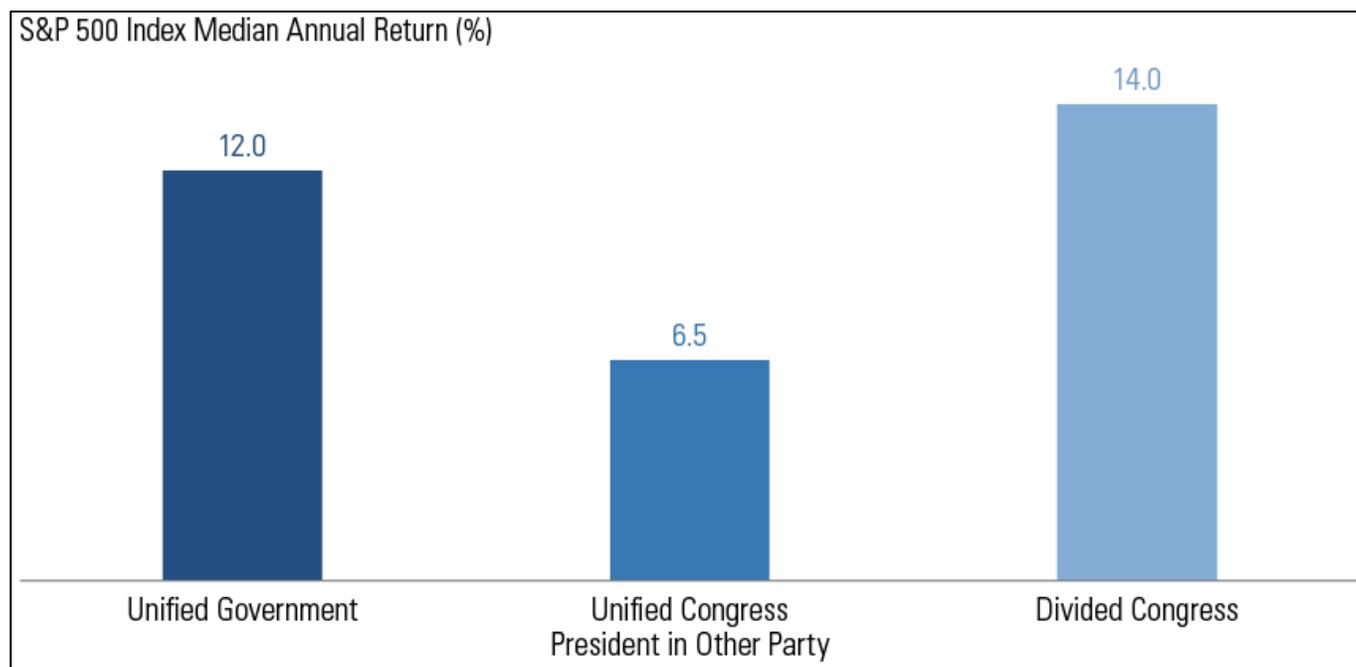


A divided government could bode well for stocks

While President-elect Joe Biden beat out incumbent Donald Trump in the Presidential election, the political picture is still as murky as ever. The Democratic party was able to maintain their majority in the House of Representatives, albeit losing several seats in the process with several races yet to be called. The Senate is much closer, with Republicans holding on to a slim advantage over the Democrats, and would need to hold off the Democrats in two runoff elections upcoming in January. If the Republicans can hold on to their margin in the Senate, the future Biden administration will have to embark on its quest to be productive amidst a split Congress. And while this might provide a roadblock for the President-elect, it is an environment which the markets have historically liked. Dating back to 1945, the S&P 500 returned a median of 14.0% annually with a divided Congress at the helm. This is better than returns for the S&P over the same period when the US government was unified outside of the sitting President (6.5%), and even when the government was completely unified (12.0%).



Source: Capital Group, BBG and GSAM. S&P 500 returns are from 1945 to 2019

New economic stimulus package on the table

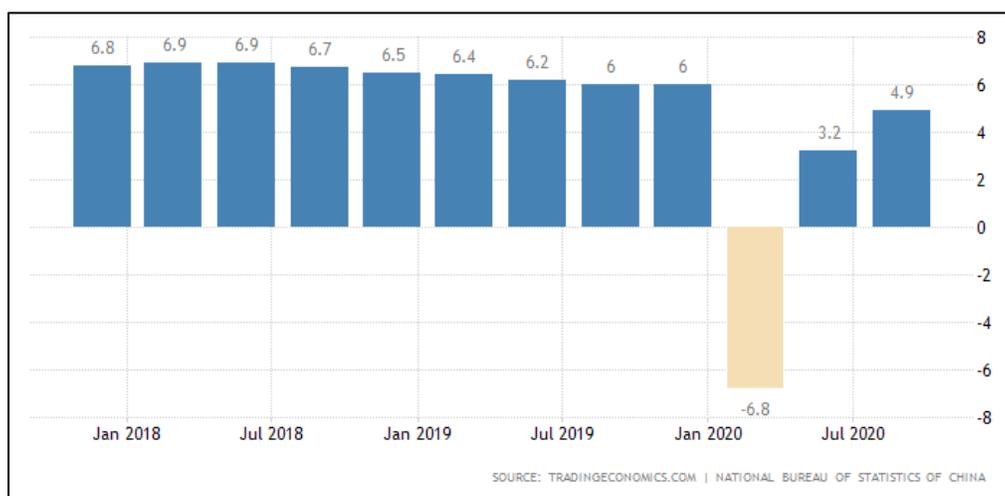
After months of non-action by Congress, an economic stimulus plan was finally presented by bipartisan lawmakers. The \$908 billion packaged included a new round of Paycheck Protection Program loans for small businesses, relief for local and state governments, added unemployment compensation, and even funds for the distribution of the coronavirus vaccine.

While Senate Majority Leader Mitch McConnell was quick to shoot down the plan, claiming he didn't want to waste time on a bill that would never pass Congress, some Senate Republicans have signaled they are on board for the proposed package. Senators Joni Ernst (R-Iowa) and John Cornyn (R-Tex.) both indicated they are open to making this package work for all parties involved.

Both Mitch McConnell and House Speaker Nancy Pelosi struck a hopeful tone that an agreement would be reached soon. "Compromise is within reach. We know where we agree. We can do this," McConnell said.

China's economy has a bright future

Economic growth in China is leading the world in a pandemic-ridden 2020 year. The country's GDP grew by 4.9% in the third quarter, compared to 3.2% growth in Q2. Now, it is estimated that fourth quarter GDP growth could surpass 5%. This growth estimate is thanks in large part due to a surge in China's manufacturing sector, which saw some of its best output in years. The country's Purchasing Managers' Index (PMI) for November came in at 52.1, above the estimated number of 51.5, and the highest reading for the PMI in three years. Manufacturing was accelerated due to an increase in demand for Chinese manufactured goods, and a bump in both imports and exports in the country.



Source: <https://tradingeconomics.com/china/gdp-growth-annual>

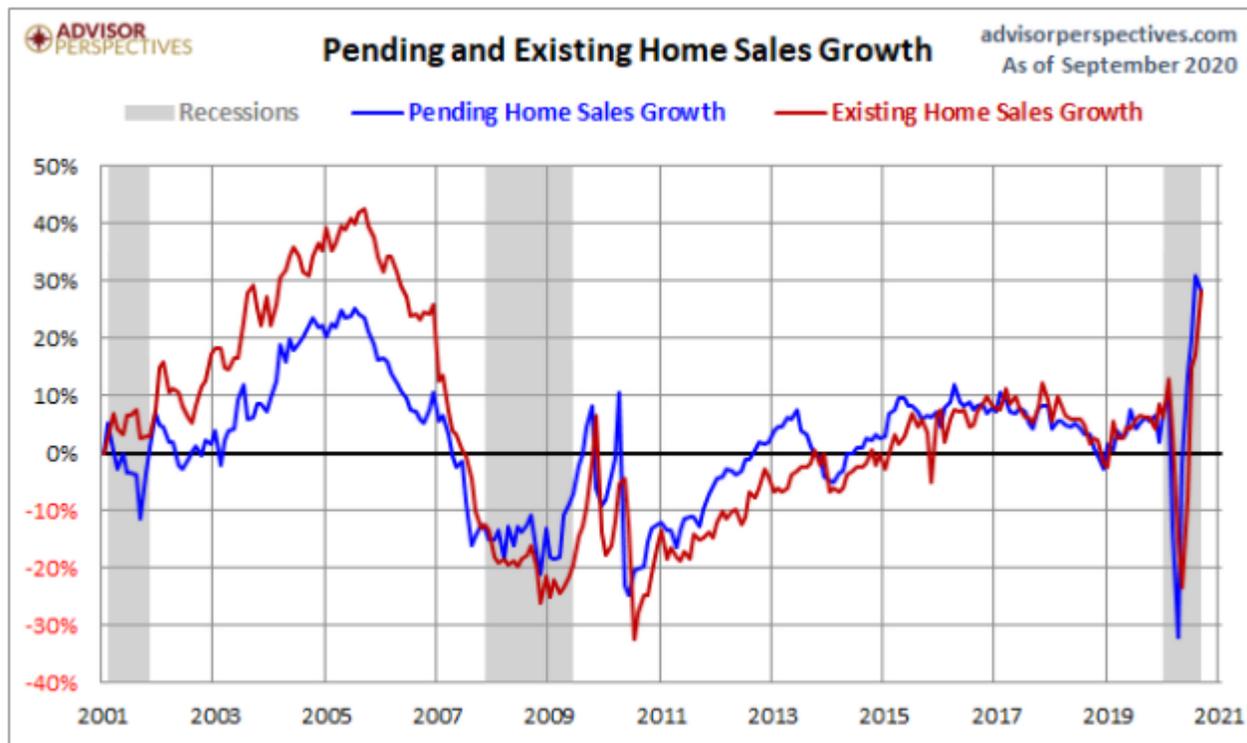
The strength of China's economy is expected to continue. According to a survey of global CFO's, there is a more positive outlook for the growth prospects of China's economy than the United States. A growing middle class in the country is leading to surging retail sales, and could make China the world's top consumer goods market in the coming years.

The housing market continues to boom, but is a bubble imminent?

Heading into the fourth quarter of the year, the housing market was already on a tear. Mortgage rates below 3% led to an influx of homeowner refinancing, as well as new homebuyers looking to purchase homes at low interest rates. While the beginning of the year saw extremely low levels of both pending and existing home sales growth, those numbers quickly rebounded to their best levels in more than 13-years.

Joel Kan, the associate vice president of economic and industry forecasting at Mortgage Bankers Association, noted how both homebuying and refinancing are showing growth. "Housing demand remains strong, and despite extremely tight inventory and rising prices, home sales are running at their strongest pace in over a

decade,” said Kan. “The ongoing refinance wave has been beneficial to homeowners looking to lower their monthly payments during these challenging economic times brought forth by the pandemic.”



Still, some wonder if housing prices have risen too high, creating a bubble-like environment for the housing industry. An inventory shortage across the nation coupled with low interest rates has caused housing prices to skyrocket. California set a record with the median home price over \$700,000, and many other areas of the nation have followed suit. Rising prices likely led to a 1.1% decline in pending home sales in October. And while this decline is minimal and somewhat to be expected after such a rapid increase, it is something to watch out for, especially if home prices continue to surge even higher.

Potential Biden taxation measures, and their impact

Right off the bat, Joe Biden will look to implement his own tax plan that adheres to his party’s policies and beliefs. Some of the likely tax measures that Biden may implement include:

- Increasing the tax rate for top earners to 39.6% from 37%
- Eliminate Qualified Business Income Deduction (Section 199A) for individuals with income over \$400,000
- Increase corporate tax rates to 28%
- Create an advanceable credit of \$15,000 for first time homebuyers
- Increase the Child and Dependent Care Tax Credit from \$3,000 to \$8,000

These measures clearly seek to increase the tax requirements of businesses and the wealthiest Americans, which has fallen in recent decades, and provide more relief in the form of tax credits and other measures for low-income individuals. However, the previously mentioned split Congress might have something to say about these measures, leading to difficulty for Biden in passing all of the measures he is looking to enact.

Articles We're Reading

China to overtake US to become world's top consumer goods market 'very soon'?... ([link](#))

Rosy Vaccine Outlook Brightens World Economic Forecast, But Recovery May Be Uneven... ([link](#))

Reinventing Workers for the Post-Covid Economy... ([link](#))

Market Snapshot

For the Month Ending 11/30/2020 (Cumulative Returns)¹

United States Markets	1-Month	3-Month	YTD	1-Year
Dow Jones Industrial Average	11.84%↑	4.25%↑	3.86%↑	5.66%↑
S&P 500	10.75%↑	3.47%↑	12.10%↑	15.30%↑
The NASDAQ Composite	11.80%↑	3.59%↑	35.96%↑	40.77%↑
U.S. Mid Cap	13.69%↑	11.71%↑	11.86%↑	13.93%↑
U.S. Small Cap	16.50%↑	16.06%↑	6.45%↑	8.42%↑

Global Markets	1-Month	3-Month	YTD	1-Year
Nikkei 225	15.04%↑	14.23%↑	11.74%↑	13.48%↑
Hang Seng	9.27%↑	4.63%↑	6.56%↓	0.02%↓
Shanghai Comp	7.05%↑	1.21%↑	13.17%↑	20.19%↑
FTSE 100	12.35%↑	5.07%↑	16.92%↓	14.71%↓
DAX	15.01%↑	2.67%↑	0.32%↑	0.41%↑

Fixed Income	1-Month	3-Month	YTD	1-Year
Corporate Bonds	3.77%↑	2.79%↑	10.81%↑	11.39%↑
Municipal Bonds	1.62%↑	1.22%↑	4.28%↑	4.62%↑
High Yield Bonds	3.35%↑	2.80%↑	2.47%↑	4.43%↑

Market Indicators	Rate	Market Indicators	Value
10 Year Treasury	0.84%	WTI Crude Oil	45.34
Fed Funds Target	0 to 0.25%	Gold - Spot Price	1,777.02
Inflation Rate	1.2%	U.S. Dollar	91.87
Unemployment Rate	6.9%	CBOE Volatility Index	20.57

Did You Know?

Gearing up for snow season

As we head into the winter months, some of you might be looking forward to a white winter, while others dread pulling out your snow shovel. So, what does history tell us about how much snow we might or might not see this upcoming month? Dating back to 1885, December has brought an average of 8.2 inches of snow, compared to an average of 10.8 inches in January and 9.1 inches in February. There were three years (the most recent being in 2014) where there was no recorded snowfall in December. On the flipside, the highest ever recorded snowfall for the month was 33.3 inches in 1951, and 30.9 inches in 2000.

. . . ([link](#))

Disclosures

Presented by the Investment Committee of Lake Street, an SEC Registered Investment Adviser

¹Source – Morningstar, Inc. Corporate Bonds is presented as the iShares iBoxx \$ Investment Grade Corporate Bond ETF. Municipal Bonds is presented as the iShares National Municipal Bond ETF. High Yield Bonds is presented as the iShares iBoxx \$ High Yield Corporate Bond ETF. 10 Year Treasury refers to the valuation of a 10 Year Treasury Note, a debt obligation issued by the U.S. Department of the Treasury. Fed Funds Target represents upper limit of the federal funds target range established by the Federal Open Market Committee. Inflation Rate provided for the purposes of this report by the U.S. Bureau of Labor Statistics. Unemployment Rate calculated by the U.S. Bureau of Labor Statistics. WTI Crude Oil refers to the price of a barrel of West Texas Intermediate (NYMEX) Crude Oil. Gold – Spot Price relates to the valuation of an ounce of gold, as traded on the NYSE Arca Exchange. U.S. Dollar refers to the U.S. Dollar Index (DXY). All Returns are denominated in USD (United States Dollar), unless otherwise explicitly noted.

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