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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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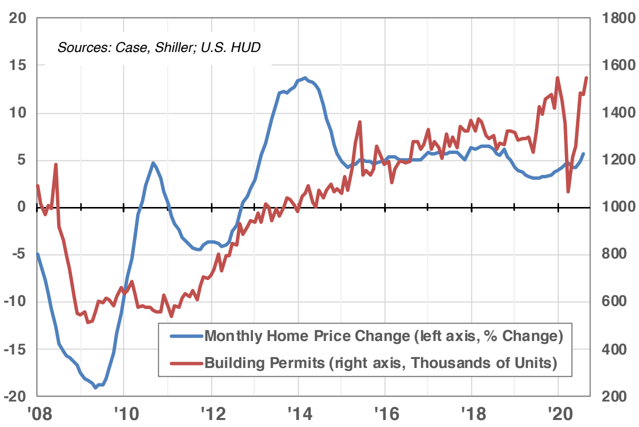
HOUSING SECTOR METRICS STAY STRONG

Existing home sales have been rising since late spring and are 67% above their May lows. Building permits, a leading indicator for the industry, peaked in January at 1.55 million units and are now back to that level (based on data through September). Prices have held up as well. The S&P/Case-Shiller National Home Price Index for August 2020 showed that prices rose 5.7% year-over-year, up from 4.8% in July. Meanwhile, inventory levels are tight: currently there is a 3.6-month supply of existing homes for sale (the average range is 4.5-7.5 months), according to the U.S. Census Bureau. On the other side of the pandemic, we think demand for homes (with yards between neighbors and no elevator buttons to press) will remain strong.

HOUSING MARKET TRENDS



GOLD STILL CLIMBING (NOW ON DEFICIT SPENDING)

With the spread of the coronavirus, the spot price for an ounce of gold shot higher. Other factors driving the uptrend include the global economic recession, increased volatility in U.S. stock markets, negative interest rates in certain countries, and the prospect for another trillion-dollar-plus federal spending plan in the U.S. From a technical standpoint, gold recently broke out of a three-year trading range and appears to be in a bullish pattern of higher highs and higher lows that dates back to December 2016. Our forecast trading range for gold in 2020 is $1,450-$2,200 and our average for the year is $1,800. This compares to average gold prices of $1,400 in 2019, $1,265 in 2018, $1,277 in 2017, $1,258 in 2016, and $1,155 in 2015. As long as global economic uncertainty and virus fears are part of the market conversation, gold is likely to remain in demand.

GOLD PRICES ($/OZ)

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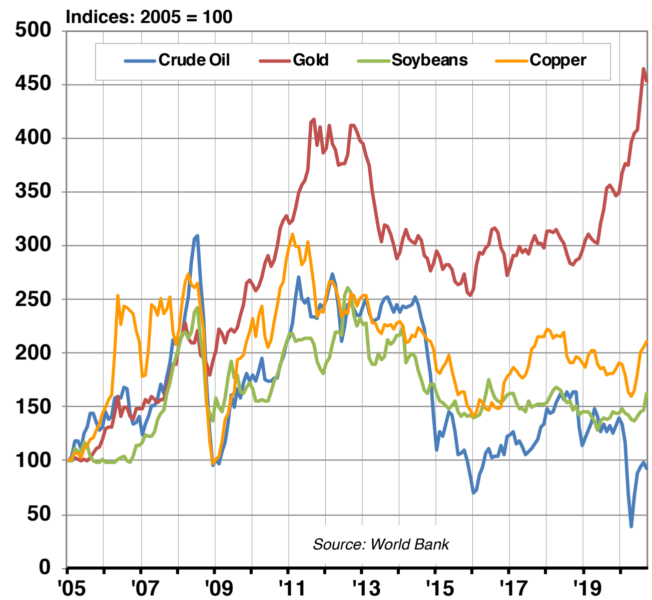
COMMODITY PRICES START TO RECOVER

The trade wars hammered commodities in 2018-2019, and then the coronavirus piled on. But since the lows of April, commodity prices generally have been rising. Copper prices were down 28% in April from their 2018 highs as construction stalled, but have since recovered 33%. Oil prices plunged more than 70% in April from the end of 2019, but have lately more than doubled. Meanwhile, soybean prices have remained relatively steady, and the price of gold has surged as investors have fled riskier assets. Commodities investors are accustomed to volatility. Pre-pandemic, the last time the commodities market bottomed was in January 2016. But recoveries tend to be sharp. We think underlying long-term economic fundamentals are favorable for most commodities (except oil), but expect ongoing volatility due to the pandemic. A stable or falling dollar would help. Yet risk remains high and our sector recommendation for the Basic Materials group is Market-Weight. The current market weighting of the sector is 2.7%, and we think investors should consider exposure of 2%-3% in diversified portfolios.

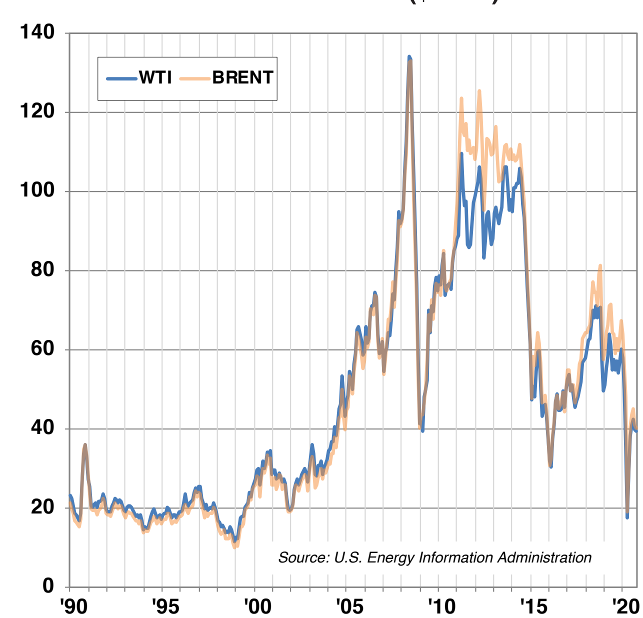
COMMODITY PRICE TRENDS



OIL PRICE FORECASTS

Our 2020 forecast for the average price of a barrel of West Texas Intermediate crude oil is $38, and our preliminary forecast for 2020 is $44. Our estimates assume OPEC and OPEC+ members continue to coordinate on production cuts, along with gradually improving global economic activity into 2021. Our price target also reflects the long-term downtrend for crude prices as Peak Oil approaches: recent average annual prices were $57 in 2019, $65 in 2018, $51 in 2017, $43 in 2016, $49 in 2015, $93 in 2014, and $98 in 2013. We expect President-elect Biden's policies to favor clean energy initiatives over carbon-based energy. Our price range through 2021 is now $50 on the upside and $30 on the downside. Given volatility in oil prices, our investment recommendation on the Energy sector is Under-Weight. The current weight for the sector in the S&P 500 is approximately 2.5%, down from the 7%-8% range in 2013-2014. Within the group, we favor companies with strong balance sheets and a history of growing dividends.

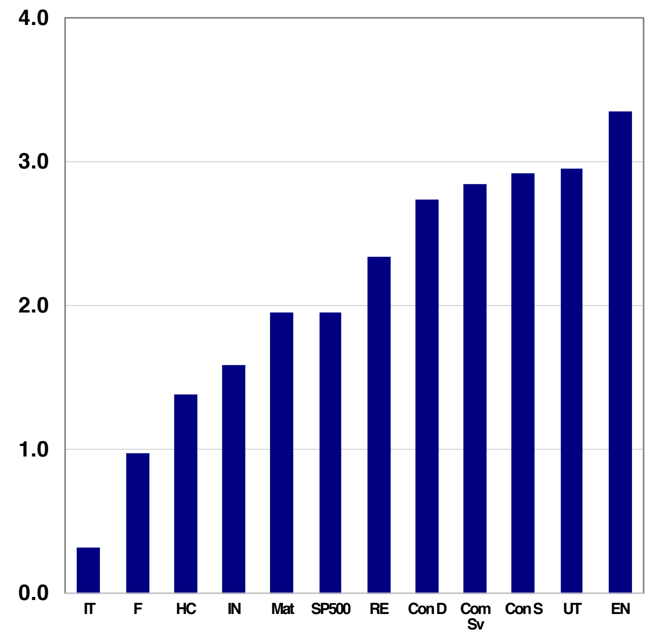
OIL PRICE TRENDS ($/BBL)



VALUES IN HEALTHCARE, FINANCIAL, INDUSTRIALS & IT

Investors hunting for stocks that reasonably balance long-term growth and value characteristics might want to look at companies in the Financial Services, Healthcare, Industrial, and Technology sectors. These are a few of the industry groups that are currently selling for PEGY ratios [(price/earnings)/(growth+yield)] at or below the S&P 500's ratio of 2-times. To generate these ratios, we use the P/E ratio for each sector based on forward 2021 earnings for the numerator. For the denominator, we average the growth rates for the past three years along with two years of forward estimates, this in order to achieve a less-volatile earnings trend. We then add the current yield to approximate the total return. Premium-valued sectors with low growth rates include Energy, Materials, and Consumer Staples. Our Over-Weight sectors include Healthcare, Consumer Discretionary, Communication Services, Utilities, and Information Technology. Our Under-Weight sectors include Real Estate and Energy.

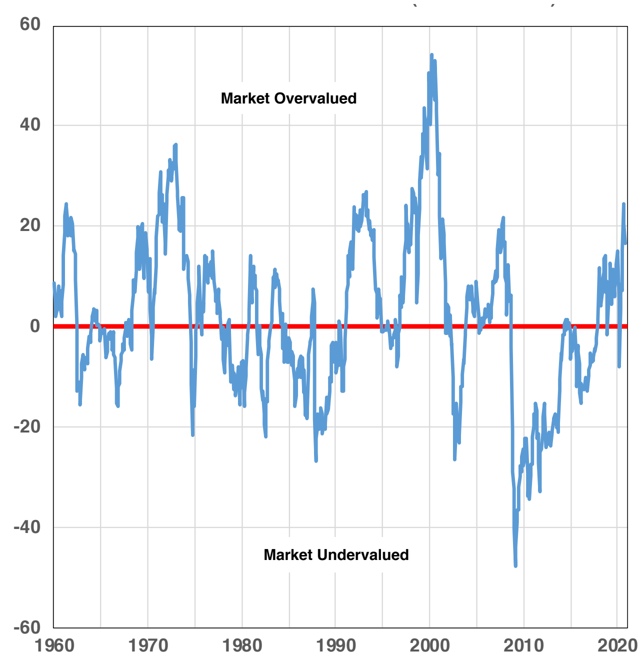
INDUSTRY PEGY RATIOS



STOCKS HAVE CLIMBED ABOVE FAIR VALUE

Stock prices, as expressed by the S&P 500, are above fair value, which our model pegs at closer to 3000 due to an expected earnings decline in 2020. Our stock-market valuation model takes into account factors such as stock prices, five-year normalized earnings (three historical years, two forward-looking), GDP, inflation, and T-bond and T-bill yields. We note that stocks rarely trade right at fair value. Since 1960, on average, the index has traded at a tight 2% above fair value. But the standard deviation to the mean is 16%. As such, we normally expect the S&P 500 to trade between 14% undervalued and 18% overvalued. At current prices, the stock market is almost 20% above fair value, implying that investors are quite optimistic about equities. We'd feel better about the outlook for stocks if valuations were not so stretched. Several factors could improve valuations: a pullback in stock prices, lower bond yields or better earnings. Still, given the current fully valued level of the market, disappointments could be painful.

S&P 500 VALUATION MODEL (0% = FAIR VALUE)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
24-Nov	Consumer Confidence	November	100.9	101.2	101.5	NA
25-Nov	Wholesale Inventories	October	0.4%	0.5%	0.4%	NA
	Real GDP	3Q	33.1%	33.3%	33.2%	NA
	Durable Goods Orders	October	1.9%	1.5%	1.3%	NA
	Personal Income	October	0.9%	NM	20.0%	NA
	Personal Spending	October	1.4%	1.0%	0.7%	NA
	New Home Sales	October	959K	980K	874K	NA
	GDP Price Index	3Q	3.6%	3.3%	3.6%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Dec	Consumer Credit	October	$16.21	NA	NA	NA
8-Dec	Non-farm Productivity	3Q	4.9%	NA	NA	NA
	Unit Labor Costs	3Q	-8.9%	NA	NA	NA
10-Dec	Consumer Price Index	November	0.0%	NA	NA	NA
	CPI ex-Food & Energy	November	0.0%	NA	NA	NA
11-Dec	PPI Final Demand	November	0.3%	NA	NA	NA
	PPI ex-Food & Energy	November	0.1%	NA	NA	NA
	U. of Michigan Sentiment	December	NA	NA	NA	NA