated as of late.

HYBRIDS

Hybrids advanced with equites in the prior month. The category average was lifted higher with total returns of 1.4%. No surprise, the category was carried by the performance of convertible bonds. Convertible bonds beat in the category with monthly total returns of 2.7%. Preferred stocks contributed essentially nothing to the monthly total returns of the category. The conversion features into equity on convertible bonds offers more attractiveness as equity markets pace higher.

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