Crown Royalties Investment Club

Market Report: 11/09-11/13

	Friday Close	Weekly % Δ	YTD % Δ
S&P 500	3,585.15	+2.16%	+10.97%
Nasdaq	11,829.29	-0.55%	+31.84%
DJIA	29,479.81	+4.08%	+3.30%
Russell 2000	1,744.04	+6.08%	+4.53%
S&P 400	2,111.60	+4.02%	+1.55%
	Friday Close	Weekly % Δ	YTD % Δ
CRIC Portfolio	$128,276.51	-1.68%	+16.99%

Market Summary: US stock indices were largely flat over the past week, despite preliminary news of Pfizer's COVID vaccine on Monday. The S&P 500 jumped on the Monday news, with investors dumping pandemic-friendly stocks (e.g. Clorox and Peloton) and picking up beaten down stocks (e.g. Disney and Carnival). After the initial reaction to Pfizer's announcement this pattern reversed throughout the week. As the week came to a close, small-caps and banking stocks ended higher, outpacing tech indices. Oil futures fell around 2.4% on Friday, as investors increasingly expect a sustained drop in demand. Treasury rates stayed mostly flat throughout the week. As of Thursday, the one month bill rate sat at 0.10, the two year note ended Thursday at 0.17, and the 30 year bond inched one basis point higher to 1.64.

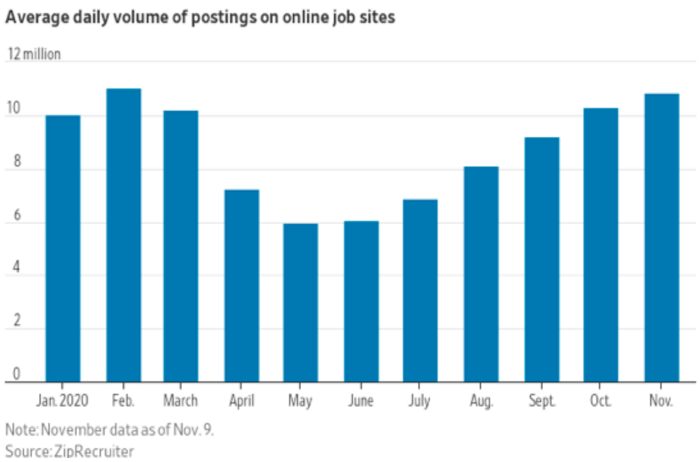
SARS-CoV-2 updates:

- According to the CDC, there are currently ~10,314,254 total cases in the U.S. with ~241,069 total deaths. **(Last updated November, 13th)**
- Pfizer, BioNTech stated their COVID-19 vaccine candidate BNT162b2 is 90% effective in first interim analysis of Phase 3 study in trial participants without previous evidence of SARS-CoV-2 infection. MW
- Dr. Fauci, leading government expert in infectious diseases for the past four decades, estimates vaccines will be available to all Americans in April 2021. MW

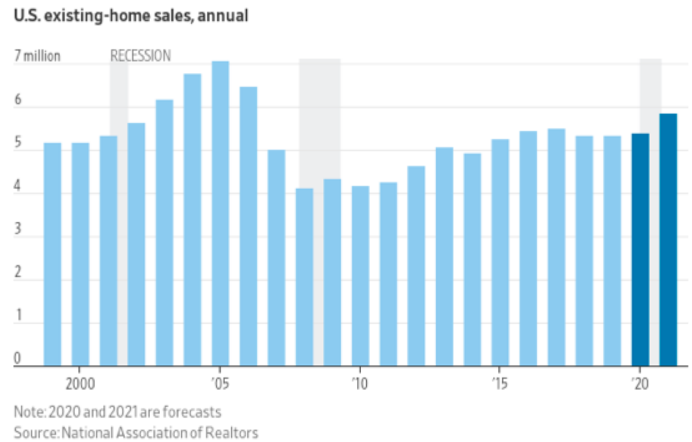
Notable headlines from this week:

- Following Joe Biden's electoral victory and progress on vaccines, U.S. major indices opened strongly Monday morning. Although, the "pandemic winners," such as ZM, PTON, CLX, and mega-cap tech companies lagged behind the rest of the market. WSJ
- As investors rotated out of their growth securities, they began to re-invest in value stocks as optimism on vaccine progress boosted share prices for "pandemic losers" (**Refer to our previous opinion piece "Value vs. Growth.")** WSJ
- The FOMC met Nov. 4-5 and reiterated their commitment to accommodative monetary policy until inflation averages over 2% as well as maximum employment is reached. The FFR will remain at 0 to ¼ percent until these outcomes are achieved. FED

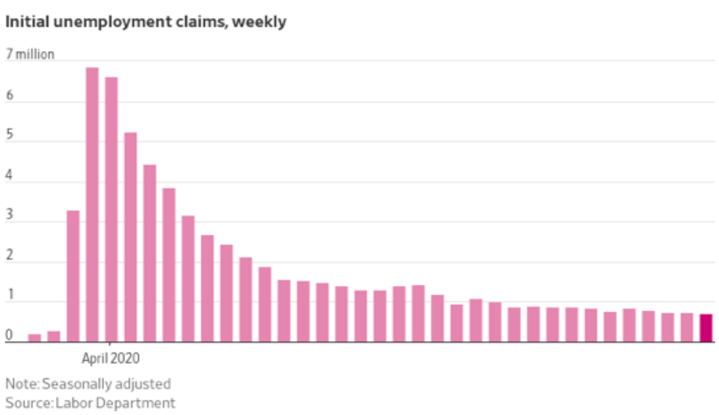
1. U.S. job openings are rising back to their pre-pandemic levels. [WSJ]



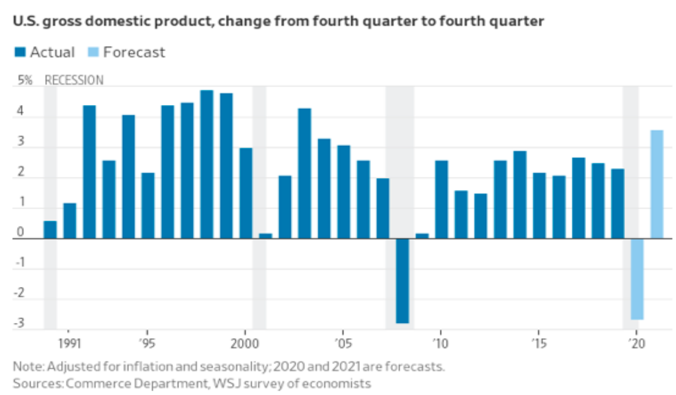
2. Roughly 1 in 4 U.S. homes purchased between April and June were $500,000 or more. [NAR]



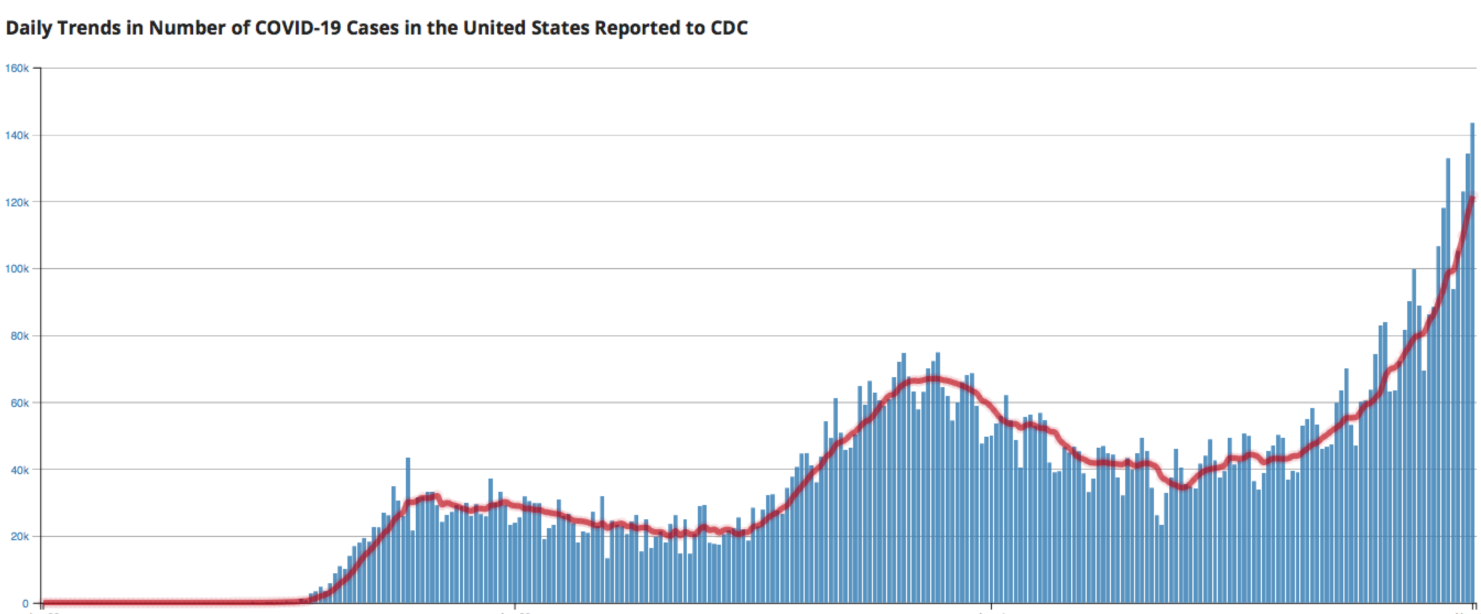
3. New applications for unemployment benefits fell sharply last week. (709,000 vs. 757,000) [DOL]



4. U.S. economic recovery remains on track as RGDP increased at an annualized rate of 33.1% in Q3. [BEA]



5. Daily U.S. COVID-19 cases. [CDC]



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Opinion:

The Return of Global Macro Trading: Global macro trading is a trading strategy mostly pursued by macro hedge funds and mutual funds which revolve around global macroeconomic events. Macro events driven by the dynamics of global economies, political effects, and interest rate changes affect global financial markets. Macro traders aim to profit by trading on various asset classes, i.e. currencies, bonds, commodities and futures. Since the 2008 financial crisis, macro funds have consequently seen lower returns, gaining an average of less than 1% a year according to Bloomberg data.

Macro funds came to prominence in the 1970s and 1980s fueled by rampant inflation giving rise to a commodities bull run, the use of future contracts, and monetary policy shifts that allowed greater volatility in exchange rates. In addition, the advancement of technological innovations in the futures markets led to large volumes of contracts traded and increasing liquidity. However, since the global financial crisis, low interest rates and increasing central bank stimulus have substantially reduced volatility. In their article for the *Wall Street Journal,* Michael Spence and Kevin Warsh argue that quantitative easing has reduced volatility in financial markets. They claim "by purchasing long-term securities, the Fed removes significant market volatility from stocks and bonds. Any resulting redirection in macroeconomic volatility affecting real asset prices is far more speculative."

Reducing market volatility was essentially the goal of central banks. Stabilization of financial markets are important for the allocation of capital. If volatility is high, financial markets are often distorted and dysfunctional. Therefore, central banks began efforts to reduce volatility in the short run following the Great Recession and restore some credibility in financial markets. However, macro traders benefit from volatility as they trade on mispricing in markets. As a result, over last ten years, macro traders have performed poorly and investors, as recent as the first three months of the year, collectively pulled $22 billion from global macro hedge funds out of the $33 billion withdrawn from the hedge fund industry. However, this landscape could soon change.

Following the pandemic, as government bond yields have fallen to record lows and with equities stretched, investors will need to look at other alternatives to achieve the consistent growth of the past decade. Karen Ward, chief market strategist for Europe, Africa, and the Middle East at JP Morgan Asset Management, noted in a client presentation that "global macro funds are a good alternative to government bonds, which are no longer offering the same growth and portfolio diversification as in the past." In addition, passive index investing, and low-volatility equity strategies will not remain successful over the coming years according to Stephen Klein of Mitsell Management. "Fixed income is at zero; it's not going anywhere. Good luck with equities. Real macro – like George Soros macro – that's going to move," said Klein. Furthermore, the return of inflation and its impact on interest rates, a commodities bull run like gold, and oil and currency fluctuations all coupled with increased volatility point toward a return of 'the glory days for macro traders', as macro fund manager Ben Melkman put it. Harvard CDN2 FnLondon Bloomberg

The Vindication of ESG Investing: Over the past decade, Environmental, Social, and Governance ("ESG") investing has proliferated through the investment community. Cynics have labeled the idea as merely a buzzword or a fad, believing that the overlooked, non-ESG securities will be undervalued and thus better investments. These detractors do have a point; there are no universally accepted metrics for measuring ESG factors. However, institutional investors are increasingly ignoring the naysayers and plowing headfirst into the emerging ESG space. Well over $3 trillion institutional assets now fall under the realm of ESG. As more assets are invested with ESG considerations in mind, common standards will have to be accepted. Currently, the Global Reporting Initiative (GRI) produces the foremost ESG metrics, with 40% of S&P 500 companies using GRI's data in sustainability reports.

Not only are ESG considerations becoming more widely adopted, but a recent report by New Amsterdam Partners, an investment manager, concludes that since 2008 companies with high ESG ratings have enjoyed higher risk-adjusted returns than companies with low ESG ratings. The study also indicated that there was an even stronger correlation between highly rated ESG companies and low volatility. Low volatility securities have historically outperformed more volatile securities, lending credence to the ESG movement in the asset management industry. The ESG trend, what many did and still consider a fad or perhaps virtue signaling, has proved to be a legitimate, outperforming investment strategy, while also potentially benefiting society and the environment.

What to look for heading into next week

1.) Continue to monitor U.S. election news as President Trump continues filing federal lawsuits
2.) Watch initial jobless claims which will be released Thursday, Nov 19th at 8:30am EST
3.) Follow vaccine progress and details of how potential vaccines would be distributed to all Americans

Weekend Links

1. BTC at 16K
2. Wells Fargo Ex-CEO
3. DoorDash IPO
4. ETFs to Follow
5. Apartment REITs
6. Stimulus News
7. Ant IPO Update