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FROM THE DESK OF ERIK OROS

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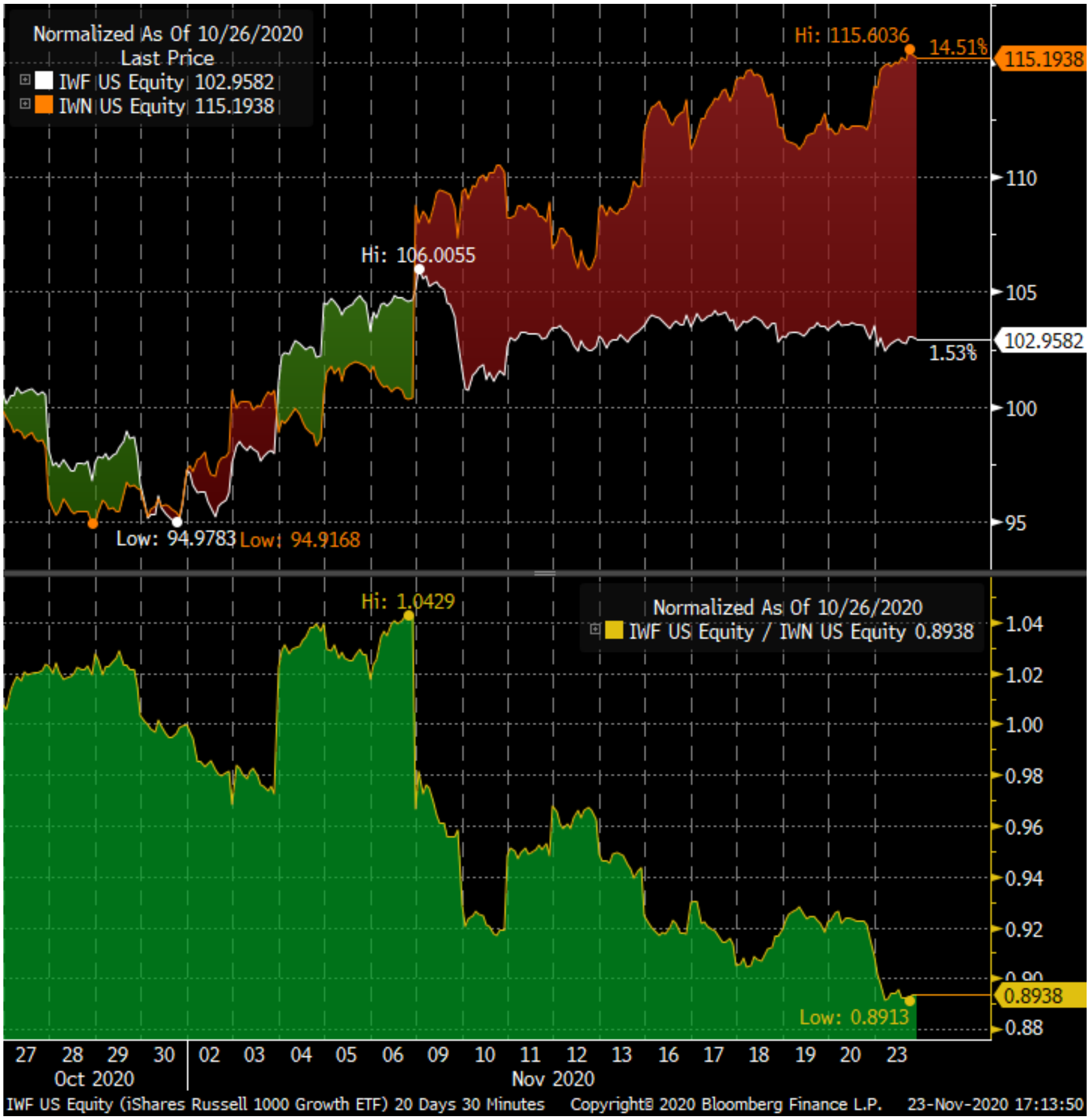
October's letter focused on the prospect for the return of the so-called "reflation" trade that had eluded markets, but whose potential beckoned with the election and the hope for a vaccine approaching. The spark for this trade's return, and the dramatic rotation that ensued was stunning efficacy results from the two leading vaccine candidates in short succession this month. Over the past 30 days, small-cap value (IWN) has returned 14.51% vs. 1.53% for large cap growth (IWF). While many questions around the various vaccines remain, particularly as it relates to both durability and distribution, investors cheered these results that potentially could provide a spark to those industries most effected by the continued presence of the pandemic. Balancing the resurgent case load in the US and the promise of the vaccine, whether this rotation will endure depends largely on the course of the economy itself and its ability to continue the robust recovery witnessed since the depths of the first quarter.

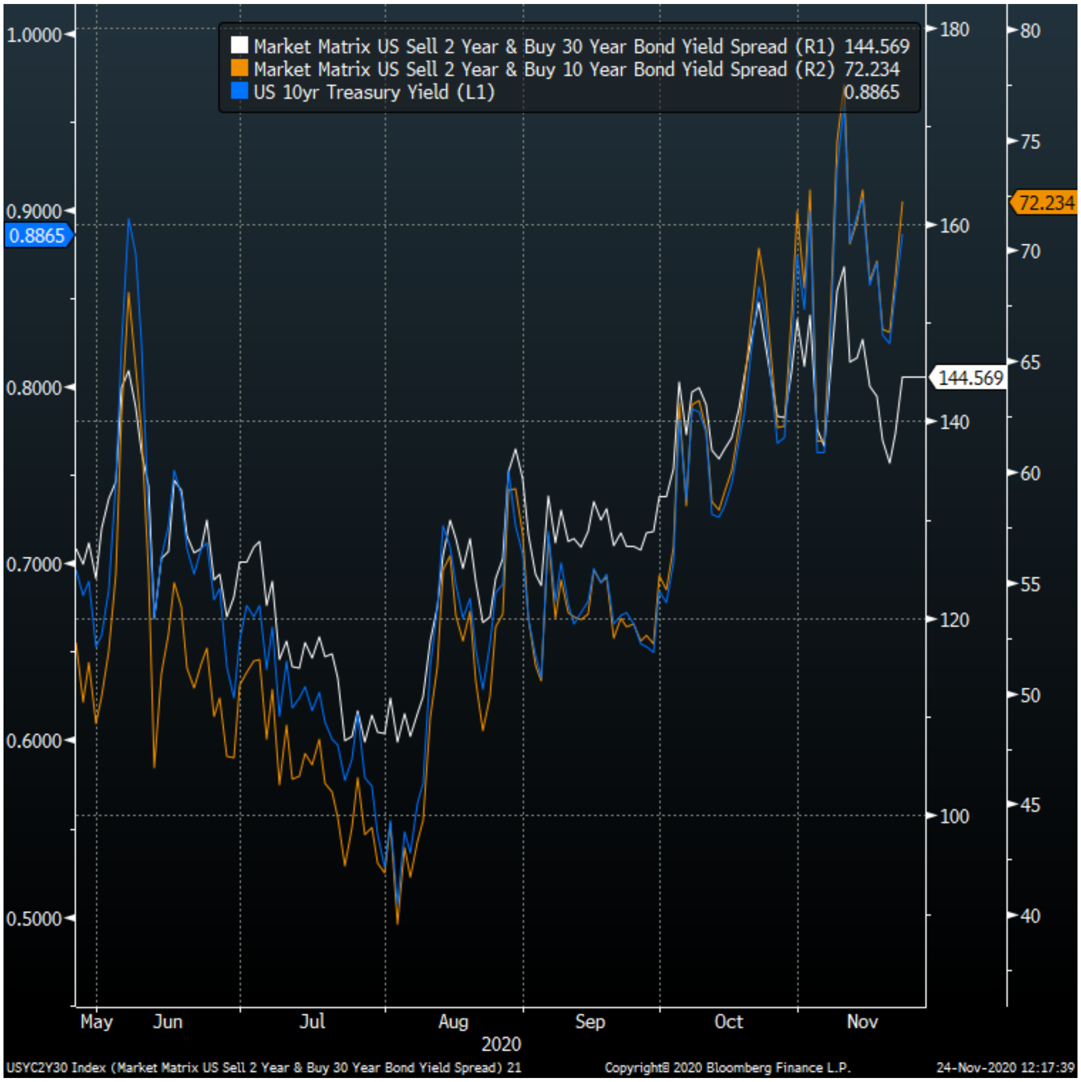
Russell 1000 Growth (IWF) vs. Russell 2000 Value (IWN)



*Past performance does not guarantee future results.

Pfizer released initial efficacy data for its experimental vaccine on November 9th, followed by Moderna's candidate the following Monday, the 16th. The results of these trials are unquestionably positive with efficacy rates well in excess of what had been expected. However, many questions remain around the durability of these responses, supply and logistics, as well as the ultimate compliance among the public. Markets rightfully cheered this news enthusiastically. The resulting cascade and rotation has been dramatic. Small-cap shares, value-shares, and particularly those most impacted sectors such as banking, travel, real estate, and retail outperformed meaningfully their large-cap tech peers. The fixed income market adjusted to these expectations dramatically as well. Treasury yields which had been rising in anticipation of a potential blue wave only to fall after the Senate looked to be held by Republicans, reversed course again as vaccine news has continued to impress. The dollar, which might be expected to follow rates higher, remained subdued as its safe-haven bid diminished in the risk-on environment.

US Treasury Curve Spreads



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US Dollar Index

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Amid these exciting medical developments, the market has also contended with a highly contentious election, a violent resurgence in COVID cases and the subsequent restrictions that have been and may continue to be enacted both in the US and Globally. Much remains to be learned about the incoming administration's agenda and their ability to execute in a divided government. In many ways the divided government was a "Goldi-locks" scenario for markets, a President likely more favorable to global trade, and limited in his ability to enact the types of tax increases the market feared. As we learned this week, Janet Yellen will be joining the administration as Treasury Secretary, an exceptionally dovish former Fed chair who once advocated for Federal Reserve purchases on stocks. This is a welcome appointment for the market. In addition, Biden has appointed state department technocrats thus far who will likely shy away from the disruptive "Tariff-man" antics of the former administration. Importantly, none of the more leftist candidates market participants feared could be included in the administration have received positions thus far.

However, this seemingly favorable political backdrop is also unlikely to yield the large stimulus package that the Federal Reserve has stressed is necessary to ensure the economic recovery continues. As the virus spread intensifies and the potential for more restrictions escalates, economic recovery has seemingly begun to cool. European PMI's dropped below 50 this week for the first time since the pandemic, and JP Morgan made headlines with a forecast of negative GDP growth in the first quarter of 2021.

Citi Economic Surprise Index

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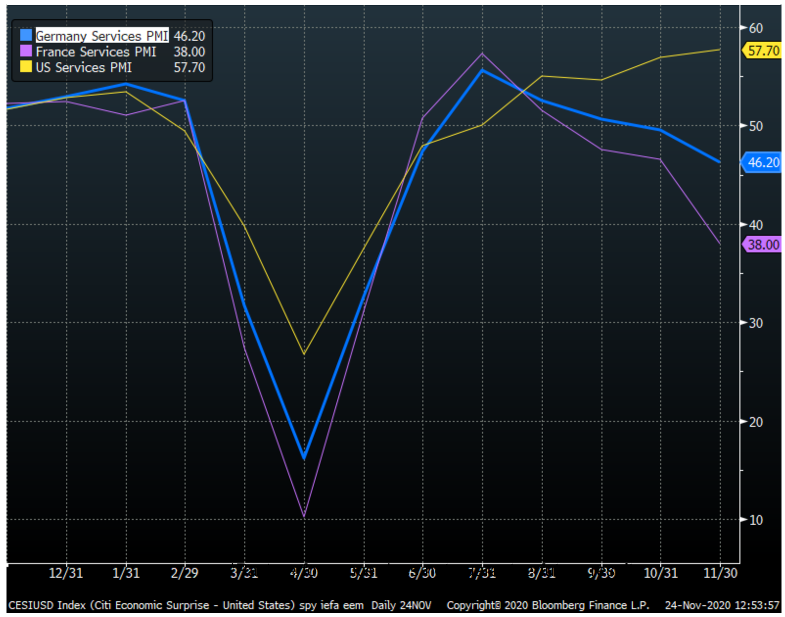
US, Germany, France Service PMI



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Copper/Gold Indicator

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Given this dichotomous backdrop, our view is that it remains an important time to be dynamic, decisive, and tactical with allocation decisions across asset classes. Equity returns have largely been driven by tremendous multiple expansion as a result of exceptionally low global yields and will be reliant on actual earnings growth to power the next leg of returns. Despite Yellen and Powell's penchant for dovishness and unconventional monetary policy, the emergence of the vaccine is likely to balance the Fed and the Treasury's ability to pursue such goals going forward. The prospect for higher yields would pose immense risk to especially duration sensitive fixed income investments but also equities across the board, from those whose multiples it has propelled higher, to those companies who do not have the liquidity to weather higher rates at this time.

Robert Amoruso, CEO

Erik Oros, CIO

GIDEON STRATEGIC PARTNERS
1411 5TH STREET, SUITE 306
SANTA MONICA, CA 90401
INFO@GIDEONSP.COM
PHONE: 310.579.9560