

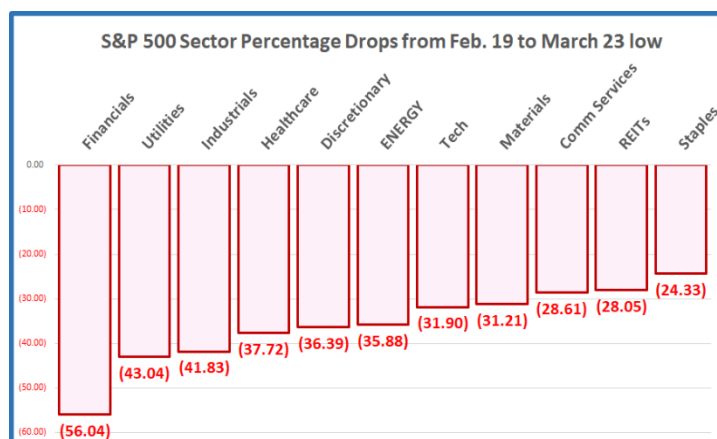
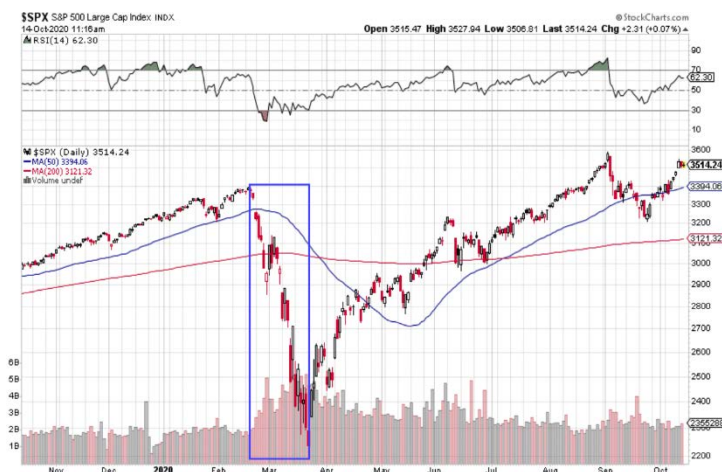
October 15, 2020

TACTICAL CHANGES MATTER

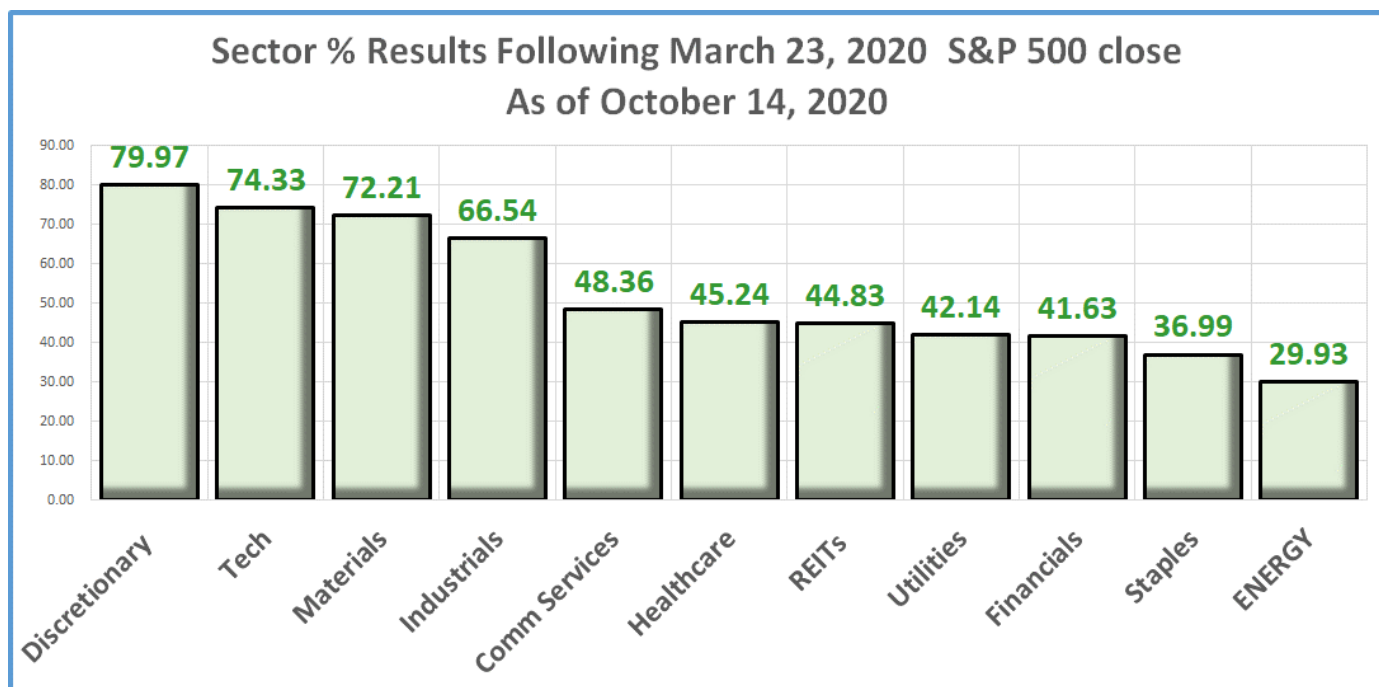
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After early this year building on the spectacular gains posted in 2019, a nearly perfect storm of bad news decimated the equity market. In 34 days from its February 19, 2020, high to the March 23 intraday low, the S&P 500 fell 35.4%. All 11 S&P 500 sectors were swept sharply lower. Seven months later, however, circumstances are much different.

The source for the charts in this report is Janney Investment Strategy Group.



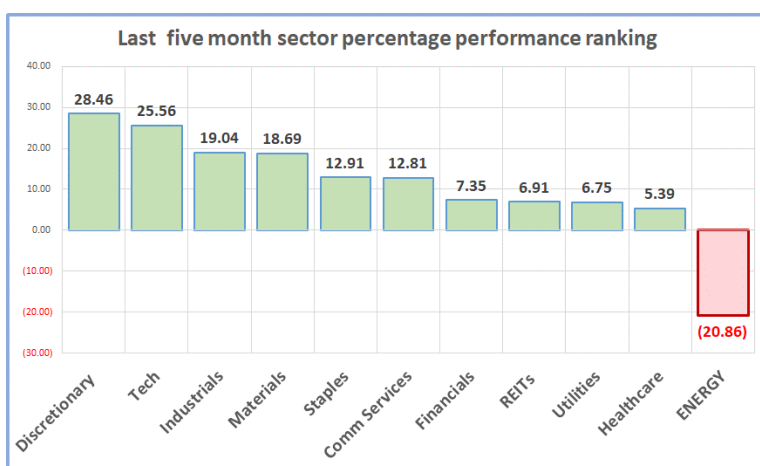
In record-setting speed, the S&P 500 recovered its entire loss, and by September 2, 2020, set a new all-time high 5.7% above the previous all-time high. All 11 sectors bounced off the March 23 market low, but as the chart below shows, some did so much more aggressively than others.



It might have seemed reasonable that the worst-hit sectors in the February 19-March 23 slide would be good candidates for leadership roles in a recovery. This theory certainly did not apply to the Financial sector that had the steepest drop in the sell-off and one of the three smallest recoveries. The Utilities sector also lagged many other sectors in the recovery.

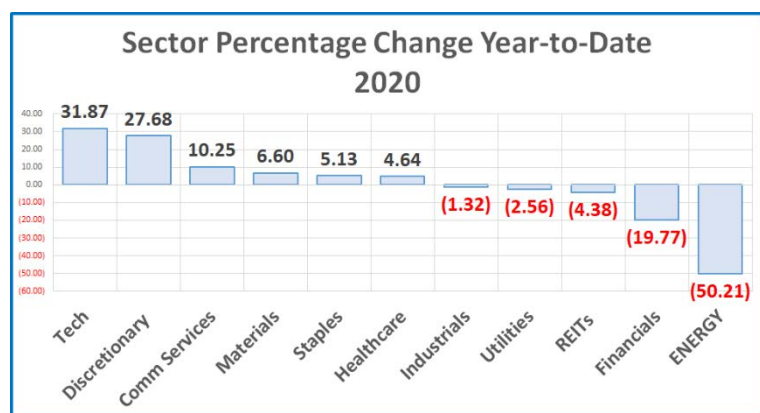
The table below shows the year-to-date performance ranking for the 11 sectors at the end of each month this year. Two extremes stand out—the Energy sector fared the worst all year, while the Technology sector consistently held the top spot.

	January	February	March	April	May	June	July	August	September	October
Utilities	1	2	4	6	6	8	8	9	9	8
Tech	2	1	1	1	1	1	1	1	1	1
REITs	3	3	7	7	8	7	7	8	8	9
Comm Services	4	4	5	4	4	3	3	3	3	3
Discretionary	5	5	6	3	2	2	2	2	2	2
Staples	6	6	2	5	5	5	5	5	6	6
Industrials	7	7	9	9	9	9	9	7	7	7
Financials	8	8	10	10	10	10	10	10	10	10
Healthcare	9	9	3	2	3	4	4	4	5	5
Materials	10	10	8	8	7	6	6	6	4	4
ENERGY	11	11	11	11	11	11	11	11	11	11



As reflected in the chart of sector performance for the most recent five months, these changes may be forecasting future activity.

Significant changes in the rankings of the Utilities, REIT, Discretionary, and Materials sectors point to a decided shift in the market's view of economic prospects. We think the move from 10th place to fourth for the Materials sector is more than a rebound from a deep market drop, but rather an indication that going forward the market's attention will be on the most pro-cyclical sectors like Materials, as well as Industrials eventually. We think the downward relative shift in Utilities and REITs confirms this.



Although the Financials sector would fit with a shift to cyclical sectors, until interest rates become more favorable for banks, the Financials sector likely lag other cyclical sectors.

The chart on the left reflects the year-to-date sector results as of the date of this report.

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