



QUARTERLY MARKET REVIEW

THIRD QUARTER 2020

Quarterly Market Review

Third Quarter 2020

The third quarter of 2020 marked a continuation of the upward trajectory of the market, following the severe decline experienced in the first quarter. Most major equity indexes around the world saw nice gains in Q3 – typically ranging from 4-9%. Even with these positive returns, though, a number of equity asset classes remain down year-to-date – some significantly.

On the fixed income side, small gains were achieved during the quarter, bringing year-to-date returns into the 3-6% range for many fixed income asset classes.

It's safe to say that there is a sense of apprehension among many investors, as the persistency of the COVID-19 crisis and the upcoming election are keeping the degree of uncertainty at a high level. Despite the rise in the stock market, the Fed has indicated that economic headwinds could be significant if another round of fiscal stimulus is not agreed to by Congress. It's possible that the election outcome could cause an end to the stalemate in Congress, but the longer it takes to get stimulus money into the hands of those that really need it, the harder and longer it will be for the economy to truly recover.

Overview:

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World Asset Classes

US Stocks

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Quarterly Topic: When It's Value vs. Growth,
History Is on Value's Side

Quarterly Market Review

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As for the election and its ability to disrupt the market, we view the biggest potential problem to be if the outcome is contested for any length of time. In a year that has seen so many improbable things happen, it's impossible to predict with any certainty how the next few weeks or months will play out. We are keeping our fingers crossed for a consensus winner and for order to be maintained throughout the process.

More than anything, we hope you are staying safe. The fall and winter months are expected to be much worse with the virus. As this is our last formal communication before the holiday season is upon us, we want to wish you and yours the very best of times, for the love of friends and family members is what truly makes the pursuit of financial gains worthwhile.

Warm regards,



Tony Reed, CPA, CFP
President

Quarterly Market Summary

Index Returns





















	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
3Q 2020	STOCKS					BONDS	
	9.21%	4.92%	9.56%	2.37%		0.62%	0.68%

Since Jan. 2001							
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%		1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%		4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3		2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%		-3.0%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4		2016 Q4	2015 Q2

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Long-Term Market Summary

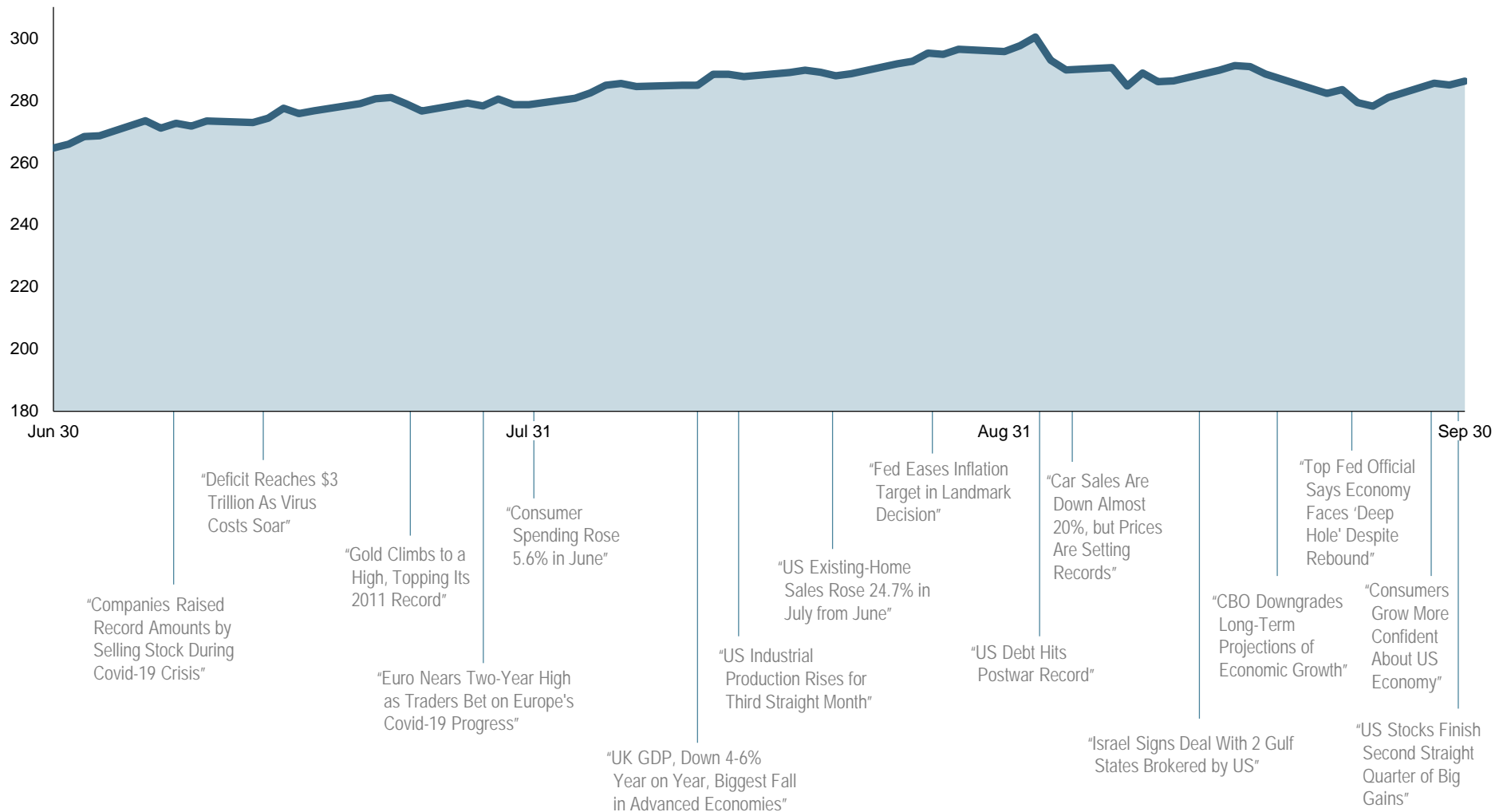
Index Returns as of September 30, 2020

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	15.00%	0.16%	10.54%	-18.58%	6.98%	1.82%
						
5 Years						
	13.69%	5.32%	8.97%	2.20%	4.18%	4.33%
						
10 Years						
	13.48%	4.37%	2.50%	5.58%	3.64%	4.06%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2020



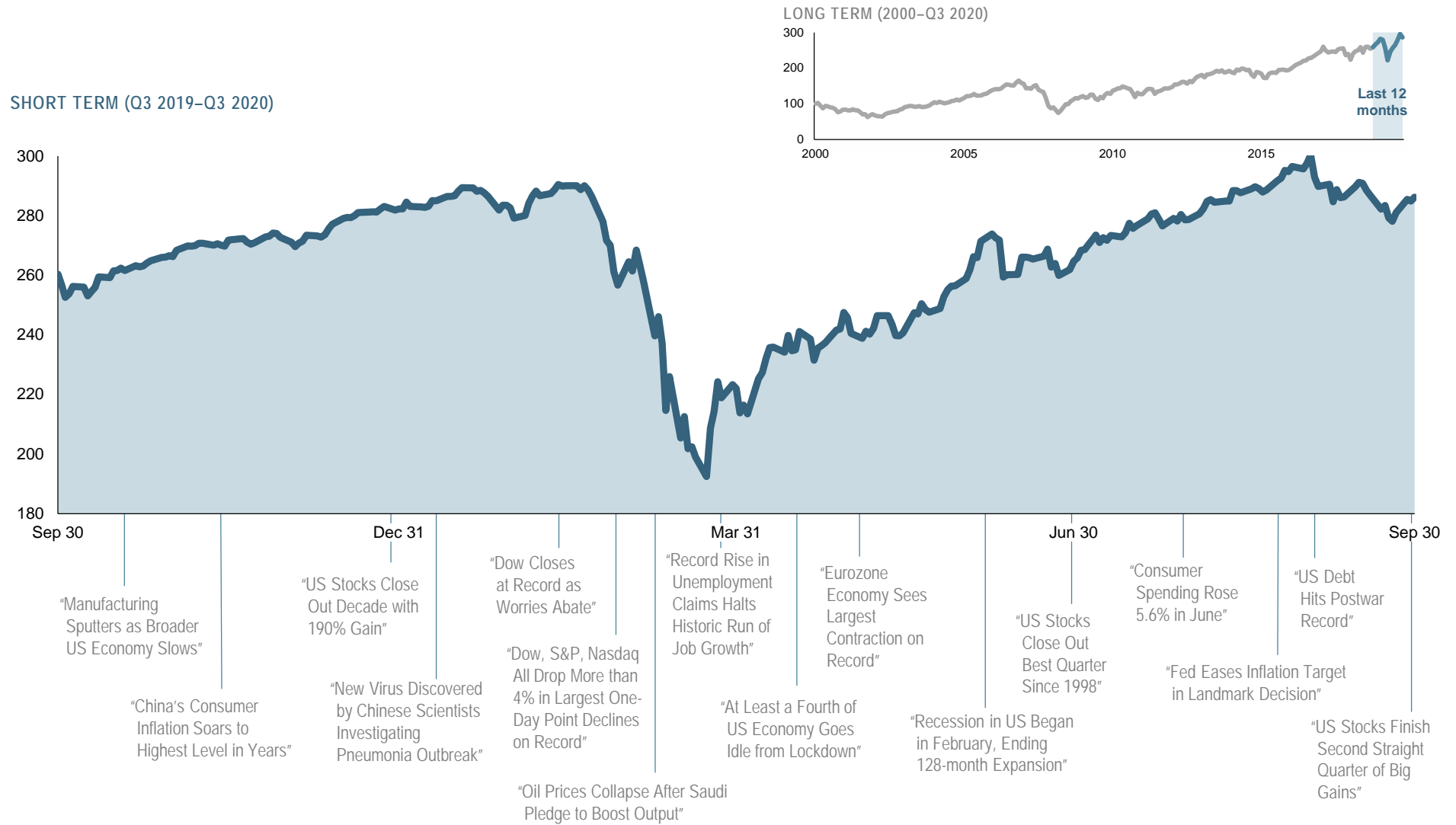
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

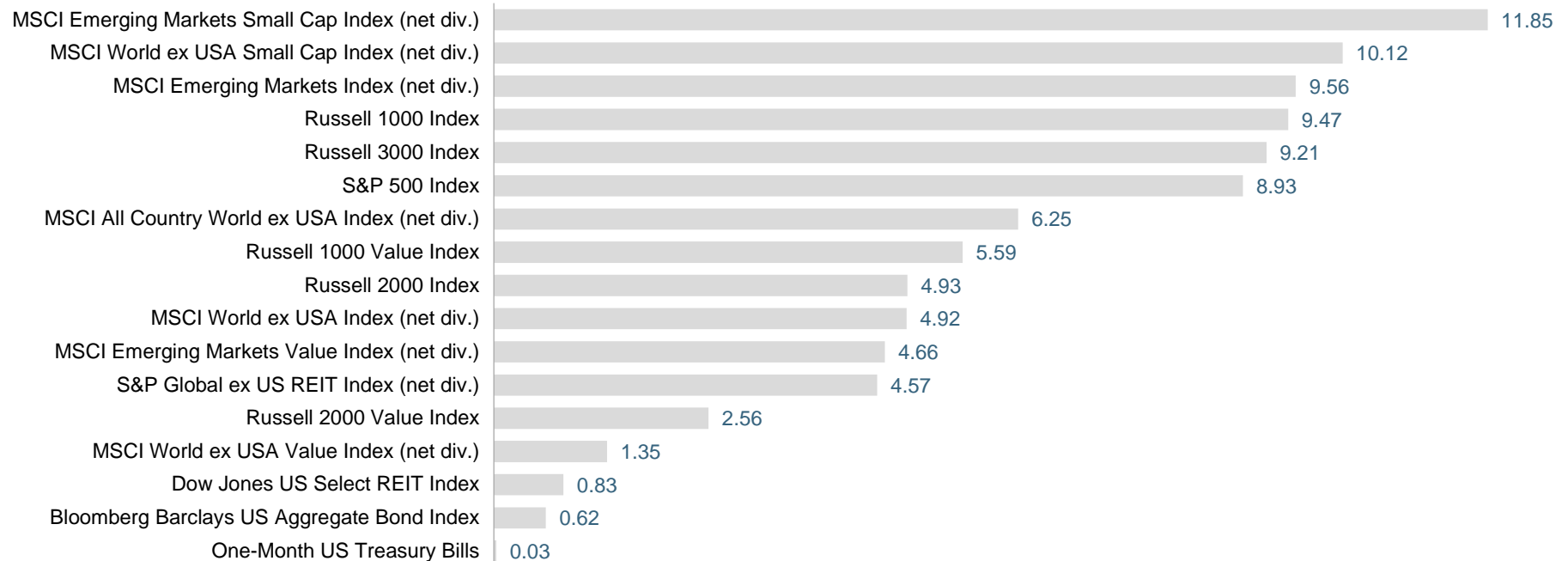
World Asset Classes

Third Quarter 2020 Index Returns (%)

Equity markets around the globe posted positive returns in the third quarter. Looking at broad market indices, emerging markets equities outperformed US and non-US developed markets for the quarter.

Value underperformed growth across regions. Small caps outperformed large caps in non-US developed and emerging markets but underperformed in the US.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



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US Stocks

Third Quarter 2020 Index Returns

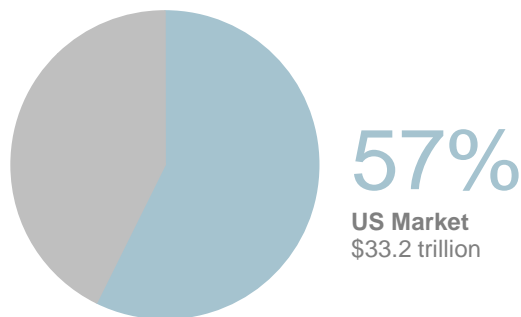
The US equity market posted positive returns for the quarter, outperforming non-US developed markets but underperforming emerging markets.

Value underperformed growth across large and small cap stocks.

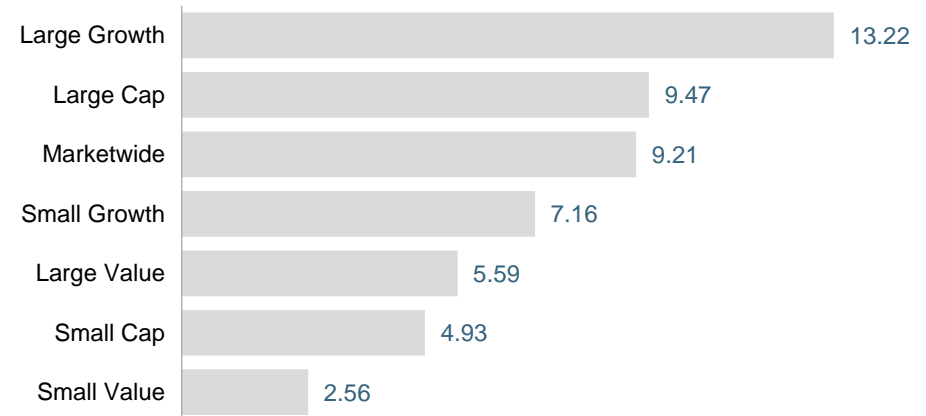
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

World Market Capitalization—US



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Growth	24.33	37.53	21.67	20.10	17.25
Large Cap	6.40	16.01	12.38	14.09	13.76
Marketwide	5.41	15.00	11.65	13.69	13.48
Small Growth	3.88	15.71	8.18	11.42	12.34
Small Cap	-8.69	0.39	1.77	8.00	9.85
Large Value	-11.58	-5.03	2.63	7.66	9.95
Small Value	-21.54	-14.88	-5.13	4.11	7.09

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International Developed Stocks

Third Quarter 2020 Index Returns

Developed markets outside the US posted positive returns for the quarter but underperformed US and emerging markets equities.

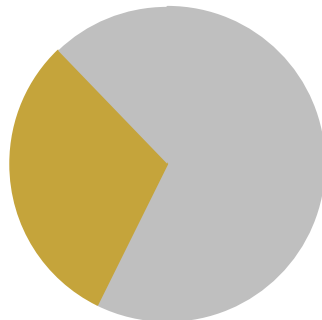
Value underperformed growth.

Small caps outperformed large caps.

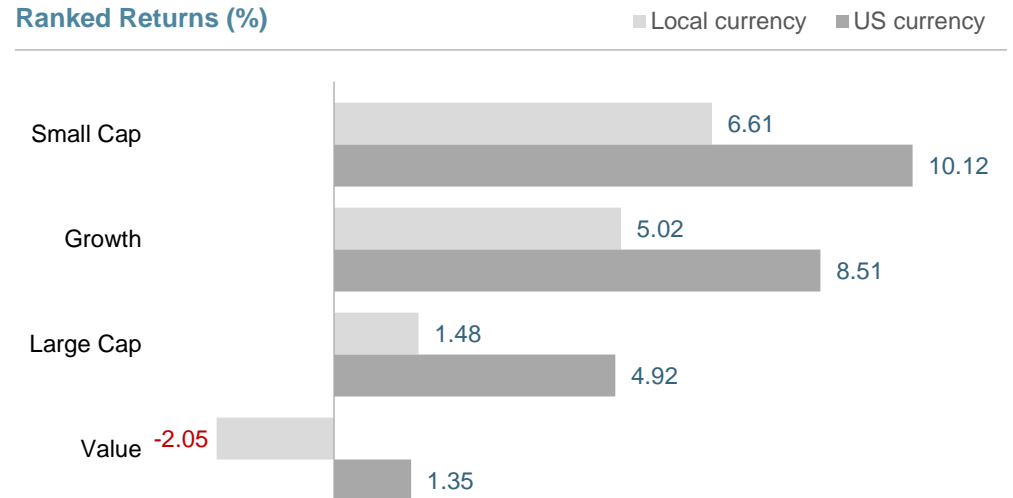
World Market Capitalization—International Developed

30%

International
Developed Market
\$17.6 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	* Annualized	
				5 Years*	10 Years*
Growth	5.13	13.64	7.06	9.09	6.61
Small Cap	-4.05	6.88	1.42	7.35	6.55
Large Cap	-7.13	0.16	0.62	5.32	4.37
Value	-18.88	-12.74	-5.88	1.38	1.99

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Emerging Markets Stocks

Third Quarter 2020 Index Returns

Emerging markets posted positive returns for the quarter, outperforming the US and developed ex US equity markets.

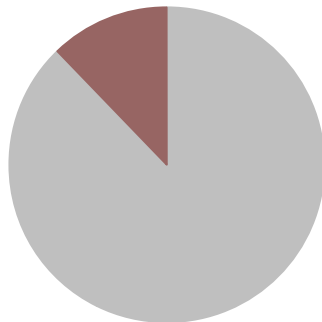
Value underperformed growth.

Small caps outperformed large caps.

World Market Capitalization—Emerging Markets

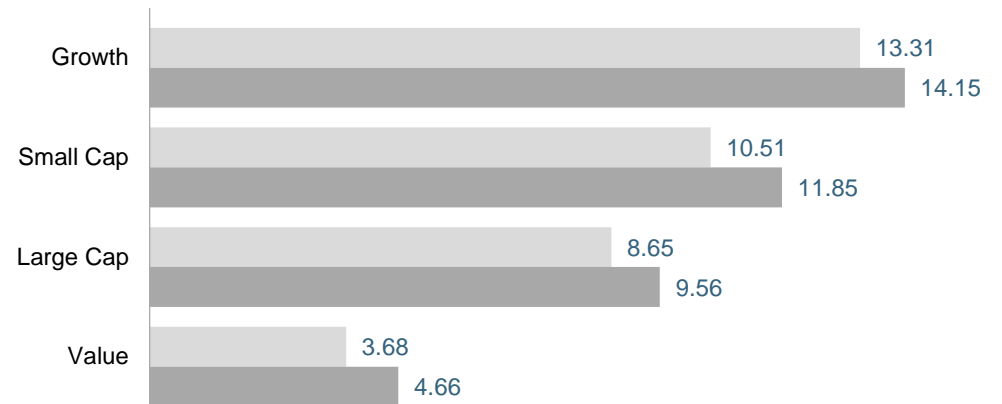
12%

Emerging Markets
\$7.1 trillion



Ranked Returns (%)

■ Local currency ■ US currency



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	12.41	27.80	7.45	13.26	5.29
Large Cap	-1.16	10.54	2.42	8.97	2.50
Small Cap	-2.40	6.89	-1.09	4.60	1.03
Value	-14.23	-5.70	-2.89	4.45	-0.44

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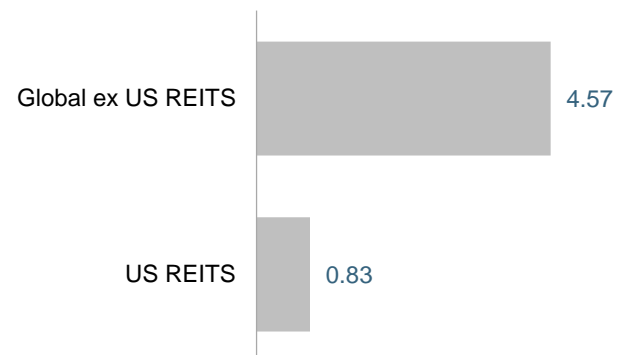
Real Estate Investment Trusts (REITs)

Third Quarter 2020 Index Returns

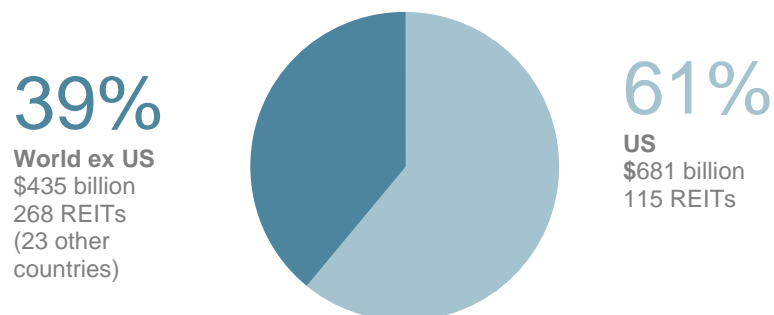


US real estate investment trusts underperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized				
	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	-21.36	-22.33	-1.85	1.99	7.03
Global ex US REITS	-21.84	-18.37	-1.62	1.67	4.13

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Commodities

Third Quarter 2020 Index Returns

The Bloomberg Commodity Index Total Return returned 9.07% for the third quarter of 2020.

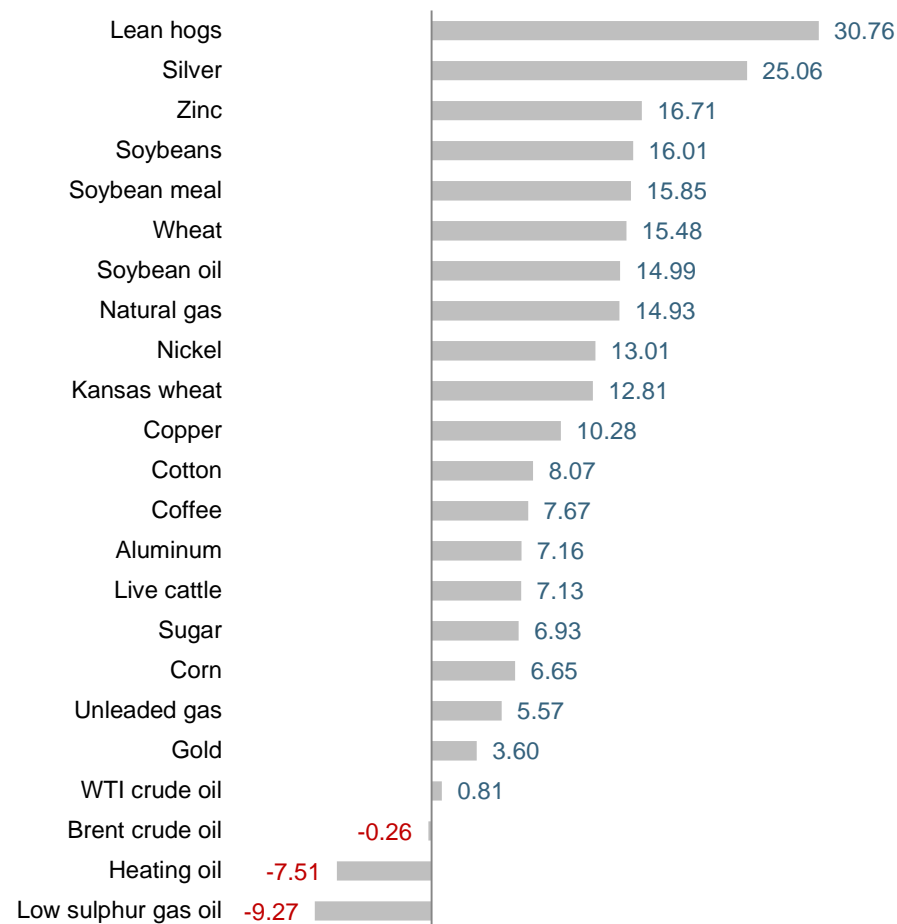
Lean hogs and Silver were the best performers, returning 30.76% and 25.06%, respectively.

Low sulfur gas and Heating oil were the worst performers, declining 9.27% and 7.51%, respectively.

Period Returns (%) * Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	9.07	-12.08	-8.20	-4.18	-3.09	-6.03

Ranked Returns (%)



Fixed Income

Third Quarter 2020 Index Returns



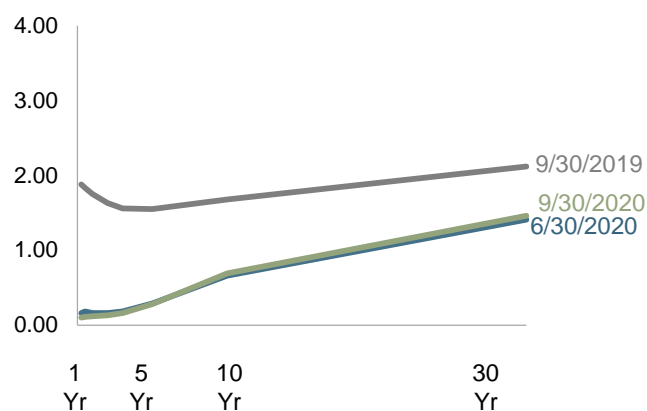
Interest rate changes were mixed in the US Treasury fixed income market during the third quarter. The yield on the 5-year US Treasury note decreased by 3 basis points (bps), ending at 0.31%. The yield on the 10-year US T-note rose by 3 bps to 0.64%. The 30-year US T-bond yield increased by 5 bps to 1.46%.

On the short end of the yield curve, the 1-month US Treasury bill yield decreased to 0.08%, while the 1-year T-bill yield decreased by 5 bps to 0.14%. The 2-year US T-note yield finished at 0.09% after a decrease of 2 basis points.

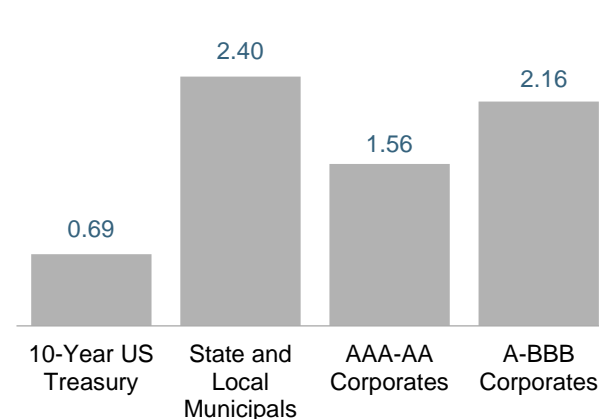
In terms of total returns, short-term corporate bonds returned 0.92% for the quarter. Intermediate-term corporates returned 1.33%.

The total return for short-term municipal bonds was 0.83%, while intermediate munis returned 1.40%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

*Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	4.60	0.62	3.25	4.21	6.79	6.47
Bloomberg Barclays US TIPS Index	3.03	9.22	10.08	5.79	4.61	3.57
FTSE World Government Bond Index 1-5 Years	2.01	4.16	5.21	2.03	2.01	0.21
Bloomberg Barclays Municipal Bond Index	1.23	3.33	4.09	4.28	3.84	3.99
Bloomberg Barclays US Aggregate Bond Index	0.62	6.79	6.98	5.24	4.18	3.64
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.24	3.04	3.22	3.02	2.31	1.90
Bloomberg Barclays US Government Bond Index Long	0.13	21.13	16.21	11.79	8.18	7.18
ICE BofA 1-Year US Treasury Note Index	0.08	1.77	2.37	2.19	1.54	0.93
ICE BofA US 3-Month Treasury Bill Index	0.04	0.64	1.10	1.69	1.20	0.64

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

When It's Value vs. Growth, History Is on Value's Side

Third Quarter 2020

Logic and data provide the basis for a positive expected value premium, offering a guide for investors targeting higher potential returns. There is pervasive historical evidence of value stocks outperforming growth stocks. Data covering nearly a century in the US, and nearly five decades of market data outside the US, support the notion that value stocks—those with lower relative prices—have higher expected returns.

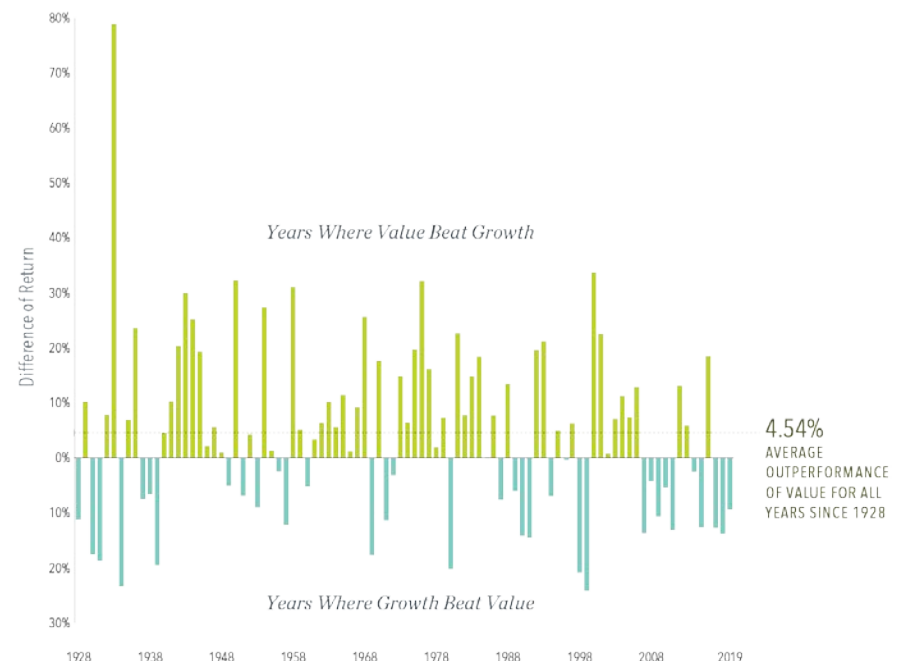
Recently, growth stocks have enjoyed a run of outperformance vs. their value counterparts. But while disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same. On average, value stocks have outperformed growth stocks by 4.54% annually in the US since 1928, as **Exhibit 1** shows.

Some historical context is helpful in providing perspective for growth stocks' recent outperformance. As **Exhibit 1** demonstrates, realized premiums are highly volatile. While periods of underperformance are disappointing, they are also within the range of possible outcomes.

We believe investors are best served by making decisions based on sound economic principles supported by a preponderance of evidence. Value investing is based on the premise that paying less for a set of future cash flows is associated with a higher expected return. That's one of the most fundamental tenets of investing. Combined with the long series of empirical data on the value premium, our research shows that value investing continues to be a reliable way for investors to increase expected returns going forward.

Exhibit 1. Value Add

Yearly observations of premiums: value minus growth in US markets, 1928–2019



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In US dollars. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Value minus growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.

Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

When It's Value vs. Growth, History Is on Value's Side

(continued from page 15)

GLOSSARY

Value Stock: A stock trading at a low price relative to a measure of fundamental value such as book equity.

Growth Stock: A stock trading at a high price relative to a measure of fundamental value such as book equity.

Value Premium: The return difference between stocks with low relative prices (value) and stocks with high relative prices (growth).

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