



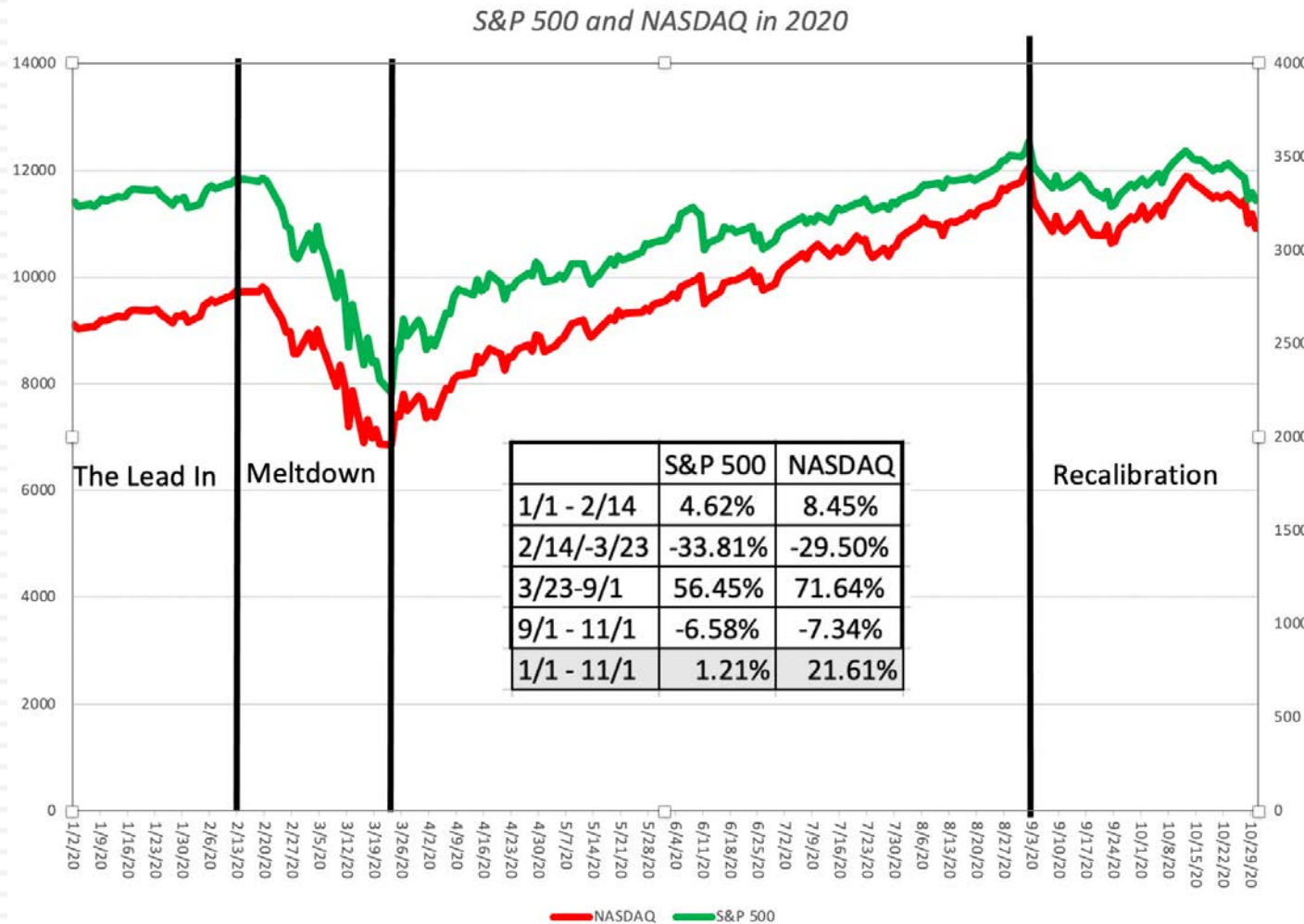
A VIRAL MARKET UPDATE XIV: A WRAP, PREMATURE OR NOT!

It ain't over till its over!

The lead in..

- Over the last eight months, I have written a series of posts on the market and how it has adapted and adjusted to COVID.
 - The very first of these posts, on February 26, 2020, was about two weeks into the meltdown and is indicative of how little we knew about the virus then, and what effects it would have on the market.
 - More than seven months later, there is still much that we still do not know about the virus, as it continues to wreak havoc on global economies and businesses.
 - In this post, I intend to wrap up this series with a final post, reviewing how value has been reallocated across companies during the months, and providing an updated valuation of the S&P 500.
- Premature? Given that much of Europe is going into lockdown today, and there is no vaccine in sight, this may seem premature, but I have a feeling that there will be other uncertainties that will vie for market attention over the coming weeks, especially as the US election results play out in legal and legislative arenas.

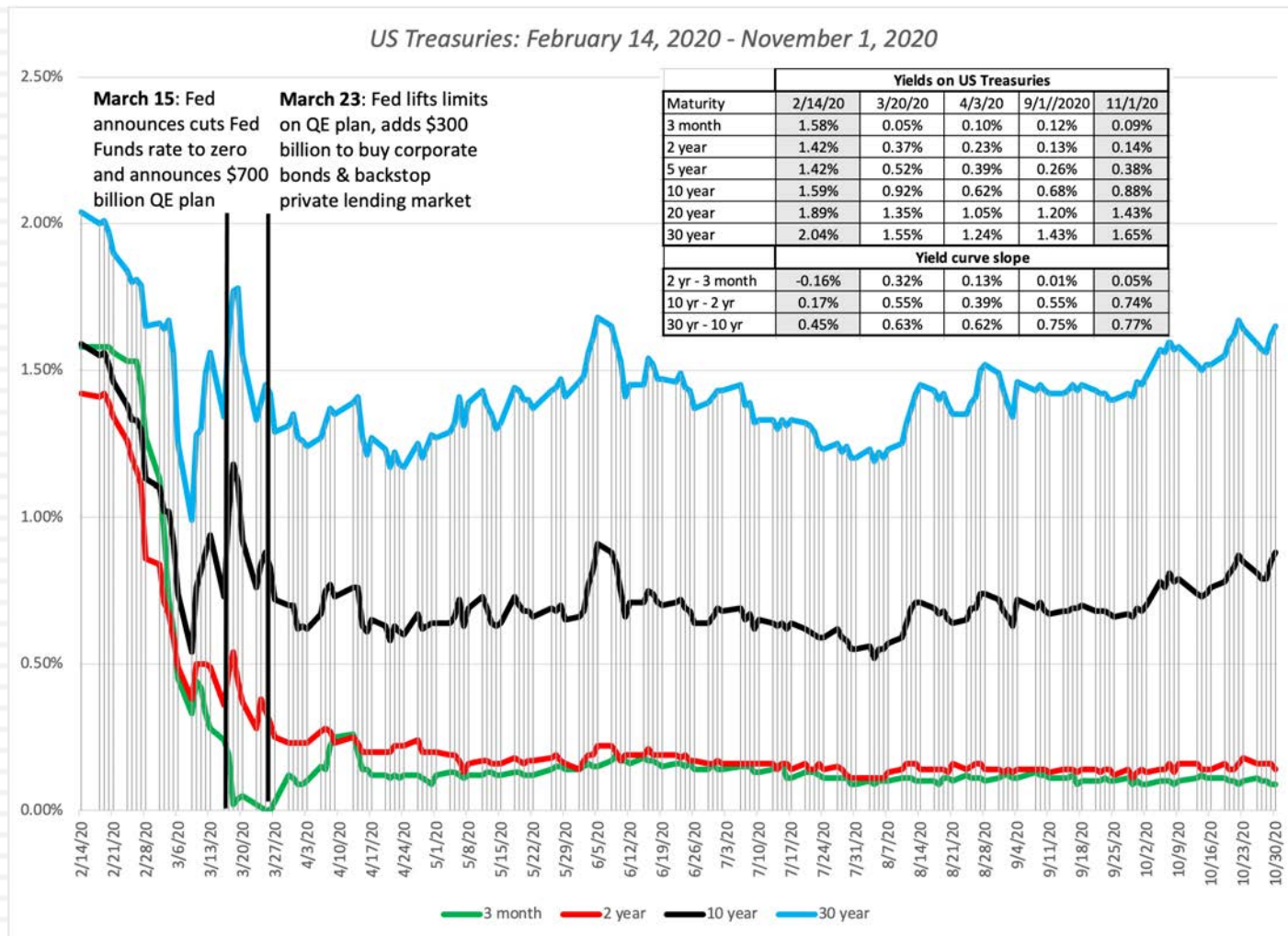
A Three-Act Play? US Indices



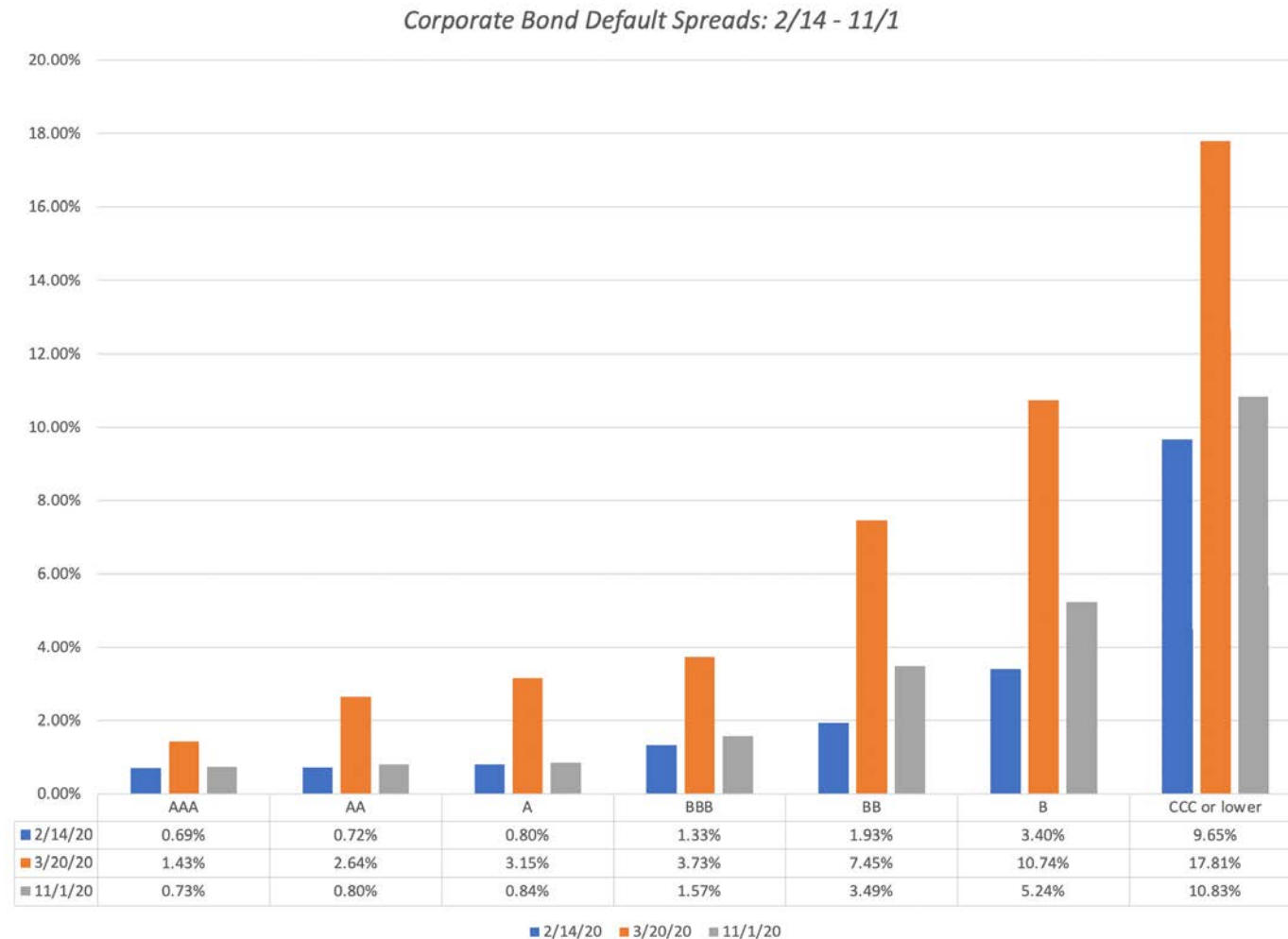
Global Indices

			Levels				% Change			
	Index	Country/Region	14-Feb	20-Mar	1-Sep	1-Nov	2/14-3/20	3/20-9/1	9/1-11/1	2/14-11/1
Americas	S&P 500	US	3374	2305	3505	3270	-31.68%	52.06%	-6.70%	-3.08%
	NASDAQ	US	9712	6880	11838	10845	-29.16%	72.08%	-8.39%	11.67%
	TSX	Canada	17848	11852	16053	15580	-33.59%	35.45%	-2.95%	-12.71%
	IPC Mexico	Mexico	45000	34270	36411	36802	-23.84%	6.25%	1.07%	-18.22%
	iBovespa	Brazil	114381	67069	96003	91322	-41.36%	43.14%	-4.88%	-20.16%
Europe	FTSE 100	UK	7409	5191	5923	5577	-29.94%	14.10%	-5.84%	-24.73%
	DAX	Germany	13744	8929	12872	11556	-35.03%	44.16%	-10.22%	-15.92%
	CAC 40	France	6069	4131	4913	4595	-31.93%	18.93%	-6.47%	-24.29%
	S&P Europe 350	Europe	1731	1181	1437	1357	-31.77%	21.68%	-5.54%	-21.58%
Asia	Nikkei 225	Japan	23688	16553	23218	22977	-30.12%	40.26%	-1.04%	-3.00%
	Shanghai 50	China	2895	2628	3340	3252	-9.22%	27.09%	-2.65%	12.31%
	Hang Seng	Hong Kong	27816	22805	25602	24107	-18.01%	12.26%	-5.84%	-13.33%
	Sensex	India	41258	29916	38336	39615	-27.49%	28.15%	3.33%	-3.98%
Australia & NZ	ASX 200	Australia	7133	4825	5954	5927	-32.36%	23.40%	-0.45%	-16.90%
	NZX 50	New Zealand	11835	9202	11835	12020	-22.25%	28.61%	1.56%	1.56%
Africa	FTSE/JSE TOP 40	South Africa	52050	36302	51504	47473	-30.26%	41.88%	-7.83%	-8.79%
	NSE-All Share	Nigeria	27756	22198	25431	30428	-20.02%	14.56%	19.65%	9.63%

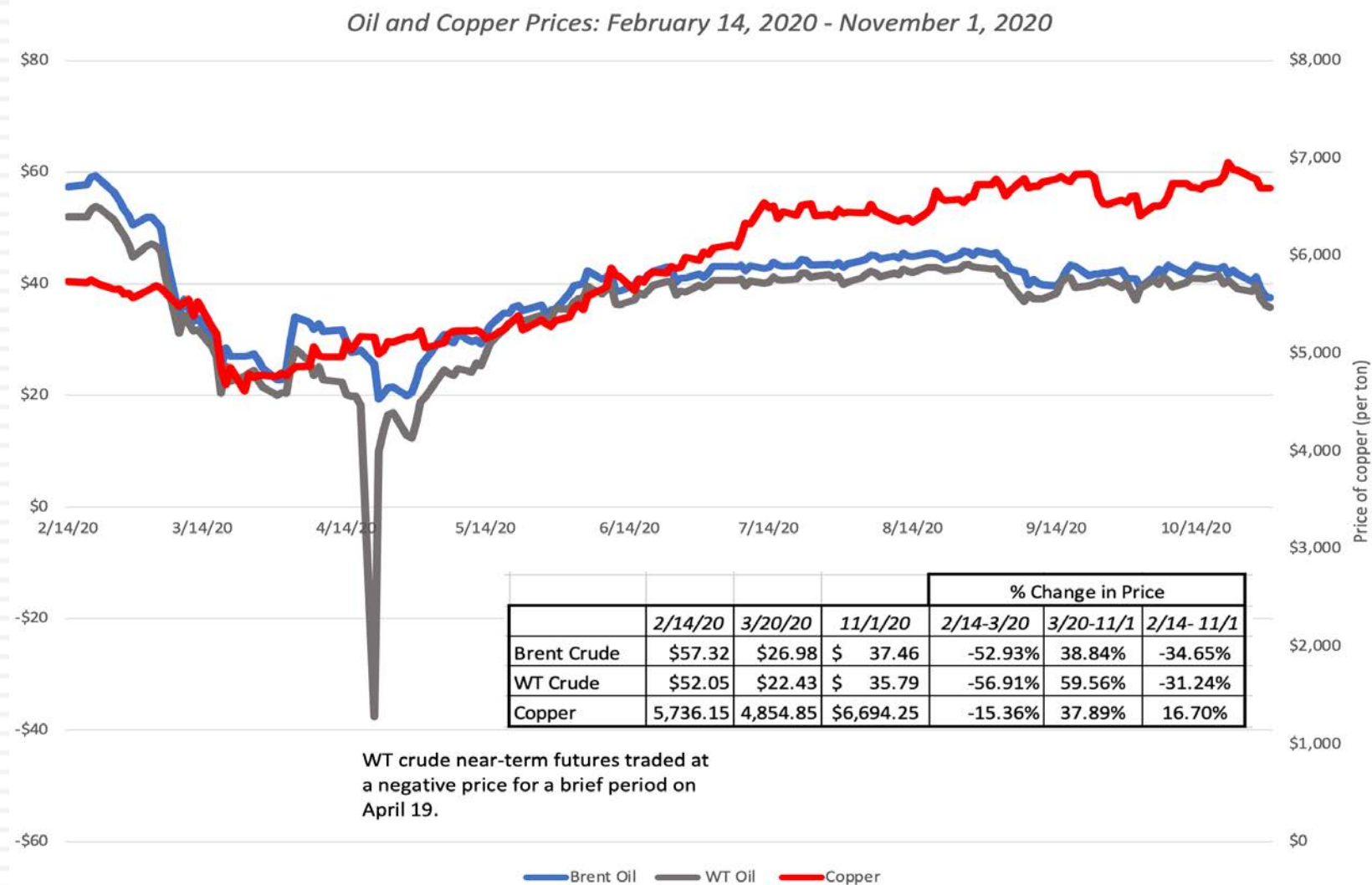
Market Overview: Treasuries



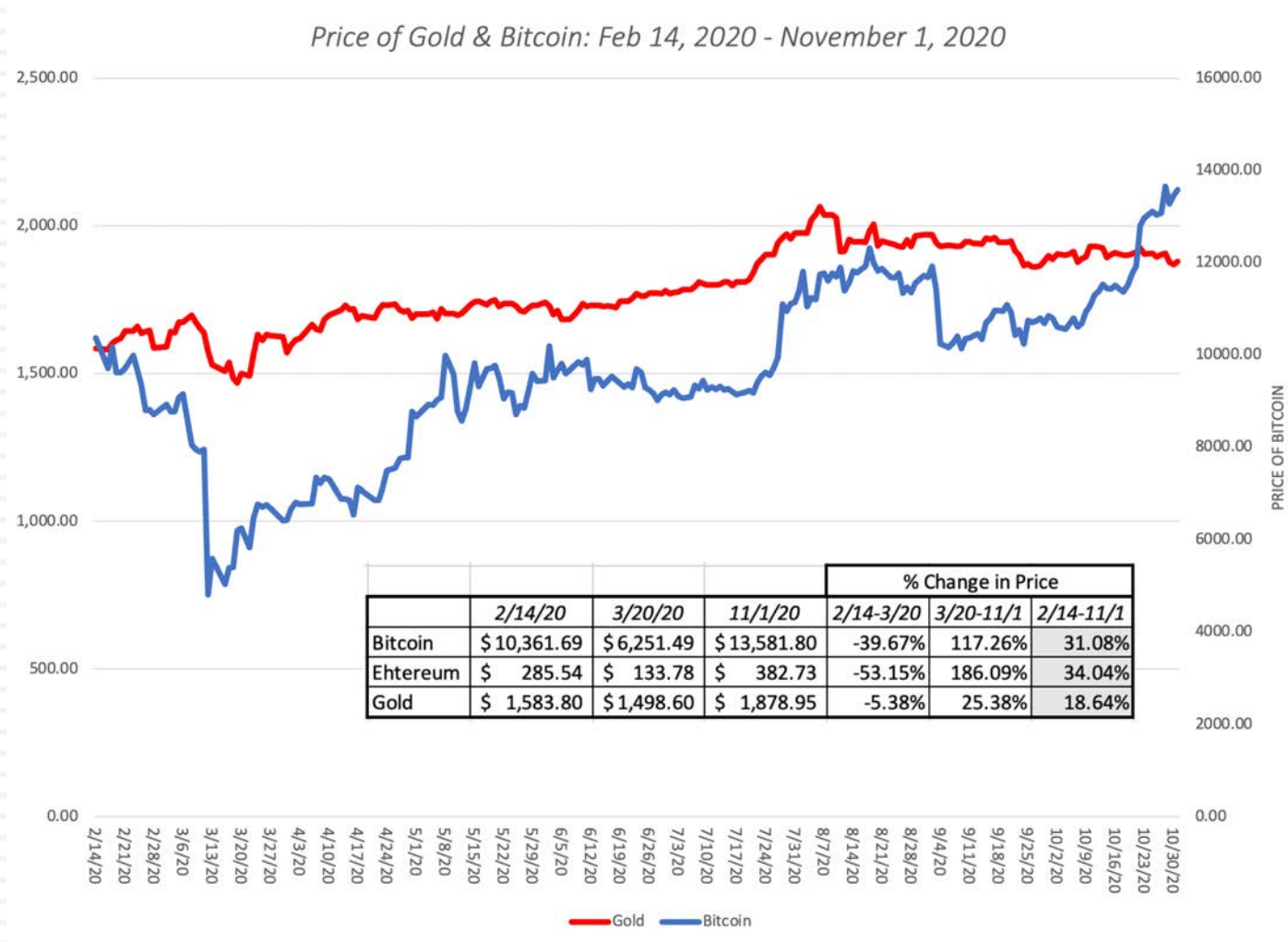
Market Overview: Corporate Spreads



Market Overview: Commodities



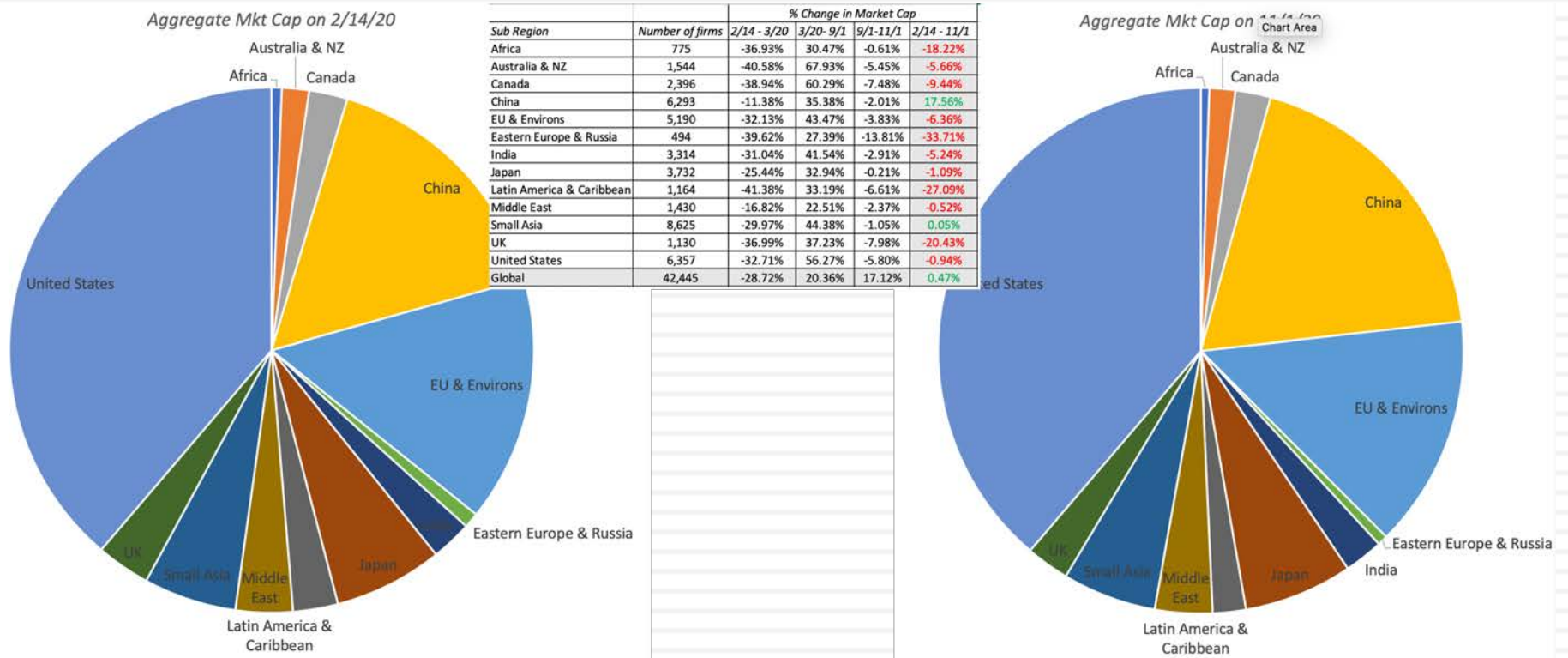
Market Overview: Gold and Bitcoin



Equities: A Value Transfer

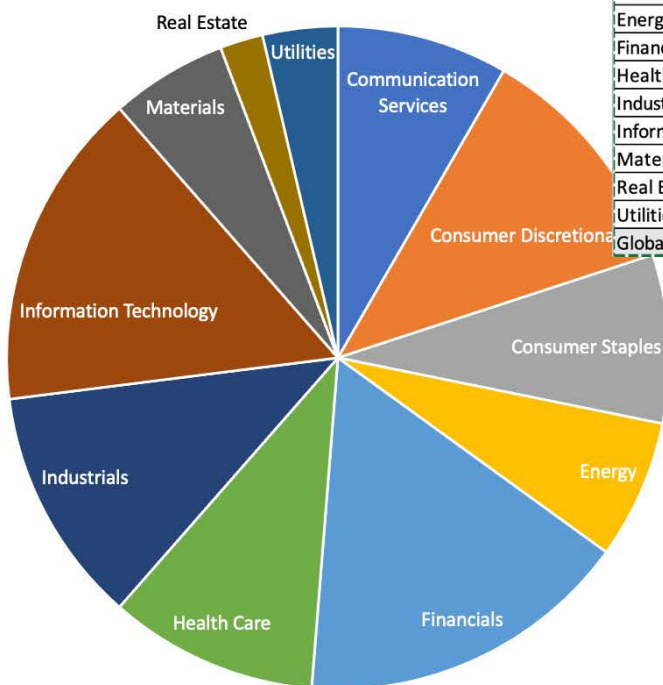
- As markets have recovered much or all of the drop in the first five weeks of the crisis, it is a mistake to believe that it is a return to the status quo, since along the way, markets have reallocated value making some companies more valuable and others less.
- Some regions and sectors have gained, while others have lost. Some types of companies have seen their market caps rise during this crisis, and others have seen them drop.
- Understanding which groups have benefited and which have lost is not just useful for setting the historical record straight, but also in extracting lessons for companies and investors for the future.

Global Equities: By Region



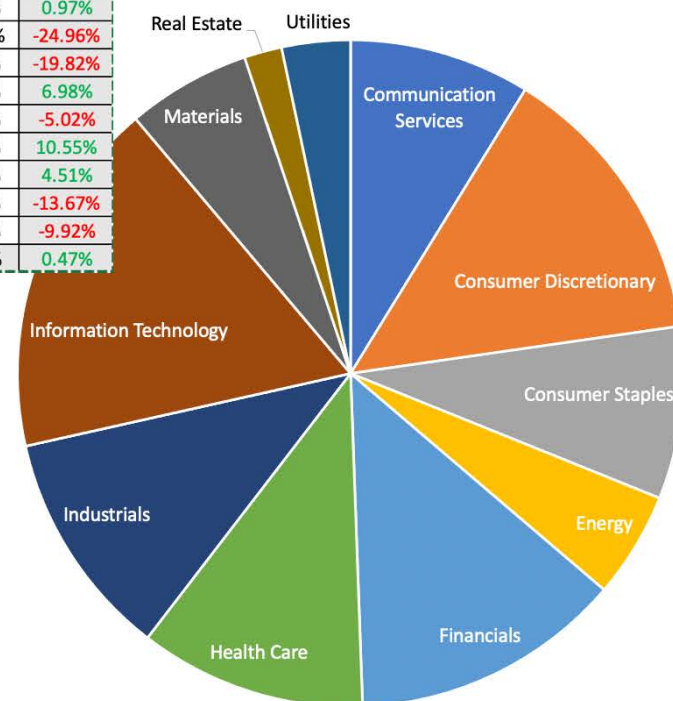
Global Equities: By Sector

Aggregate Mkt Cap on 2/14/20



Primary Sector	2/14 - 3/20	3/20- 9/1	9/1-11/1	2/14 - 11/1
Communication Services	-25.11%	45.05%	-3.98%	4.31%
Consumer Discretionary	-30.38%	67.64%	1.80%	18.82%
Consumer Staples	-20.07%	33.37%	-5.28%	0.97%
Energy	-35.03%	29.73%	-10.96%	-24.96%
Financials	-33.16%	26.77%	-5.38%	-19.82%
Health Care	-23.00%	45.09%	-4.24%	6.98%
Industrials	-31.90%	44.52%	-3.49%	-5.02%
Information Technology	-28.41%	64.65%	-6.21%	10.55%
Materials	-29.39%	53.11%	-3.34%	4.51%
Real Estate	-26.29%	24.11%	-5.64%	-13.67%
Utilities	-27.25%	24.04%	-0.18%	-9.92%
Global	-28.72%	20.36%	17.12%	0.47%

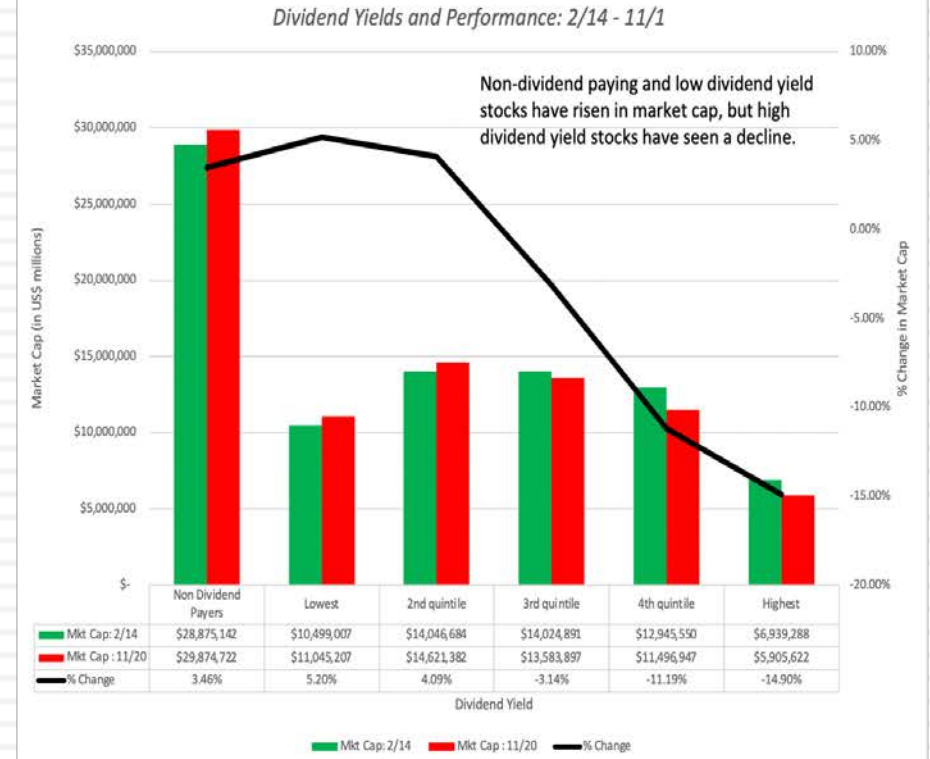
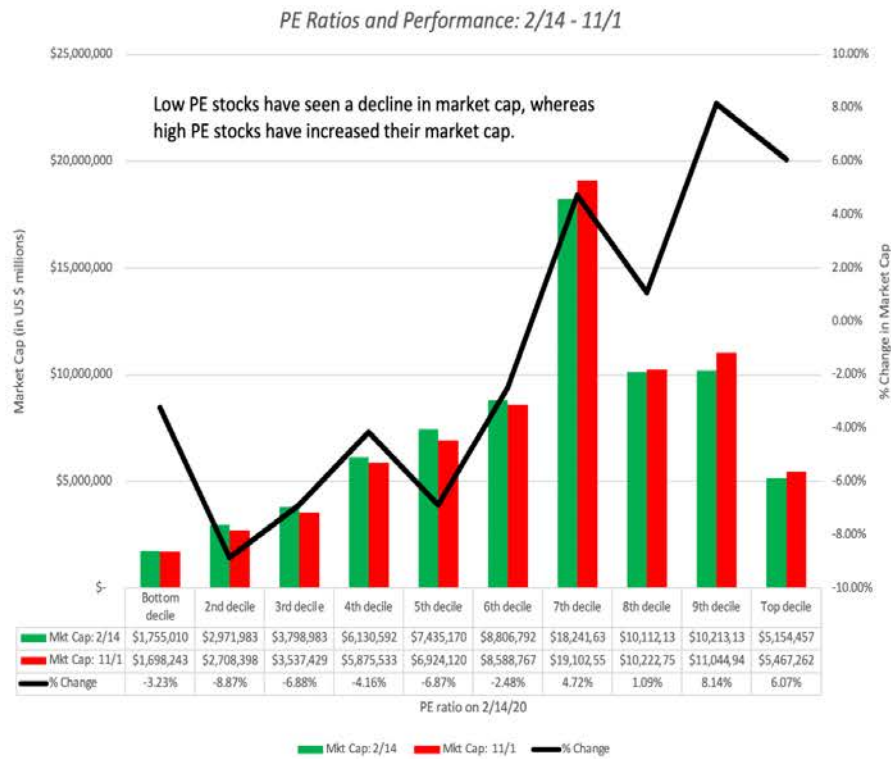
Aggregate Mkt Cap on 11/1/20



Global Equities: Industry Winners & Losers

Industry	Market Cap (\$ Millions)		Change from 2/14-9/11		Industry	Market Cap (\$ Millions)		% Change	
	2/14/20	11/1/20	\$ Value	% Change		2/14/20	11/1/20	\$ Value	% Change
Oil/Gas (Production and Exploration)	\$ 683,665	\$ 383,653	\$ (300,012)	-43.88%	Software (Internet)	\$ 226,460	\$ 334,679	\$ 108,219	47.79%
R.E.I.T.	\$ 108,606	\$ 64,681	\$ (43,925)	-40.44%	Retail (Online)	\$2,454,579	\$3,585,642	\$1,131,063	46.08%
Oil/Gas Distribution	\$ 644,032	\$ 424,030	\$ (220,002)	-34.16%	Healthcare Information and Technology	\$ 768,829	\$1,054,953	\$ 286,124	37.22%
Reinsurance	\$ 180,669	\$ 122,608	\$ (58,061)	-32.14%	Precious Metals	\$ 419,259	\$ 557,335	\$ 138,076	32.93%
Aerospace/Defense	\$1,219,943	\$ 830,117	\$ (389,825)	-31.95%	Furn/Home Furnishings	\$ 330,673	\$ 406,726	\$ 76,053	23.00%
Air Transport	\$ 558,878	\$ 389,947	\$ (168,930)	-30.23%	Transportation	\$ 548,150	\$ 668,808	\$ 120,658	22.01%
Broadcasting	\$ 164,223	\$ 122,024	\$ (42,199)	-25.70%	Software (Entertainment)	\$2,530,194	\$3,059,148	\$ 528,954	20.91%
Insurance (General)	\$ 833,814	\$ 620,410	\$ (213,404)	-25.59%	Electrical Equipment	\$ 894,227	\$1,070,976	\$ 176,749	19.77%
Bank (Money Center)	\$6,844,013	\$5,107,604	\$ (1,736,409)	-25.37%	Computers/Peripherals	\$2,216,118	\$2,626,303	\$ 410,185	18.51%
Food Wholesalers	\$ 94,803	\$ 71,464	\$ (23,339)	-24.62%	Semiconductor	\$2,059,092	\$2,407,639	\$ 348,547	16.93%

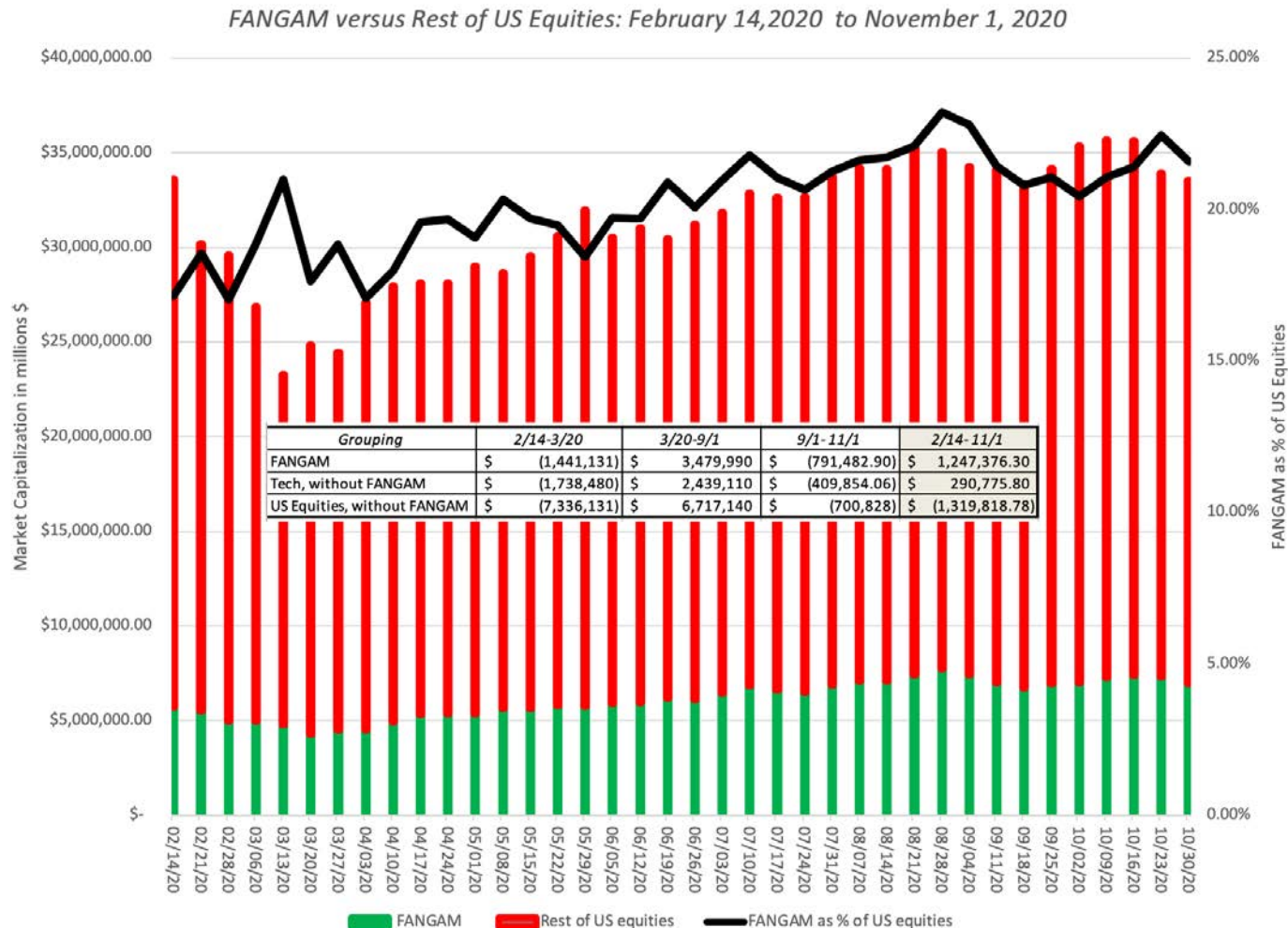
Value and Growth



Corporate Life Cycle

Classified by company age						Classified by Expected Revenue Growth				
		Market Cap (\$ Millions)		Change 2/14- 11/1			Market Cap (\$ Millions)		Change 2/14- 11/1	
Age of company	Number of firms	2/14/20	11/1/20	\$ Value	% Change	Revenue Growth	2/14/20	11/1/20	\$ Value	% Change
Youngest	3,503	\$ 2,421,697	\$ 2,888,084	\$ 466,387	19.26%	Lowest	\$ 8,033,306	\$ 5,814,363	\$ (2,218,943)	-27.62%
2nd decile	3,693	\$ 3,275,844	\$ 3,622,988	\$ 347,144	10.60%	2nd decile	\$ 7,372,479	\$ 5,850,825	\$ (1,521,654)	-20.64%
3rd decile	3,088	\$ 3,796,174	\$ 4,665,097	\$ 868,923	22.89%	3rd decile	\$ 9,513,228	\$ 7,986,898	\$ (1,526,330)	-16.04%
4th decile	4,717	\$ 9,227,590	\$ 10,052,954	\$ 825,364	8.94%	4th decile	\$ 10,851,227	\$ 9,407,862	\$ (1,443,364)	-13.30%
5th decile	3,455	\$ 5,548,369	\$ 6,269,467	\$ 721,098	13.00%	5th decile	\$ 10,077,446	\$ 9,473,061	\$ (604,385)	-6.00%
6th decile	3,802	\$ 4,439,174	\$ 4,556,857	\$ 117,683	2.65%	6th decile	\$ 8,893,613	\$ 8,636,950	\$ (256,664)	-2.89%
7th decile	4,041	\$ 8,847,988	\$ 8,938,124	\$ 90,136	1.02%	7th decile	\$ 8,263,269	\$ 9,021,311	\$ 758,042	9.17%
8th decile	3,964	\$ 8,798,192	\$ 8,510,063	\$ (288,129)	-3.27%	8th decile	\$ 6,949,329	\$ 7,738,244	\$ 788,914	11.35%
9th decile	3,796	\$ 10,117,591	\$ 9,924,204	\$ (193,387)	-1.91%	9th decile	\$ 8,461,941	\$ 11,552,523	\$ 3,090,582	36.52%
Oldest	3,816	\$ 27,265,362	\$ 23,458,255	\$ (3,807,106)	-13.96%	Highest	\$ 3,197,077	\$ 5,246,910	\$ 2,049,834	64.12%

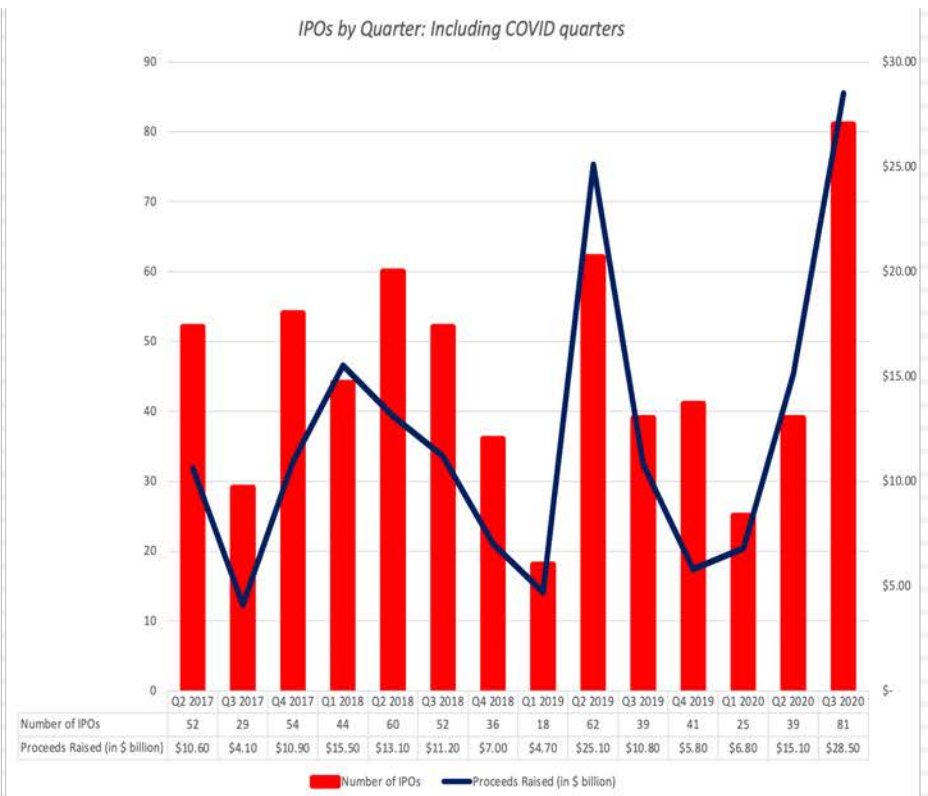
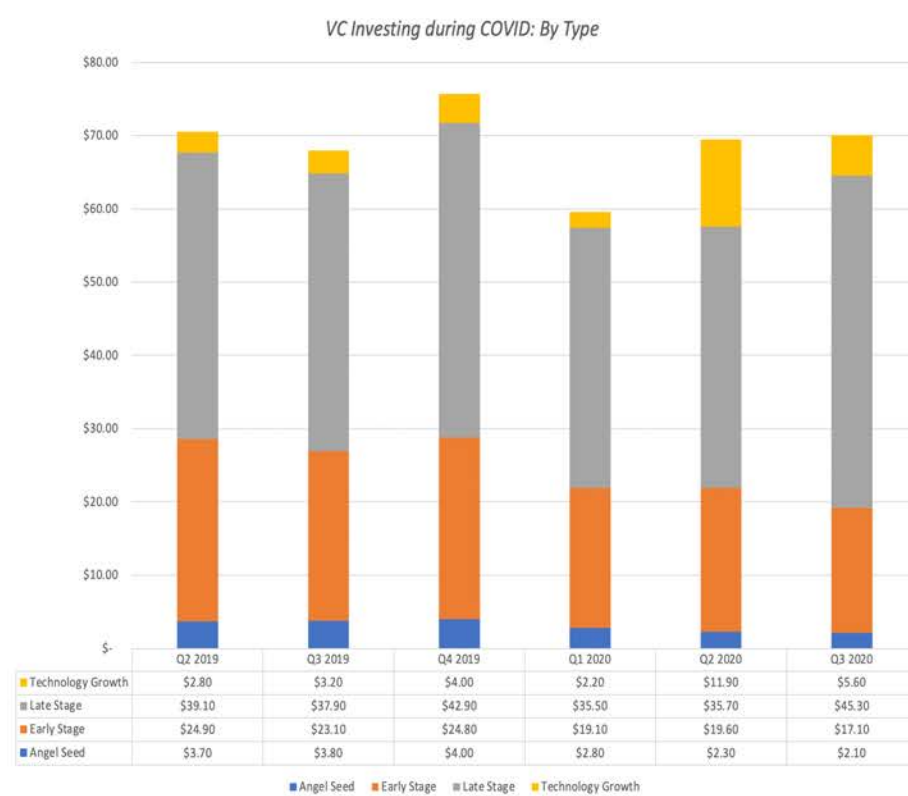
The FANGAM Effect



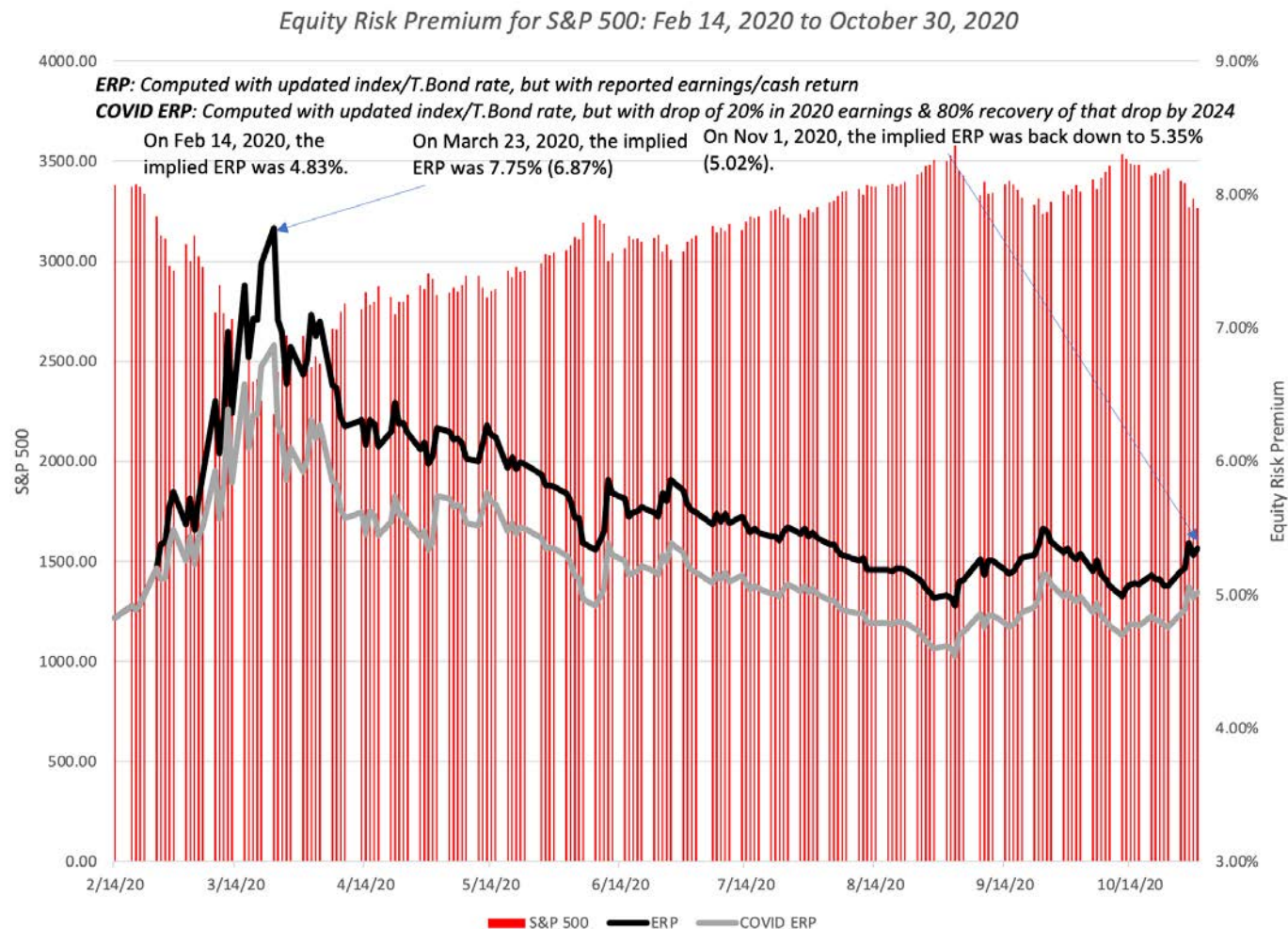
The Value Transfer: Risk On vs Risk Off

Grouping	Risk On	Returns (2/14/20 - 11/1/20)		Risk Off	Returns (2/14/20 - 11/1/20)	
		% Change	\$ Change (billions)		% Change	\$ Change (billions)
PE	High PE	6.07%	\$313.00	Low PE	-3.23%	-\$57.00
PBV	High PBV	13.96%	\$3,387.00	Low PBV	-16.21%	-\$204.00
Dividend Yield	No or low Dividends	5.20%	\$1,546.00	High Dividend Yields	-16.06%	-\$1,448.00
Corporate Age	Young companies	19.26%	\$466.00	Old companies	-13.96%	-\$3,807.00
Growth	High growth	64.12%	\$2,049.00	Low growth	-27.62%	-\$2,218.00
Size	Small Market Cap	100.40%	\$4,119.00	Large Market Cap	-1.50%	-\$1,150.00
Debt	High debt	-18.62%	-\$459.00	Low debt	20.81%	\$526.00
Returns reported for firms in the highest and lowest deciles of each grouping, except for dividends, reported in quintiles.						

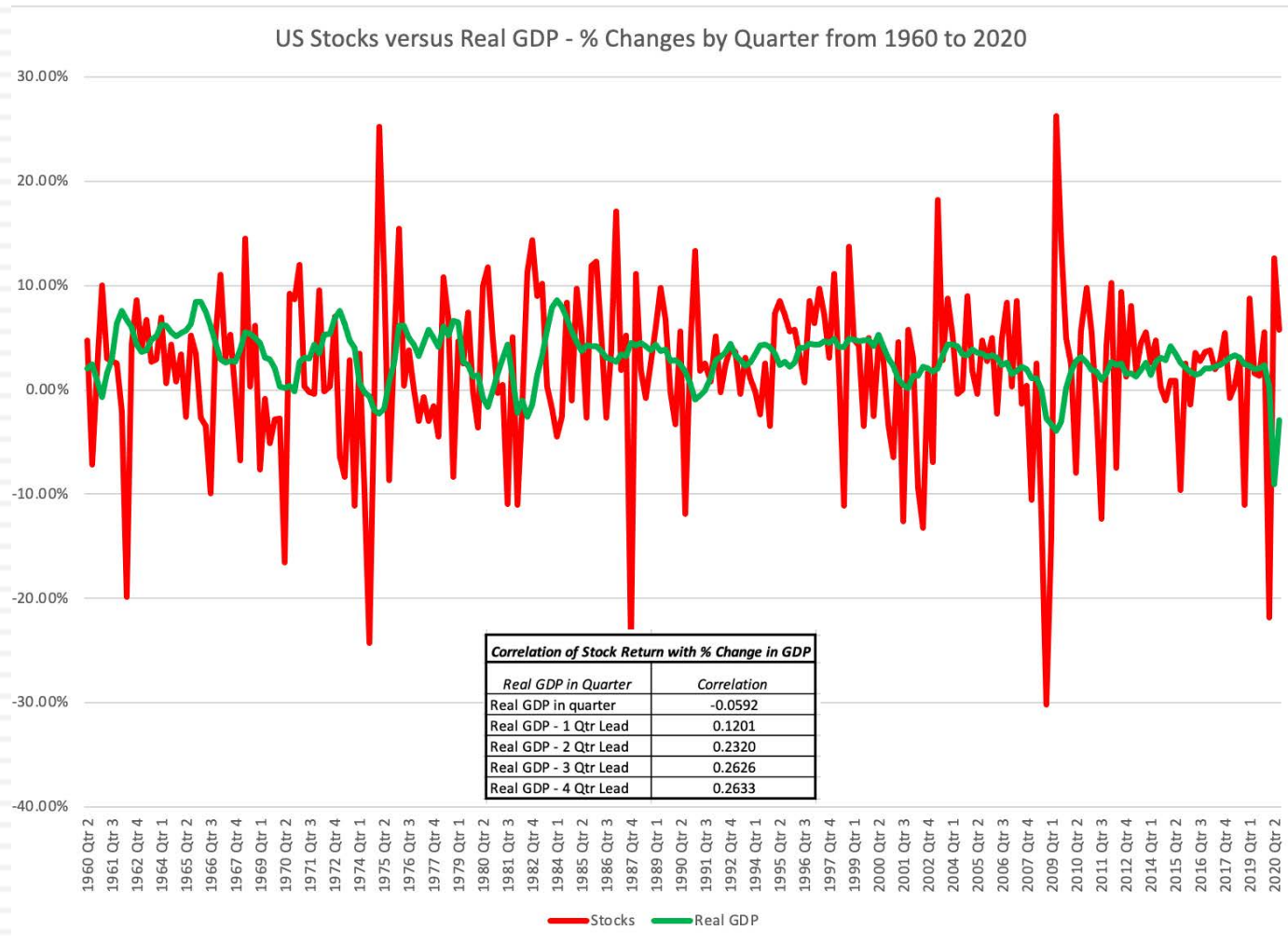
The Resilience of Risk Capital



And how it plays out in equity risk premiums

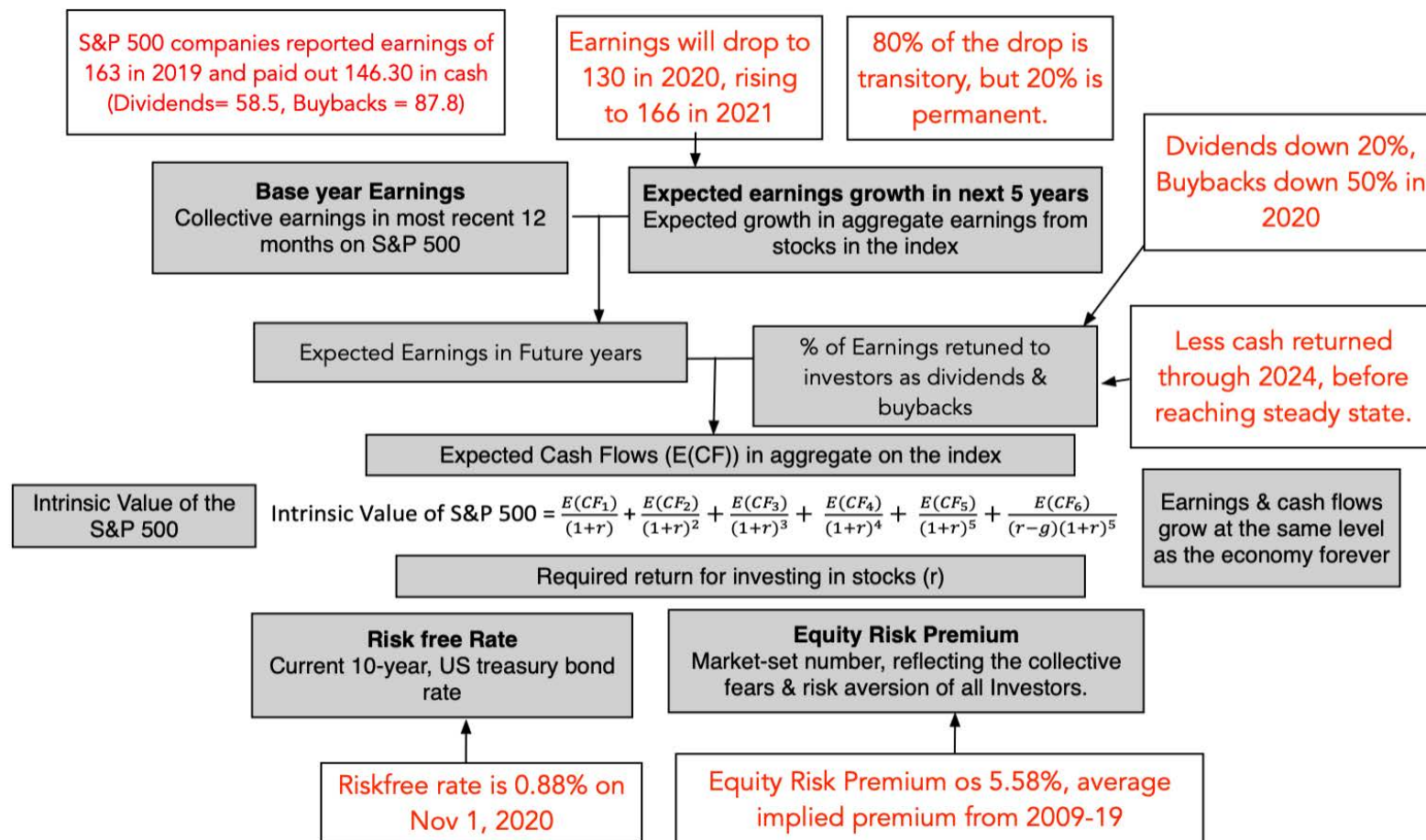


The Market and the Economy

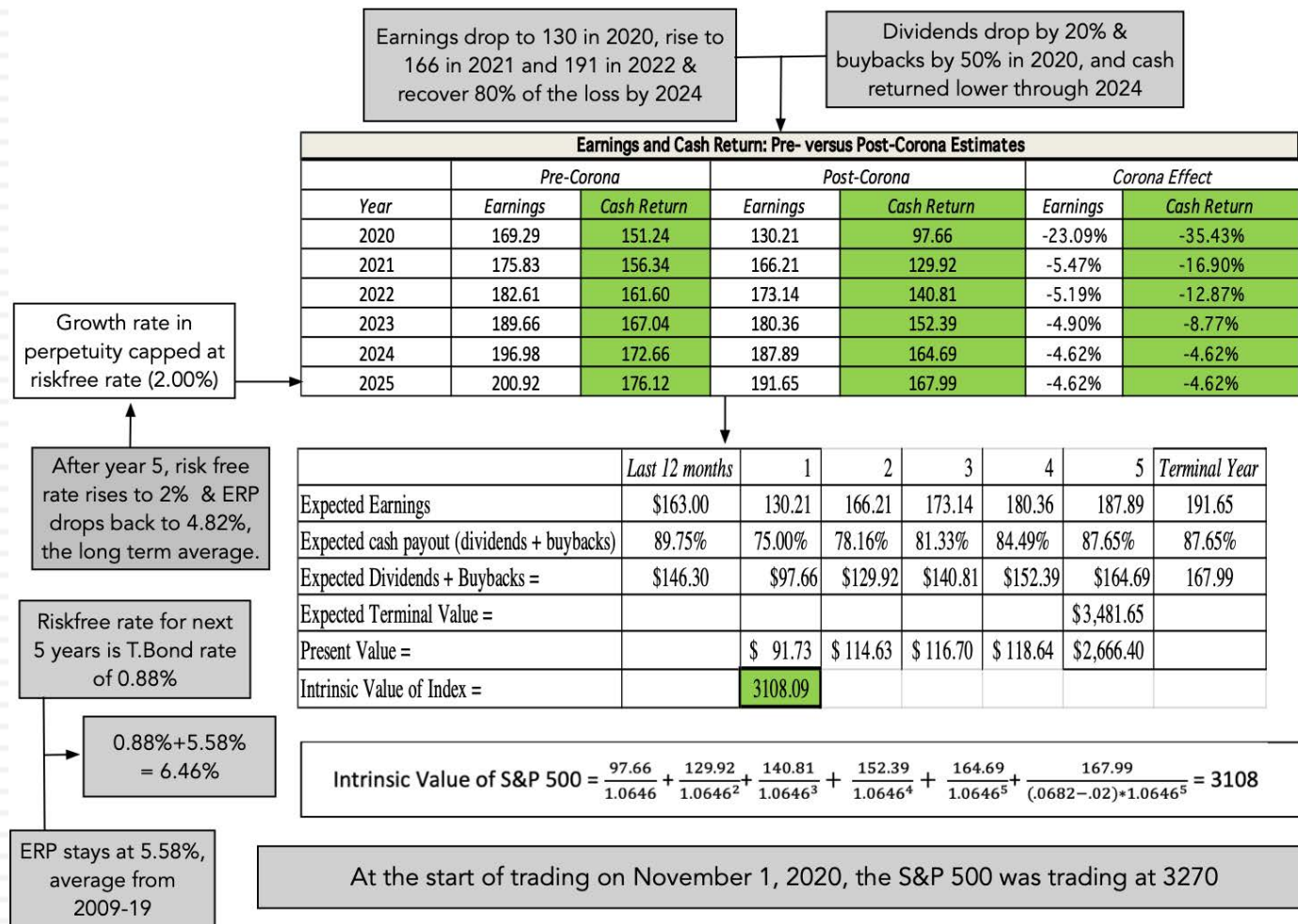


Updating the Story

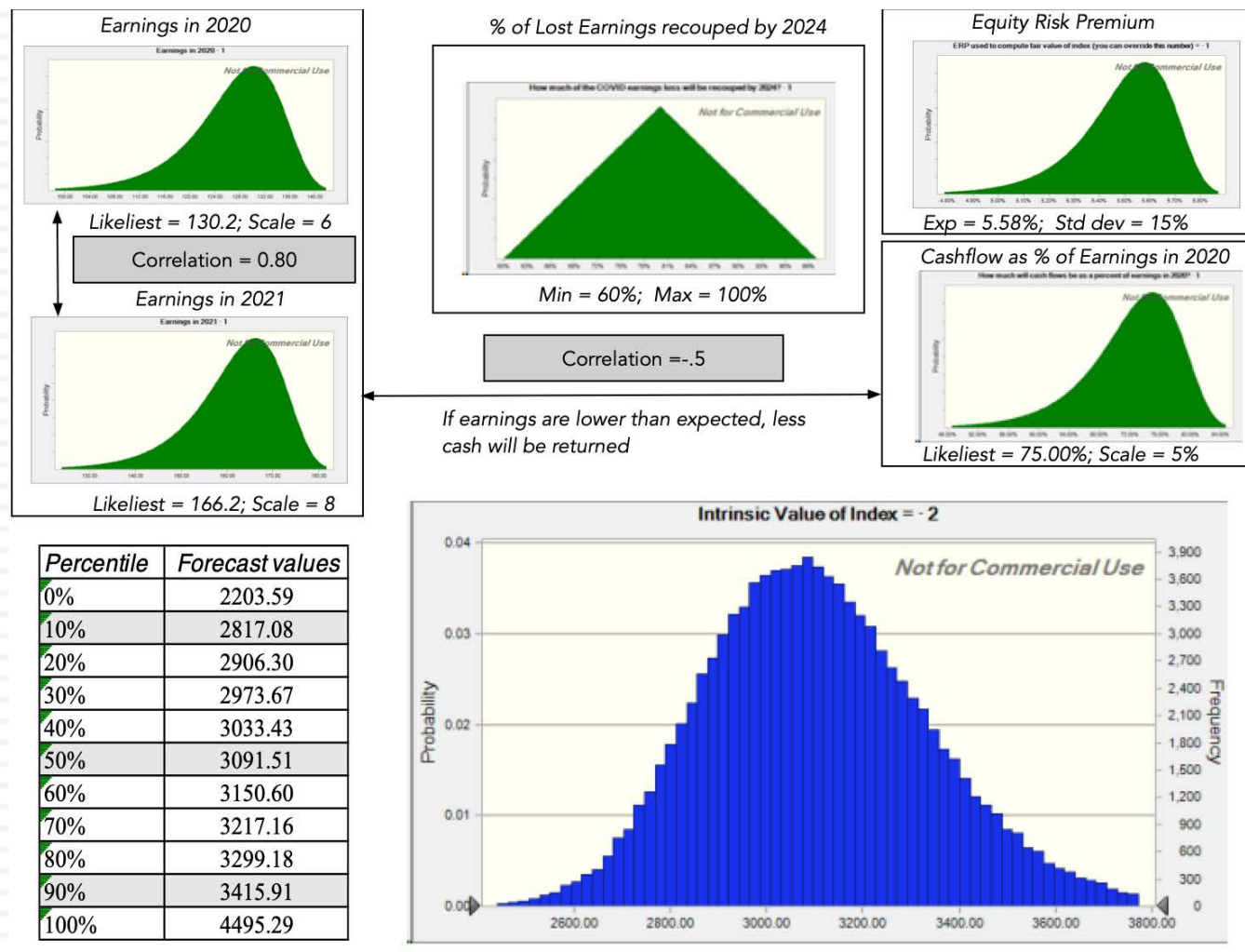
Valuing the S&P 500 on November 1, 2020



Valuing the S&P 500 on 11/1/20



Facing up to Uncertainty



Crisis as Crucible: Lessons learned

- Respect markets, even if you disagree with them: Markets are not all knowing and they are definitely not efficient, but they are extraordinary instruments for conveying the consensus view of the future. While you and I may disagree with the market view, and markets can be wrong, it behooves us all to at least try and understand the message that it delivers.
- Time to move on: For many managers and investors, the COVID crisis was a reminder, sometimes in painful terms, that we are now well into the 21st century and continuing to use tools, techniques and metrics that were developed and tested on 20th century data is a recipe for disaster.
- Flexibility is good: If you look across what companies that have done well during this crisis share in common, it is flexibility, with companies that can adapt quickly to new circumstances improving their odds of winning. In the same vein, it seems self defeating for companies to borrow too much or lock themselves into paying large dividends, since both reduce their capacity to respond quickly to changed circumstances.