Keeping focused on your long-term goals

Quarterly Market Commentary | July 1, 2020 - September 30, 2020

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Quarterly Market Performance Snapshot (as of September 30, 2020)

	Sept 2020	3Q 2020	YTD 2020
• Dow Jones Industrial Average®:	-2.3%	+7.6%	-2.4%
• S&P 500® Index:	-3.9%	+8.5%	+3.9%
• NASDAQ Composite® Index:	-5.2%	+11.0%	+24.5%
• Russell 2000® Index:	-3.4%	+4.7%	-9.5%

- 10-year U.S. Treasury note yield on September 30, 2020: 0.681%
  - Up 2.3 basis points from 0.658% on June 30, 2020
  - Down 123.9 basis points from 1.92% on December 31, 2019
- Best-performing S&P 500 sectors this quarter:
  - Consumer Discretionary: +14.9%
  - Materials: +12.7%
  - Industrials: +12.0%
- Weakest-performing S&P 500 sectors this quarter:
  - Energy: -20.9%
  - Real Estate: +1.2%
  - Financials: +3.8%

Past performance is not a guarantee of future results.

Summer Momentum Ends in September Slump

Following the second quarter's market rebound, major equity indices continued to move higher in July and August on the back of positive economic indicators and the ongoing effects of fiscal and monetary stimulus. The momentum reversed in September, as concerns about moderating economic growth, slowing job gains, and high technology valuations led markets lower. September was the first down month for major indices since March's big dip.

- The September sell-off took some of the wind out of technology stocks, which had risen dramatically since March. Big names, such as Facebook, Apple, and Amazon, fell 11%, 11%, and 9% respectively in September. However, the technology-heavy NASDAQ Composite Index still registered an 11% gain for the quarter and is up nearly 63% from its March low.
- The movement away from certain tech stocks led to the expansion of other sectors, such as Materials and Industrials. We saw evidence for this shift in September, as the Russell 1000 Value Index outperformed the Russell 1000 Growth Index for the first month this year.

Continued on back

- The debate continued over whether markets are at the beginning of a new bull run or headed for bearish territory. The massive amounts of liquidity injected into markets by global central banks lends credibility to the idea that equity markets may go higher over the long term. However, September's pullback into correction territory (down 10% from recent highs) serves as a reminder that the path forward is uncertain and may be choppy.
- The coronavirus continues to be the major unknown facing the economy, markets, and investors. After a summer surge in U.S. case counts, September saw stabilization in the number of new cases, hospitalizations, and deaths from COVID-19. However, as September closed, Europe had several hotspots and U.S. cases appeared to tick up again.
- Optimism for a safe and effective vaccine remained high throughout the quarter, as multiple candidates entered Phase 3 trials and the U.S. and other governments announced major investments in vaccine distribution. Potential treatments also advanced. As the quarter closed, Regeneron announced progress in an antibody therapy that reduced viral levels in non-hospitalized COVID-19 patients.
- Even if a vaccine is approved soon, experts forecast that the most vulnerable populations will be prioritized, and the majority of the U.S. population won't be vaccinated until the second or third quarter of 2021. It remains to be seen how long it will take the U.S. and global economic engines to get back up to full speed, and whether underlying economic conditions can support equity markets.

The Fed Changes Policy and Fiscal Stimulus Fails to Materialize

The third quarter saw a significant shift in the U.S. Federal Reserve's interest rate policy. While the Fed's inflation target remains 2%, it will tolerate inflation remaining above 2% for an extended period of time if inflation has been below 2% for an extended period, which has been the case for much of the time since the 2007-09 recession. In their most recent monthly meeting, Fed policymakers said they expect interest rates to remain at the current 0-0.25% target range into 2023.

- In addition to signaling an extended period of low interest rates, Fed governors and regional bank presidents continued to call for greater fiscal stimulus throughout the third quarter and warned about the economic uncertainty created by the coronavirus.
- The Fed also extended restrictions on large banks' dividend payments and stock buybacks through the end of the year, citing economic uncertainty.
- Economic indicators, including consumer spending and employment figures, showed that the economic recovery advanced at a slower pace in August, after the expiration of enhanced unemployment benefits.
- As the quarter closed, airline guarantees to preserve jobs in exchange for government aid expired. Airlines warned that upwards of 30,000 job losses could be coming unless additional federal aid is provided. Disney announced it will lay off 28,000 employees, as its parks business remains subdued. Major oil companies also announced job cuts amid reduced oil demand.
- Data suggest that women, who are more likely to work in industries hardest hit by pandemic-related closures, and are more likely to be caring for children who haven't returned to classrooms, may face longer-term challenges reattaching to the workforce. This could hinder their personal economic prospects and U.S. economic growth in coming years.
- Congress and the Trump administration continued to discuss an additional round of economic relief and stimulus but did not reach agreement by the end of the third quarter. The two parties did agree to a Continuing Resolution to keep federal programs funded into December.
- The Congressional Budget Office projected that U.S. debt will exceed 100% of GDP for the first time since World War II in the new fiscal year.

- Markets have so far had little reaction to the failure to pass a new economic relief and stimulus bill, likely holding out hope that a deal will get done. Failure to reach an agreement could have negative market repercussions.
- Figures on U.S. GDP growth in Q3 are expected to show a historic bounce back after the 31.4% decline in GDP during the second quarter. However, some major Wall Street forecasters have already lowered their expectations for fourth quarter GDP if further stimulus doesn't materialize.

Prepare for Potential Volatility in the Fourth Quarter

We expect markets to be volatile in the fourth quarter, as several uncertainties lie ahead.

- The coronavirus's impact on public health and economic growth could throw the market some curveballs, particularly as the U.S. and Europe head into the winter months, when experts predict potential spikes in case counts. Markets have taken recent rises in infection rates in stride, assuming even a serious spike would not result in strict economic lockdowns similar to those in March and April. If stricter lockdowns do materialize, that could weigh on market sentiment.
- The November 3rd elections are likely to be another source of volatility. Markets will be trying to determine policy implications for a variety of outcomes from the presidential and congressional races. It's also possible that results won't immediately be known, which would draw out the uncertainty and prolong the process of preparing for potential policy shifts.
- Fiscal policy uncertainty—related to the elections and to COVID-19 response—may also affect markets. A new round of stimulus would likely re-energize markets. If economic indicators continue to show reduced economic momentum and no policy response is forthcoming, markets may react negatively.
- The economic tension between China and the United States could continue to ebb and flow. The market has largely looked past recent U.S. action against Chinese technology companies. However, markets could react more strongly if trade flows look to be seriously affected by national security tensions or post-election policy shifts.

Final Thoughts for Investors

- The significant uncertainty facing economies and markets today poses many risks. Opportunities may exist in down and up markets. Individuals should talk to their financial professional regarding their situation.
- We're heading into a three-month period with abnormally high uncertainty. Depending on your goals and investment time horizon, now may be a good time to review your portfolio with your financial professional to ensure your existing plan still aligns with your goals and circumstances.

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