# Market Commentary

September 30, 2020

## MARKET RESILIENCE!

After falling down in the first-quarter of 2020, then proceeding to get up and "dust itself off" in record fashion in Q2, the US economy and particularly the equity markets continued to exhibit a resilience few forecasted at the onset of the COVID pandemic. The reopening of large parts of the US, coupled with the government stimulus, helped to motivate consumer spending in the third-quarter, which we are reminded makes up approximately 67% of GDP. Real estate was also a benefactor as lower interest rates caused buyers to buy and homeowners to refinance. Uncertainty though, abounds as we enter the last quarter of the year, with the pandemic still not under control and waiting on a vaccine, the election just a month away, and additional fiscal stimulus being debated. Where will we be three-months from now?

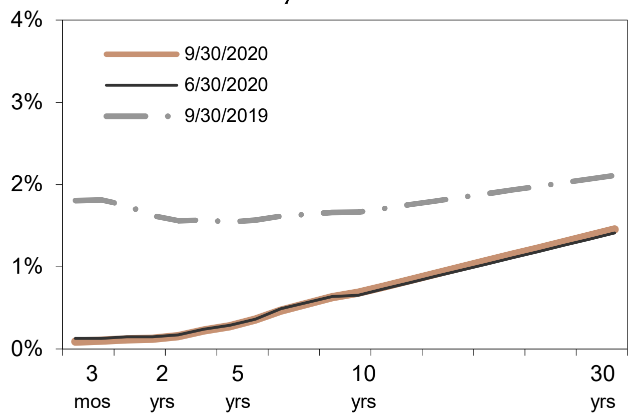
By many accounts Q3's economic rebound has been more robust than many analysts forecast after Q2's -31% collapse. Consensus estimates call for a 20% gain in Q3, but wouldn't be at all surprised if the rebound is greater, possibly in the vicinity of +35%, as some predict. The consumer remains key. Governmental stimulus and supplemental unemployment benefits contributed to boosting consumer confidence and the savings rate during the quarter, while restoring a little over half (11.4 million) of the 20 million jobs lost in the spring shutdown. It will be important for the growth of the economy moving forward to continue this job restoration, thus reducing small business closures, and preventing short-term closures from becoming permanent. Despite the equity markets recovery, additional fiscal stimulus may be needed, however the urgency in Congress seems to be waning. Debate has been ongoing, particularly as small business and the travel and entertainment industries seem to be in desperate need. Consensus forecasts call for another stimulus package somewhere in the range of $1.8 to $2.4 trillion. The question is whether it arrives before or after the election? Without it Q4 GDP might be cut in half. The election, as of this writing, and the markets, seem to be pricing in a Biden victory, which would probably mean more spending and higher taxes. In the end though, the outcome will probably hinge on the pandemic, Tweets and any last minute scandal disclosures. Stay tuned!

Though not as robust as Q2, the equity markets across the globe had an impressive Q3. Domestically, broad indices were up around +9% with the S&P 500 +8.9% and the broader Russell 3000 Index +9.2%. Large cap stocks were up over +10%, with small cap stocks once again trailing their larger brethren up only +4.8%. Growth stocks, despite more "head-fakes" signaling a rotation out of those, again out-performed value stocks with Large-Growth +13.4% vs. +6.8% for Large Value, and Small-Growth +6.9% vs. +2.6% for Small-Value. Developed International companies were up + 4.9% but trailed emerging markets which were up +9.5%. Emerging market small-cap stocks were up nearly +11.9%, while Sweden was the top-performing country (Developed) up nearly +17%. Bonds continue to hold their own during the quarter as the 10-year US Treasury rose only 3 basis-points, from 0.61% to 0.64%, while the 30-year US T-bond yield increased by 5 basis-points to 1.46%. For the quarter the Barclays US Aggregate Index returned +0.62%.

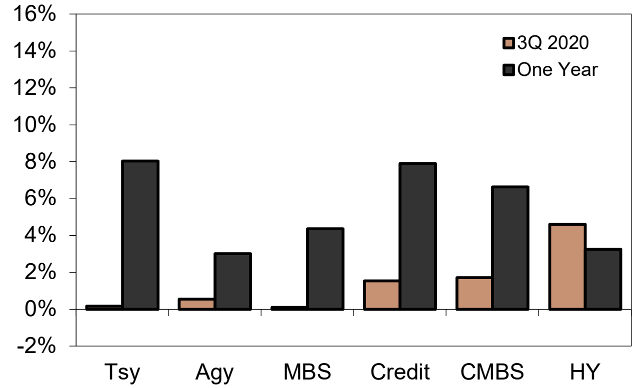
# Market Commentary

September 30, 2020

US Treasury Yield Curves




Sector Index Returns




Domestically, the top performing sectors for the quarter were Consumer Discretionary (+15.1%), Materials (+13.3%), and Industrials (+12.5%). Stocks of interest were LBrands + 183%, FedEx +100% and Apple + 44%. Energy (-19.7%), was the worst performing sector for the quarter, despite oil prices finishing pretty much unchanged at $39/bbl.

In fixed income portfolios, we continue to tactically adjust portfolio durations to take advantage of anticipated interest rate changes. Given the Fed's ongoing commitment to keep rates low for several years and their new policy of inflation averaging (2%), we expect the multiyear flattening trade to be nearing its end. Our portfolio durations ended the quarter below their benchmarks and we expect the yield curve to gradually steepen through the end of the year. Credit spreads narrowed during the quarter fueled by attractive yield pick-ups versus treasuries and foreign purchases given our yield advantage over international rates. Although we continue to maintain an overweight in credit exposure, our portfolios credit spread duration is slightly less than that of their benchmarks. We have maintained an underweight in MBS versus the index, given the uncertainty over potential defaults due to temporary layoffs and the uncertainty whether the current forbearance will be extended. However, we look to add MBS selectively in Q4 for the additional pickup in yield. The performance of our composites was either equal to or better than their benchmarks.

In closing, with uncertainty there is often times volatility, which we anticipate plenty through year-end. So, as we wait for news on a vaccine, expect some level of fiscal stimulus - possibly not until after the election - and hope for an event-free national election, we must remain patient and disciplined in our approach, realizing that it's these principles that steer us to the value capital markets have to offer long-term investors.