Before the Bell

Morning Market Brief

November 9, 2020

MONDAY MORNING MARKET STRATEGY: David M. Joy, Chief Market Strategist

On Saturday, the Associated Press called the race for president in Pennsylvania in favor of former Vice President Biden, giving him more than enough electoral college votes to become the next President of the United States. Biden now has 290 electoral college votes, above the 270 needed to be declared the winner, compared to President Trump’s 214. The AP has yet to officially call the winner in Alaska, Georgia, and North Carolina, which collectively possess 34 electoral college votes.

Electoral College members from each state will meet on December 14th to formally cast their votes for President and Vice President. On January 6th, Congress will convene to count the Electoral College vote and certify the winner. However, the President-elect does not need to wait until formal certification of the election results to begin preparing to take office. During the eleven week transition period, the incoming administration will begin to appoint staff, outline the makeup of its cabinet, prioritize policy initiatives and so on. For that process to proceed unimpeded, the federal government’s General Services Administration must certify the election outcome to provide the incoming administration access to office space, federal agency briefing books, and funding to pay for the transition. So far, that certification has not yet occurred. The Trump administration has indicated its intention to pursue legal challenges to the results in Pennsylvania and Georgia, and to pursue a recount in Wisconsin.

The policy of the Associated Press is not to call the results of an election in a state that is, or might become, subject to a mandatory recount, which it appears could be the case in Georgia. In a state where a candidate can request a recount, such as Wisconsin, the AP will not declare a winner if the vote margin is 0.5 percent or less. The Biden margin of victory in Wisconsin is roughly 20,000 votes, or 0.6 percent. Wisconsin has undertaken recounts previously in the 2000, 2004, and 2016 presidential elections. In 2016, President Trump gained just 131 votes as a result of the recount. AP analysis of all statewide election results since 2000 showed that there have been 31 recounts, three of which changed the original outcome. However, the original margin of victory in those contests was just 137, 215, and 261 votes.

The makeup of the Senate remains an open question since the two seats in Georgia, currently occupied by Republicans, will be determined by a runoff election on January 5th. Right now, the party affiliation of the Senate, assuming the Alaska and North Carolina seats remain Republican once those races are called, is 50 Republican, 48 Democrat. The Democratic party would need to win both Georgia seats to create split, giving the Vice President the tiebreaking vote. Should that happen, the policy implications for a Biden administration would change dramatically compared to a situation where Republicans controlled the Senate.

Although the results of several races remain uncalled, the House appears likely to remain Democratic, but with a narrower majority. Prior to the election, Democrats held 232 seats versus 197 for Republicans. There was one Libertarian Party member and there were five open seats. A majority requires 218 seats. Republicans have already gained seven seats, with that gain possibly rising to a pick-up of twelve seats.

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- Unless specifically stated otherwise, comments contained in this document should not be construed as an investment opinion or recommendation of any securities mentioned. Charts depicted are from FactSet unless otherwise noted.
Should the federal government end this election cycle with a Democrat in the White House, a Republican controlled Senate, and Democrat controlled House, it would be a rare occurrence indeed, having happened only once before in 1885.

Investors are often said to prefer a divided government as it lessens the likelihood of significant policy change. But this year, the runoff Senate elections in Georgia make the final determination of that uncertain. That, in turn, makes it impossible for investors to anticipate whether a new administration might be able to enact possibly significant changes to the tax code, spending priorities, trade policy, and so on, and what the implications might be for their portfolios. The last thing that anyone should do is make changes to their investments under the anticipation of a particular outcome, only to have to undo those changes two months later. So, for the next sixty days, all eyes will be on those two contests in Georgia, which may determine the course of policy for the next four years.

MORNING MARKET COMMENTARY: Anthony M. Saglimbene, Global Market Strategist

- **Quick Take:** U.S. equity Index futures are currently indicated VERY sharply higher on news reports of a COVID-19 vaccine that appears to be 90% effective; futures had been indicating a solidly positive open prior to this news on continuing developments related to the election results. European markets also up big on the vaccine news; Asia ended higher overnight; West Texas Intermediate (WTI) oil trading up to $40.30; 10-year U.S. Treasury yield at 0.90%.

- **Joe Biden to Become The 46th President Of The United States & Vaccine News:** We believe one of main drivers of the 2020 election may have been a desire on the part of many Americans to see some stability and predictability return to Washington. On Saturday, most organizations called the election for Joe Biden, thus lifting the former Senator and Vice President to unofficial "president-elect" status until the electoral college confirms the results and makes it official on December 14th. Mr. Biden (age 77) will become the oldest American to serve as president when he takes office on January 20th, 2021. Kamala Harris, the vice-president-elect, will become the first woman and first woman of color to serve in the land's second-highest office. In his victory speech on Saturday, Mr. Biden pledged to be a president for all Americans and asked President Trump supporters to give him a chance. Mr. Biden also promised that one of his first orders of business would be to put a national strategy together to fight the coronavirus. To that end, today, Pfizer and BioNTech announced they have developed a 90% effective COVID-19 vaccine. Stocks look set to surge higher at the open.

- **Below are a few quick election takeaways:**
  - **Run-off elections in Georgia could decide control in the Senate.** Markets rallied last week on a divided government outcome. Although that is likely to remain the case, two still up-for-grabs Senate seats in Georgia will move to a run-off election on January 5th. In both Senate races, Democrat and Republican candidates did not receive at least 50% of the vote. Bottom line: Any margin of power in the Senate will be slim at best. We believe this likely quells the opportunity for a blue wave outcome that leads to large fiscal changes on tax and spending policies.
  - **A shift to the Dems.** As outlined in our Election Insight: Investor Roadmap, President-elect Biden is likely to continue to pressure China on trade, manufacturing, technology, and intellectual property rights. However, we expect his use of tariffs could decrease, which will likely benefit global trade over time. Similarly, we expect pressures on U.S. trading partners to decline next year, helping benefit multi-national companies as well. Fiscal priorities, such as raising taxes on corporations and specific individuals, could face significant hurdles, as we believe the Senate would likely block meaningful policy changes. This is a positive for stocks and investors, in our view. Although Banks, Energy, and Big Tech could potentially face a more challenging regulatory environment, here too, the chances of meaningful changes to the status quo are likely limited. Importantly, we believe global equities could see tailwinds next year, but that largely depends on how developed regions of the world tackle the growing pandemic threat. Today's vaccine news is potentially a big step in the right direction.
  - **With that said, let's turn our attention to the market.** In the week heading into the election, the S&P 500 Index posted its "worst" week ever before Election Day. According to Bespoke Investment Group, last week, the Index posted is "best" Election Day performance on record. But hey, it's 2020. Why wouldn't market performance around the election set new best and worst records?
As the FactSet chart below highlights, the S&P 500 (up more than +7.0% last week) also posted its best election week in almost ninety years. In a related fashion, investor confidence last week rose above its historical average for the first time in thirty-four weeks. This ended the second-longest streak of below-average stock optimism on record, per Bespoke. Historically, market performance and investor confidence levels around elections tend to be more volatile. Given the high degree of uncertainty regarding COVID-19 and fiscal stimulus relief, the typical election uncertainty this year only added to investor anxiety levels.

Notably, stocks historically perform well over the next weeks and months and after the type of large gains seen during election weeks. Also, stock volatility typically ebbs lower after the election, and as the shape of Washington becomes clear. This morning's vaccine news and the positive reaction across stock prices could accelerate these trends over the near-term.

From a market perspective, we believe this year's election results could produce a more positive path for stock prices heading into 2021. In our view, a stable and more predictable environment in the White House next year could reduce friction for investors, companies, and other world leaders. A divided U.S. Congress, or one with a slim party majority, is also less likely to change the rules of the road for businesses — at least for the next two years. Less friction with our global trading partners should lift business and investor confidence over time, helping support profit and economic growth next year. We believe a potential fiscal relief package in the coming months would also go a long way in helping bridge the economy to the other side of the pandemic.

As we approach the final weeks of 2020, COVID-19 trends and the timing of an effective vaccine could play critical roles in shaping investor confidence, and ultimately, stock prices. While economic trends have improved since the depths of the health crisis, growing coronavirus cases over the coming weeks and months are a severe threat to a continued recovery. Investors will need to monitor the Pfizer/BioNTech vaccine for further evidence of its efficacy and availability. But stocks are already discounting the positives for growth next year in light of increasing odds the world could have a COVID-19 vaccine.

Investors should feel confident the economy is on pace to improve slowly over time. But they should also recognize the continued need to balance risk and opportunities across their portfolios. We believe the outlook for the economy and stocks is mostly positive. But that outlook is contingent on the world controlling the virus's spread and having an available vaccine by the first half of next year. Today's vaccine news makes that a greater possibility, in our view. We suggest investors continue to focus on high-quality investments and a mix of stocks that can benefit from a cyclical recovery in 2021 and continue to thrive in a low-growth environment.
● In practice, this means investors should incorporate a mix of high-quality asset types into their portfolios. Specifically for stocks, this includes exposure to strong, stable businesses, with visible profit trends across Industrials, Materials, Consumer Discretionary, Technology, and Health Care.

● **Asia-Pacific:** Asian equities finished higher on Monday. China exports rose at their fastest pace in nineteen months. Exports remained supported by the strong upturn in demand following the pandemic lows. Reduced manufacturing capacity in other areas of the world has also fueled China's export activity accelerate as of late.

● **Europe:** Markets across the region are surging higher at mid-day. Berlin may delay a planned $4 billion tariff hit on the U.S. from the ongoing World Trade Organization (WTO) Boeing/Airbus subsidy fight. *Bloomberg* discussed the European Union (EU) might seek to mend trade relations with the U.S. under President-elect Biden. A senior official familiar with German government thinking said last week that a new administration should have time to formulate its own trade policy.

● Germany is currently reporting more severe COVID-19 patients than during any other time during the pandemic. According to *Bloomberg*, worldwide infections have surpassed 50 million. Treatment in intensive care units (ICU) has now exceeded April levels across several European countries.

● **U.S.:** Equity futures are pointing to huge gains at the open after Pfizer/BioNTech say they have developed a 90% effective COVID-19 vaccine. Here is a quick news rundown to start your morning:
  - **Pfizer and BioNTech say their coronavirus vaccine is more than 90% effective:** The Pfizer/BioNTech vaccine candidate has proved to be more than 90% effective in the first 94 subjects infected by the coronavirus and developed at least one symptom, per FactSet. This is significantly higher than the 50% efficacy threshold the FDA has established for approval. If the vaccine proves to be as effective as claimed, it could help offset the herd immunity concerns surrounding vaccine reluctance. Both companies have said the vaccine is on track for emergency use authorization by the end of the month and thus far has not produced serious safety concerns. **Stock futures have exploded higher this morning on hope the world will be able to return to normal faster than expected.**
  - **President-Elect Biden focuses on the coronavirus.** On Saturday, U.S. coronavirus infections in the U.S. totaled over +127K — setting a record for the fourth straight day. As a result, states and cities across the country have started to impose new restrictions on businesses. The seven-day moving average of new cases rose past 100K for the first time. Today, President-Elect Biden will appoint a group of scientists to shape his team’s coronavirus response, according to FactSet.
  - **President Trump has still not conceded the election:** President Trump is receiving conflicting advice from his family on conceding defeat, per *Político*. While his sons have encouraged Trump to battle the results to the bitter end, others in his inner circle have encouraged him to concede the election to protect his legacy. Some of Trump’s top allies have begun publicly congratulating President-elect Biden.
  - **Earnings Update:** With approximately 90% of S&P 500 Q3’20 profit reports complete, blended earnings per share (EPS) growth is down 7.5% y/y on revenue growth that has fallen roughly 1.1% y/y.

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### WORLD CAPITAL MARKETS

#### 11/9/2020

**As of: 8:30 AM ET**

#### Americas

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<th>Index</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>-0.03%</td>
<td>10.33%</td>
<td>3,509.4</td>
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<tr>
<td>Dow Jones</td>
<td>-0.24%</td>
<td>1.17%</td>
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<tr>
<td>NASDAQ Composite</td>
<td>0.04%</td>
<td>33.67%</td>
<td>11,895.2</td>
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<tr>
<td>Russell 2000</td>
<td>-0.96%</td>
<td>-3.05%</td>
<td>1,644.2</td>
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<tr>
<td>Brazil Bovespa</td>
<td>0.17%</td>
<td>-12.73%</td>
<td>100.95%</td>
</tr>
<tr>
<td>S&amp;P/TSX Comp. (Canada)</td>
<td>0.09%</td>
<td>-1.88%</td>
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<td>Mexico IPC</td>
<td>0.34%</td>
<td>-10.06%</td>
<td>38,530.5</td>
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**Weight:**

- **Equity Income Indices**:
  - JPM Alerian MLP Index: -4.13% -49.47% 110.3
  - FTSE NAREIT Comp. TR: -0.65% -11.56% 18,883.4

**Bond Indices**:

- Barclays US Agg. Bond: -0.20% 6.83% 2,377.0
- Barclays HY Bond: -0.02% 3.27% 2,254.1

**Commodities**:

- CRB Raw Industrials: 0.37% 4.56% 472.41
- NYMEX WTI Crude (per bbl.): 9.72% 33.26% 40.75
- ICE Brent Crude (per bbl.): 8.75% 35.00% 42.90

**Exchange Traded Futures & Spot**:

- MOEX Index: 7.28% -20.73% 7,370.5
- MOEX Index (Russia): 2.31% 2.91% 2,962.6

**Global % chg. % YTD Value**

<table>
<thead>
<tr>
<th>Index</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>MSCI All-Country World Index</td>
<td>0.23%</td>
<td>6.91%</td>
<td>592.8</td>
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**Developed International % chg. % YTD Value**

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<tbody>
<tr>
<td>MSCI EAFE</td>
<td>0.42%</td>
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**Emerging International % chg. % YTD Value**

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<tr>
<th>Index</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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<tbody>
<tr>
<td>MSCI Emerging Markets</td>
<td>0.87%</td>
<td>7.83%</td>
<td>1,176.4</td>
</tr>
</tbody>
</table>

**Index weightings represent the respective market capitalization of each sector in the S&P 500 as of 9/22/2020. The numbers may not add due to rounding. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.**

### U.S. Equity Sector - Tactical Views

#### S&P 500 Index

<table>
<thead>
<tr>
<th>Sector</th>
<th>Weight</th>
<th>Tactical View</th>
<th>GAAC Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>11.6%</td>
<td>Oversight</td>
<td>2.0%</td>
</tr>
<tr>
<td>Industrials</td>
<td>8.4%</td>
<td>Oversight</td>
<td>2.0%</td>
</tr>
<tr>
<td>Materials</td>
<td>2.6%</td>
<td>Oversight</td>
<td>2.0%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>27.7%</td>
<td>Oversight</td>
<td>2.0%</td>
</tr>
<tr>
<td>Health Care</td>
<td>14.3%</td>
<td>Equivalent</td>
<td>-</td>
</tr>
</tbody>
</table>

As of: October 1, 2020

Index weightings represent the respective market capitalization of each sector in the S&P 500 as of 9/22/2020. The numbers may not add due to rounding. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

### Global Equity Regions - Tactical Views

#### MSCI All-Country

<table>
<thead>
<tr>
<th>Region</th>
<th>Weight</th>
<th>Tactical View</th>
<th>GAAC Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>56.5%</td>
<td>Oversight</td>
<td>3.1%</td>
</tr>
<tr>
<td>Asia-Pacific ex Japan</td>
<td>15.2%</td>
<td>Oversight</td>
<td>2.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.7%</td>
<td>Equivalent</td>
<td>-</td>
</tr>
<tr>
<td>Latin America</td>
<td>0.9%</td>
<td>Equivalent</td>
<td>-</td>
</tr>
</tbody>
</table>

as of: October 1, 2020

Index weightings are based on the regional market capitalization of the MSCI All-Country Index as of 9/22/2020. The numbers may not add due to rounding. The GAAC Tactical Overlay, as well as the Recommended Tactical Weights, are derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon.

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THE WEEK AHEAD: Russell T. Price, CFA, Chief Economist

- As investors turn their attention back to fundamentals, they’ll find an encouraging message, in our view. Over the last two plus weeks, investors have been heavily focused on the results and potential implications of the heavily contested national elections. At its most fundamental, such results are critically important for equity investors because government policy can affect both economic conditions and corporate profitability, both of which directly impact corporate earnings per share (EPS).

- The earnings or cash flow that a company generates is THE most important fundamental factor in the value of any business. Yet, with the recent sharp focus on how election results could impact future earnings trends, current results (which have been very encouraging, in our view) seem to have been lost in the noise.

- Through last Friday, 452 or 89.5% of the 505 companies that currently make-up the S&P 500 Index had reported their results for the third quarter. On a blended basis (actuals plus estimates) S&P 500 companies are now forecast to see Q3 earnings per share decline by 7.5% versus year-ago levels. Though still a notable decline, it is a considerable improvement over the 9.6% y/y decline seen just last week, and a remarkable improvement over the 22% EPS contraction analysts had forecast at the end of the quarter (Sept. 30th). According to FactSet, a record 89% of companies have reported better than expected EPS results (a record since FactSet began tracking such in Q2-08) and 79% generated a positive revenue surprise.

- This week and next, many of the nation’s largest retailers are on the docket to release their results. Their reports will prove critical to investor perceptions of the strength or weakness of consumer spending over the upcoming holiday season. Although we believe consumer spending trends have been very strong over the last several months, there is considerable room for a material deceleration in coming months given rapidly rising COVID infections and fading fiscal stimulus support.

- The economic calendar is light this week with inflation the primary focus. Thursday’s new unemployment claims data will also remain an important focus for markets in evaluating the job market health (or lack thereof) as we move toward putting an end to this remarkable year.

- On Thursday, forecasters as surveyed by Bloomberg expect the Labor Department’s Consumer Price Index for October to show a fairly steady 0.2% month-over-month increase at both the headline and core consumer price levels. On a year-over-year basis, headline inflation is projected to have been 1.3% higher last month with a 1.7% gain projected for the core rate. The Core rate excludes the influence of sometimes volatile food and energy prices. Indeed, we believe that if there is an “upward surprise” for the Index it is likely to come from food prices. Internationally, food costs have been rising once again (after seeing significant volatility in the late spring due to supply chain disruptions) on account of bad harvests in some parts of the world, particularly Brazil.

- However, there may be an equal chance of a downside surprise due to weaker housing prices. As we’ve noted many times previously, housing represents a very large weighting in the price Index with related costs measured as a function of rental rates in urban areas. The suburbs of the nation’s unban metro zones are seeing some upward pressure, but city center rents have been declining at a rapid pace. Both trends are reflective of what’s become an outward migration from city centers like nothing the U.S. has seen in decades, if ever.

- Friday’s Producer Price Index, however, may have the greater likelihood of showing a “hotter” than expected gain due to rising food prices. Rising commodity prices often hit the Producer Price Index first as an input to food processing costs. Also, the PPI report does not contain any measure of housing costs which, as we noted, could offer some downward pressure on the CPI measure.
Where Market Fundamentals Stand Heading into The Week:

**S&P 500 Trailing and Forward P/E valuations:** Source: FactSet

*Please note:* Although we try to maintain consistency as much as possible, Price to Earnings (P/E) ratios may differ modestly from one source to another. Most notably, P/E numbers can often show their most notable differences during an earnings release season as some sources may still use the last full ‘actual’ earnings number (for instance, currently Q4 trailing 12-month earnings per share) while others use earnings per share that are updated for Q1 using a combination of actual and estimated earnings per share. The calculation of earnings (operating earnings versus ‘as reported’ or GAAP) also often differs modestly from one data source to another due to the proprietary use of calculation methodologies. The “average” shown in the charts below represent averages for the period shown.

**Consensus Earnings Estimates:** Source: FactSet

*Please note:* The consensus earnings estimates shown below should viewed cautiously. In this very dynamic and rapidly changing environment, forecasts have much more uncertainty than usual.

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<thead>
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</thead>
<tbody>
<tr>
<td>T1/8/2020 Actual</td>
<td>$38.80</td>
<td>$41.59</td>
<td>$42.21</td>
<td>$41.78</td>
<td>$33.32</td>
<td>$28.22</td>
<td>$38.74</td>
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<tr>
<td>Quarterly change over last week</td>
<td>0.2%</td>
<td>1.1%</td>
<td>-1.6%</td>
<td>1.1%</td>
<td>-14.1%</td>
<td>-32.1%</td>
<td>-8.2%</td>
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<tr>
<td>qtr/qtr</td>
<td>-6%</td>
<td>7%</td>
<td>1%</td>
<td>-1%</td>
<td>-20%</td>
<td>-15%</td>
<td>37%</td>
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<td>Trailing 4 quarters $$</td>
<td>$119.64</td>
<td>$133.50</td>
<td>$164.05</td>
<td>$164.13</td>
<td>$164.59</td>
<td>$163.92</td>
<td>$164.38</td>
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<td>yr/yr</td>
<td>0.8%</td>
<td>11.6%</td>
<td>22.9%</td>
<td>0.2%</td>
<td>-16.6%</td>
<td>-22.5%</td>
<td>15.7%</td>
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<tr>
<td>Implied P/E based on a S&amp;P 500 level of:</td>
<td>3509</td>
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BY THE NUMBERS: ECONOMIC ACTUALS AND FORECAST:

<table>
<thead>
<tr>
<th>Current Projections:</th>
<th>Full Year</th>
<th>Quarterly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (Y0Y)</td>
<td>1.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.7%</td>
<td>4.1%</td>
</tr>
<tr>
<td>CPI (Y0Y)</td>
<td>1.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Core PCE (Y0Y)</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services Inc.
YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index
PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy.

ECONOMIC NEWS OUT TODAY:

None Scheduled

FIXED INCOME NEWS & VIEWS: Brian M. Erickson, CFA, Fixed Income Research & Strategy

Vaccine Prospects Prompt Risk-on Start to Monday; Treasury Prices Plummet
- Pfizer’s 90% effective vaccine led to a sharp risk-on rally this morning ahead of the open to U.S. equity markets. While stocks and credit assets rallied, U.S. Treasuries sold off sharply as investors looked to rotate out of safe havens to increase risk. The price of 10-year Treasuries (T 0.625% 08/15/30) dropped a point to $97-08 overnight, just short of the post-close low on November 3 of $97-2. The drop in prices sent 10-year yields to 0.93% before rebounding to 0.90%, higher by nine basis points at 7:41 AM ET.

- Creating surround sound around the pandemic, President-Elect Joe Biden named a 13-member team of doctors and health experts to advise and lead on Covid-19 policy, wasting little time in setting the epidemic as a primary near-term focus for his administration. Further, the Congress turns to a stimulus plan to bridge through a potentially difficult pandemic this winter in the Northern hemisphere before vaccinations turn the tide in case levels. Work between the House and Senate could result in a new round before year-end or early next year. A vaccine provides a sense of when and how consumers and businesses might see a return to normal, providing an understanding of the scale and scope new stimulus may need to be. Stimulus serves to reduce frictions on the most impacted consumers and businesses, leading to longer-term damage to the economy. Bond markets turned risk-on given the picture emerging from the pandemic induced fog.
• We anticipate the Fed continues to be patient, leaving rate stimulus in place until unemployment reaches 4% and inflation averages above 2%, anchoring the Treasury curve into the belly. On the long-end, the Fed’s $80 billion of Treasuries per month remains a buffer against supply. Still, a stimulus package would lead to greater supply as well as a better supported economic recovery. We could see the range for 10-year yields could shift higher to the 0.50% to 1.00% level, dropping off the bottom of the range and raising the range's top-end.

• What comes next? We anticipate pandemic headwinds to rise in the near-term given recent trends in the U.S. and overseas, leading to selective economic shutdowns. Next spring and summer, vaccines may begin to shape how economic constraints could be alleviated, allowing bond investors to rotate away from safe havens and into cyclical sectors here in the U.S. into the back half of 2021.
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Growth securities, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors.

Value securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth.

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Agency - Agency bonds are issued by Government Sponsored Enterprises (GSE), but are NOT direct obligations of the U.S. government. Common GSE’s are the Federal Home Loan Mortgage Corp. (Freddie Mac) Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Bank (FHLB).

Beta: A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

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Price/Book: A financial ratio used to compare a company’s market share price, as of a certain date, to its book value per
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**Price/Earnings:** An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters’ earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters’ EPS.

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