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September Market Intelligence

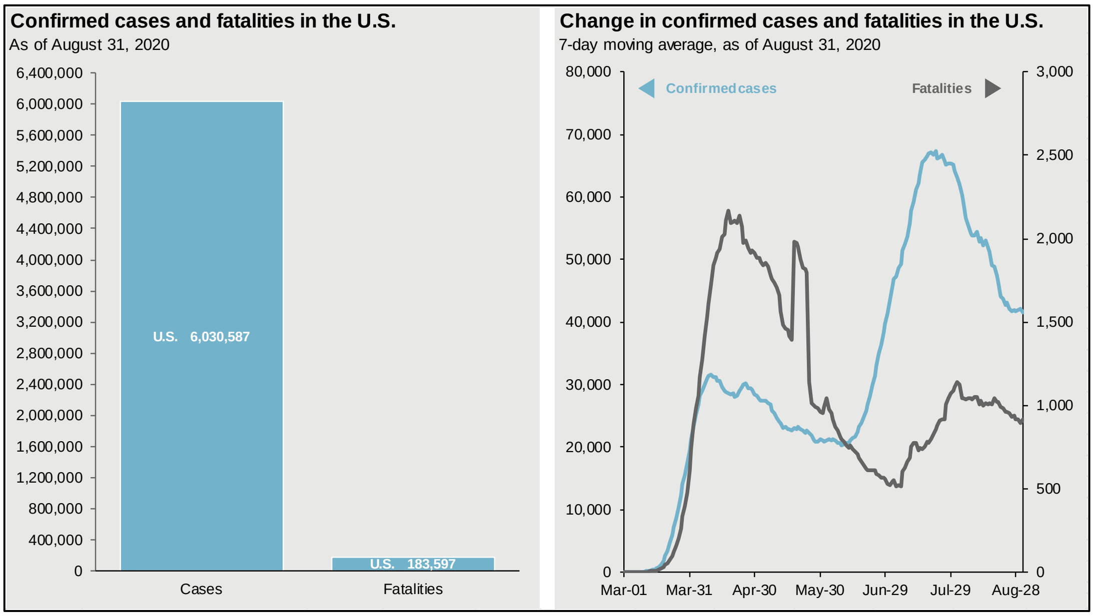
September 2020

Risk assets rose sharply in August as investors digested US economic and corporate earnings data for the second quarter of 2020 and tracked the progress of a potential new stimulus bill from Washington. The S&P 500 returned 7.2% during the month resulting in a nearly 10% return year-to-date. The index ended August at 3,500 after a 56% rally off the March 23, 2020 closing low of 2,237. A new all-time closing high was set on August 18 just 148 days after the pandemic-induced market bottom in March. The rally continued to be predominately led by technology and internet-oriented stocks that have been the perceived winners of the pandemic environment. The stocks of large technology / communications companies like Apple, Amazon, Facebook, Microsoft, and Netflix returned 40-80% in 2020 through the end of August compared to the S&P 500's 9.7% gain[1].

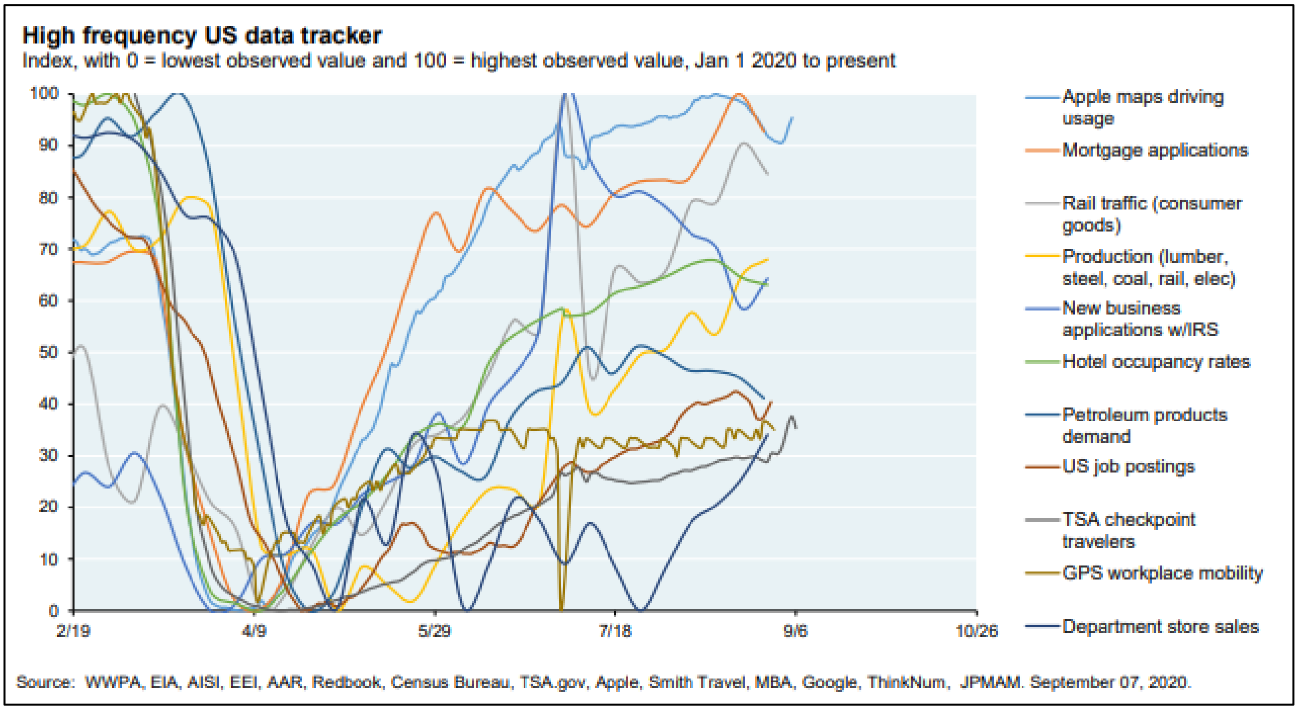
COVID-19 Pandemic

The COVID-19 pandemic has been a significant source of influence across global markets and economies during 2020. Since mid-summer, the number of new confirmed cases and fatalities from the virus have begun to trend down again. Economic activity, while still mixed, has begun to improve as well. Applications for new mortgages, for example, have fully rebounded as low interest rates have spurred demand for home purchases. As school and university systems attempt to reopen this fall, it will be important to track the success of these efforts. A rise in new cases and resulting broad-based shift to remote learning could hamper the economic recovery as the productivity of working parents will almost certainly be impacted.

Source: JPMorgan



[1] Source: Morningstar

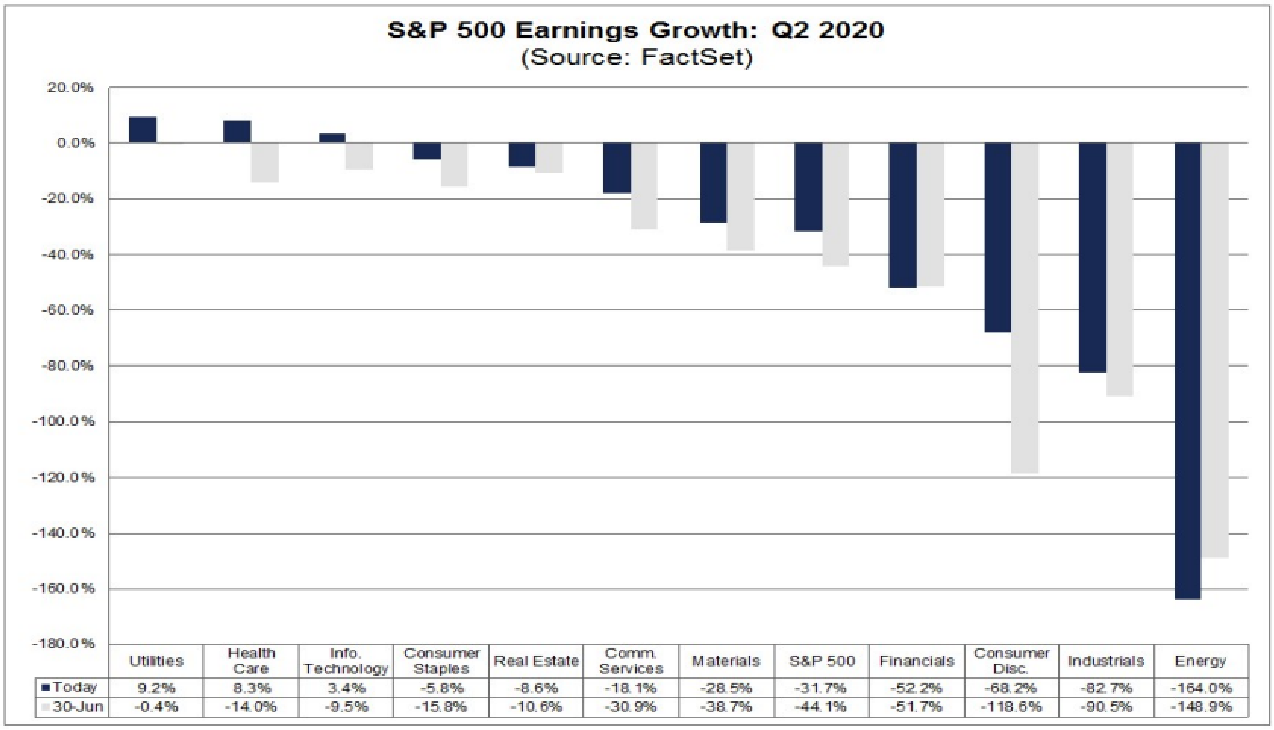


Source: JPMorgan

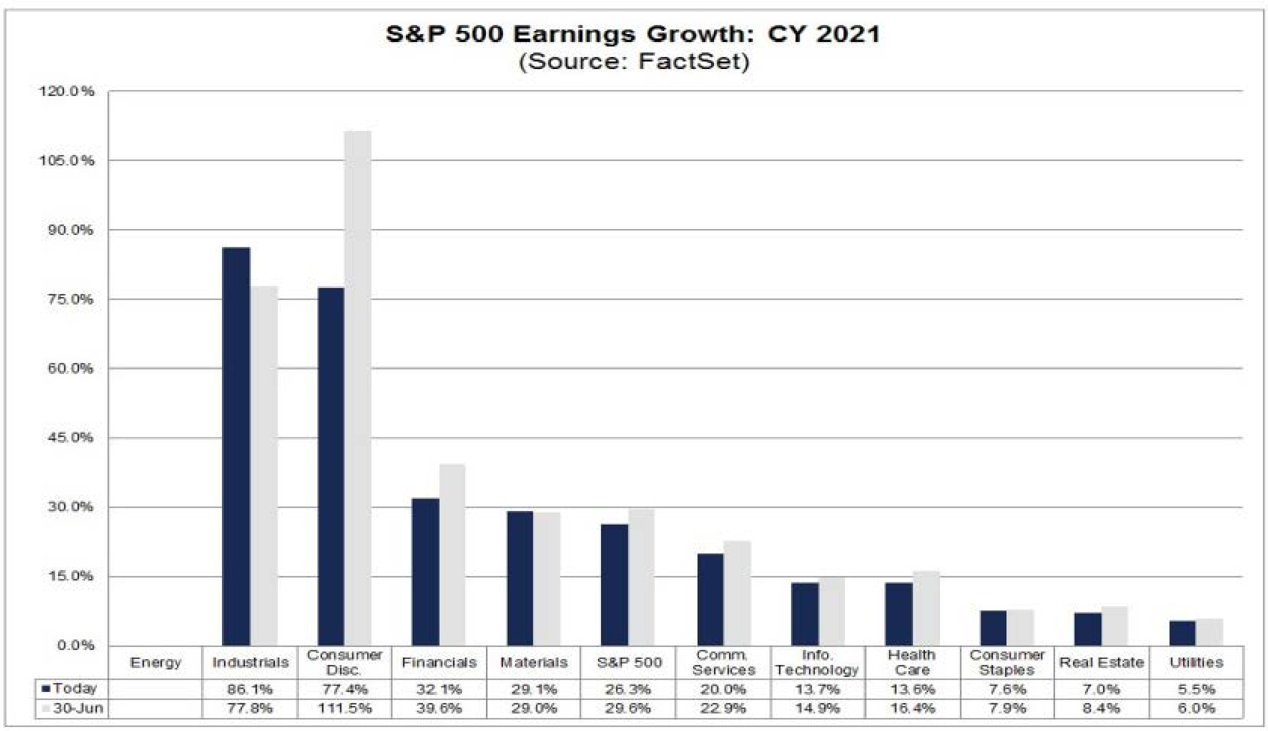
Corporate Earnings

The S&P 500 index closed out the second quarter with a year-over-year growth in earnings of -32%, though this was significantly better than the -44% consensus estimate by analysts as of June 30, 2020. The earnings of sectors such as technology, healthcare, and consumer staples have been the most resilient so far during the pandemic versus more cyclical sectors such as consumer discretionary, industrials and energy which saw nearly a complete collapse in year-over-year earnings during the second quarter.

As of September 4, the consensus estimate for the third quarter of 2020 is a year-over-year decline in earnings of -22%, and the consensus estimate for calendar year 2021 is for earnings growth of 26%. It appears that market participants have been pricing in significant earnings growth in 2021 and 2022 in order to justify above average valuations today, so it will be important to track these results and potential changes in future expectations over the next several quarters.



	Utilities	Health Care	Info. Technology	Consumer Staples	Real Estate	Comm. Services	Materials	S&P 500	Financials	Consumer Disc.	Industrials	Energy
Today	9.2%	8.3%	3.4%	-5.8%	-8.6%	-18.1%	-28.5%	-31.7%	-52.2%	-68.2%	-82.7%	-164.0%
30-Jun	-0.4%	-14.0%	-9.5%	-15.8%	-10.6%	-30.9%	-38.7%	-44.1%	-51.7%	-118.6%	-90.5%	-148.9%



	Energy	Industrials	Consumer Disc.	Financials	Materials	S&P 500	Comm. Services	Info. Technology	Health Care	Consumer Staples	Real Estate	Utilities
Today		86.1%	77.4%	32.1%	29.1%	26.3%	20.0%	13.7%	13.6%	7.6%	7.0%	5.5%
30-Jun		77.8%	111.5%	39.6%	29.0%	29.6%	22.9%	14.9%	16.4%	7.9%	8.4%	6.0%

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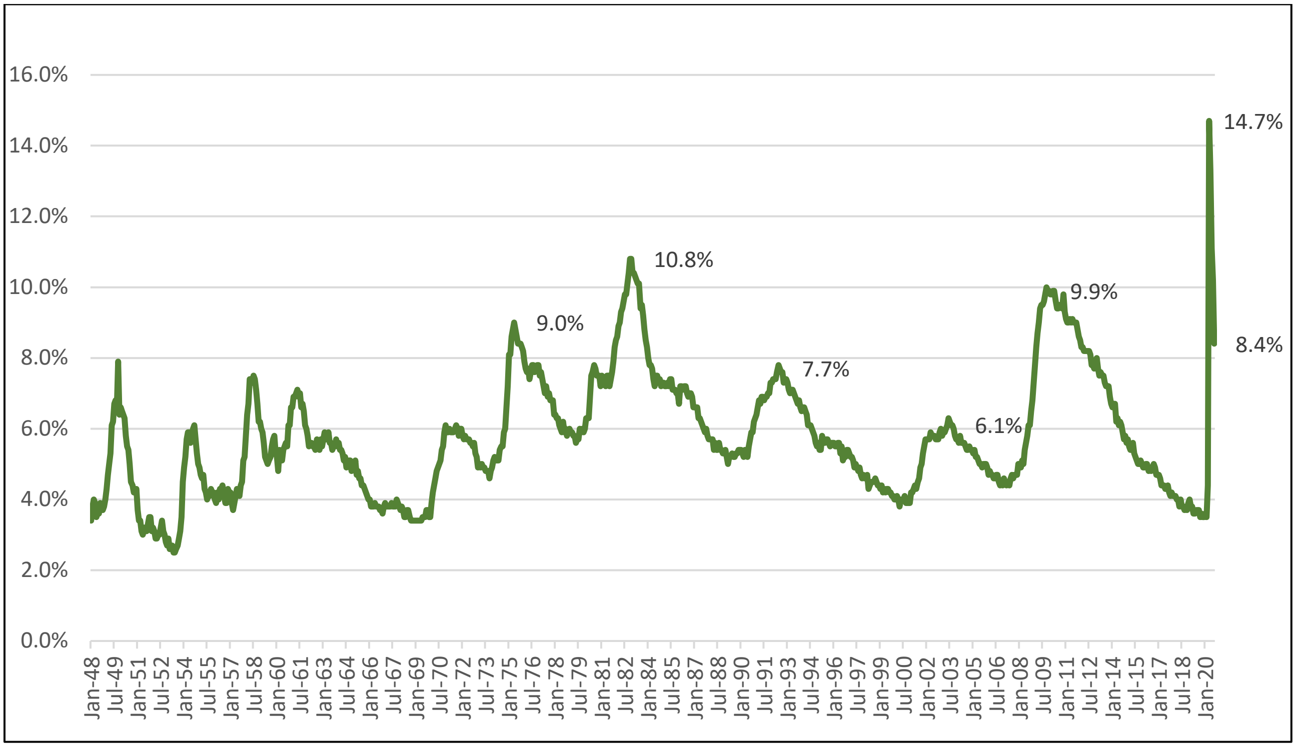
US Economy

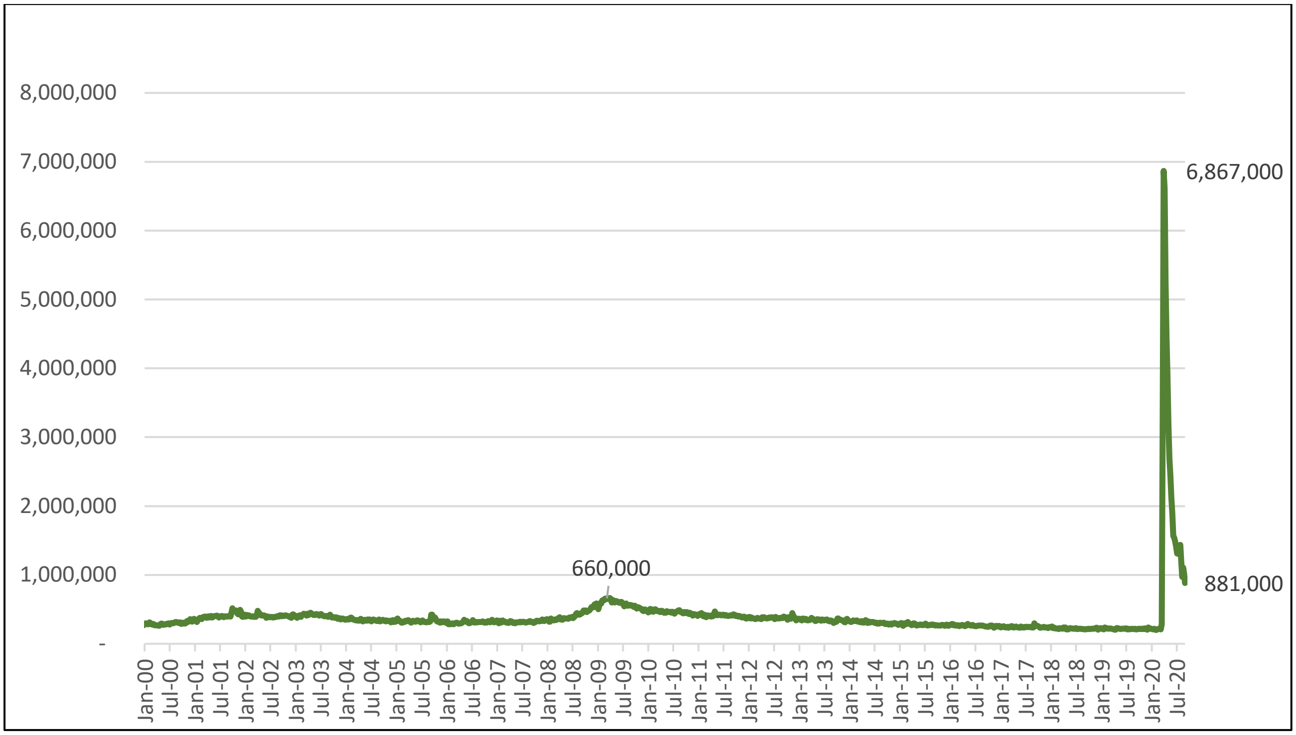
The US employment picture has shown signs of improvement but is still very challenged. Initial claims for unemployment benefits have been filed by more than one million Americans nearly every week since March, which has cumulatively resulted in more than 59 million new claims for unemployment during the pandemic. Those filing continuing claims for unemployment benefits totaled more than 13 million people as of late August. The US headline unemployment rate stands at 8.4%. As of this writing in early September, Congress and the White House are still in negotiations for another round of fiscal stimulus, though those talks seem to have slowed as the economic recovery may be gaining momentum. The state of the US economy has historically been a meaningful barometer in predicting the outcome of the Presidential election. If the momentum witnessed in the economic recovery and the all-time highs in US equity markets continue, 2020's election may shape up to be another close call.

US Headline Unemployment Rate



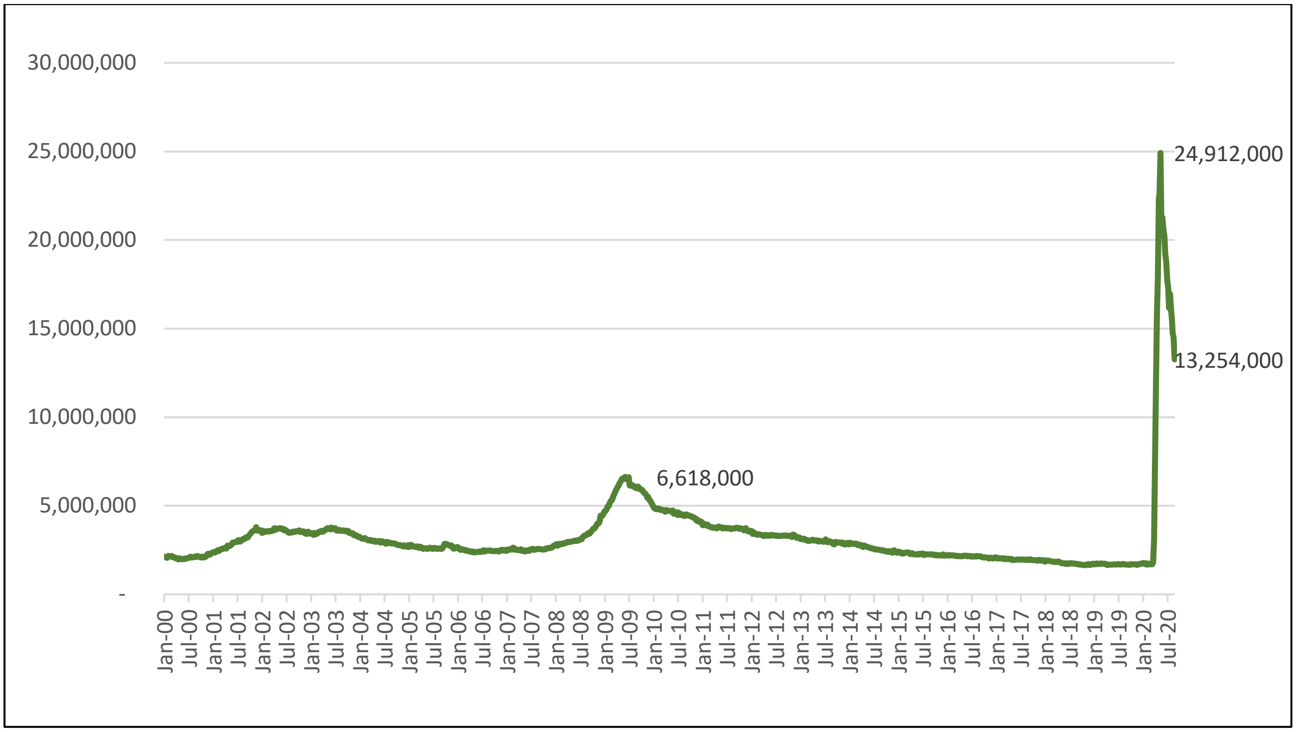
Source: St. Louis Federal Reserve

US Initial Claims for Unemployment Insurance Benefits



Source: St. Louis Federal Reserve

US Continuing Claims for Unemployment Insurance Benefits

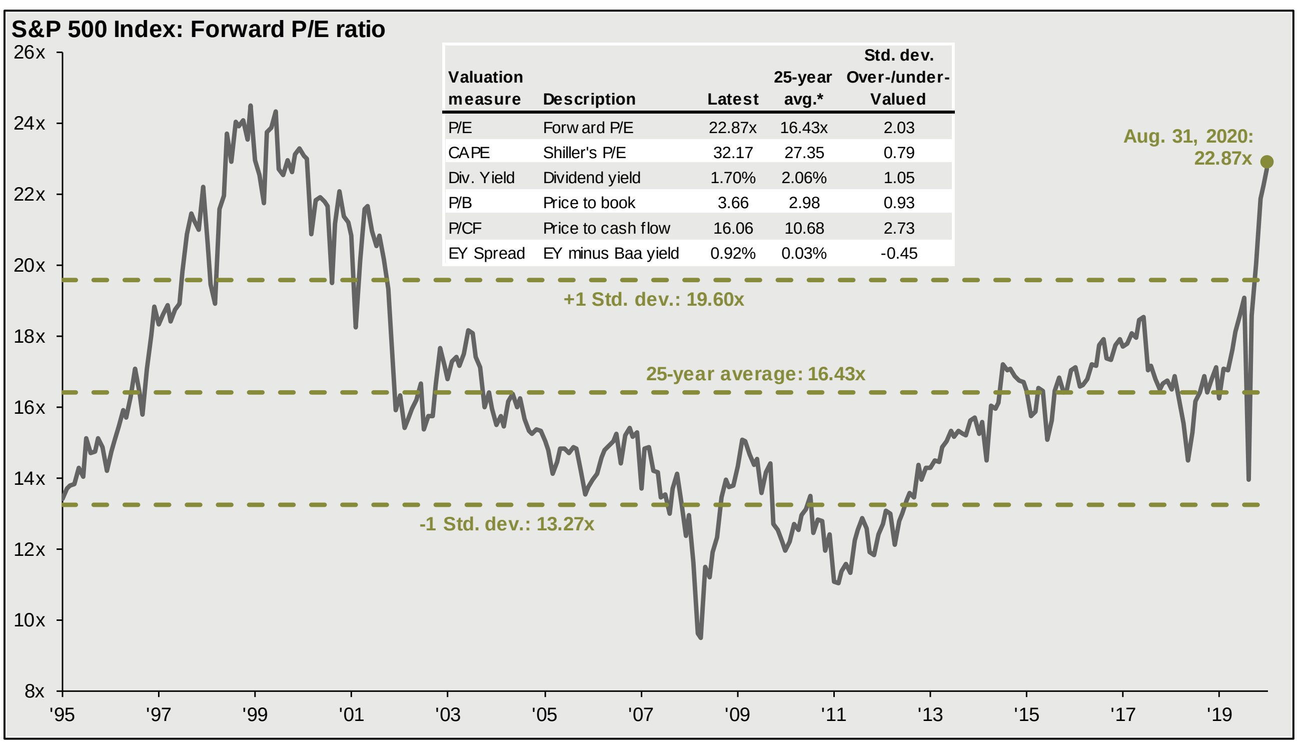


Source: St. Louis Federal Reserve

Implications for Portfolio Management

The charts below highlight the valuation of large cap US equities as measured by the S&P 500 index. These charts imply that the index may be over-extended. However, given that we have entered an unprecedented period of global fiscal and monetary stimulus, many traditional measurements of valuation may not be as meaningful in an extended environment of zero interest rates. Market participants seem to be looking beyond 2020 earnings and are willing to pay a higher multiple for growth in the recovery years.

When we consider equity market valuation, economic conditions, uncertainty related to the COVID-19 pandemic, geopolitical risks, and the significant efforts by governments globally to insulate and stimulate their economies, we continue to believe that a neutral allocation toward equity risk is appropriate. However, a slightly more defensive positioning relative to a market-based benchmark may be warranted today. For example, we advocate for exposure to the equity of higher quality companies with healthy balance sheets and the integration of alternative and hedging strategies that have the potential to navigate sideways or declining markets should they arise.



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	22.87x	16.43x	2.03
CAPE	Shiller's P/E	32.17	27.35	0.79
Div. Yield	Dividend yield	1.70%	2.06%	1.05
P/B	Price to book	3.66	2.98	0.93
P/CF	Price to cash flow	16.06	10.68	2.73
EY Spread	EY minus Baa yield	0.92%	0.03%	-0.45

Source: JPMorgan

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Asset Class Returns

Category	Representative Index	August 2020	YTD 2020	Full Year 2019
Global Equity	MSCI All-Country	6.1%	4.8%	26.6%
US Large Cap Equity	S&P 500	7.2%	9.7%	31.5%
US Small Cap Equity	Russell 2000	5.6%	-5.5%	25.5%
Foreign Developed Equity	MSCI EAFE	5.1%	-4.6%	22.0%
Emerging Market Equity	MSCI Emerging Markets	2.2%	0.5%	18.4%
US High Yield Fixed Income	ICE BofAML High Yield	1.0%	0.8%	14.4%
US Fixed Income	Barclays Aggregate Bond	-0.8%	6.9%	8.7%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.0%	0.5%	2.2%

Source: Morningstar (total returns shown gross of fees)
As of August 31, 2020

Prices & Interest Rates

Representative Index	August 31, 2020	Year-End 2019
S&P 500	3,500	3,231
Dow Jones Industrial Avg.	28,416	28,538
NASDAQ	12,114	8,973
Crude Oil (US WTI)	$42.61	$61.21
Gold	$1,968	$1,520
US Dollar	92.14	96.39
2 Year Treasury	0.14%	1.58%
10 Year Treasury	0.72%	1.92%
30 Year Treasury	1.49%	2.39%

Source: Bloomberg, US Treasury (total returns shown gross of fees)
As of August 31, 2020

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. Please contact your Wealth Counselor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.