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Our 5 main asset classes were up in Q3 as the financial markets recovery continued. Year to date: US Equities and Bonds are positive but non-US equities, real estate (REITS) and Commodities are not.

The surprising strength of financial markets is likely due to the fact that business did not completely shut down as was first forecast at the onset of Covid. Instead evidence showed that many companies were winners in the Pandemic world (e.g. tech companies), many were resilient (e.g. consumer staples, healthcare), and of course there were the anticipated losers (airlines, leisure). Averages don't lie, but they tend to shade the truth.

And, it's not over yet: Elections are likely the media headline event in Q4. Outcomes are uncertain and the markets will react unpredictably to this uncertainty. Yet, my belief is that the financial markets will digest the outcomes over time and get back to the business of rewarding investors in companies that have good business models and good fundamentals.

We did adjust client portfolios earlier this year but kept them diversified across the 5 main asset classes, with less emphasis on commodities which are economy-sensitive. Bonds did well but we remain skeptical about their long term performance. We prefer very short, high-quality bonds to park cash (which, for us, is currently at slightly higher levels than normal - In case clients need money).



LITTLE 20/20 FOR 2020 - Q3 2020 MARKET REVIEW

The Markets (third quarter through September 30, 2020)

July kicked off the third quarter with a bang as stocks surged throughout much of the month. Investors were encouraged by solid employment growth, a rise in personal income and consumer spending, a surge in the housing sector, and an increase in industrial production. All news was not positive, however. The second-quarter gross domestic product fell more than 31% and many states saw an increase in the number of reported COVID-19 cases. Nevertheless, investors stayed with equities, pushing values higher for the fourth consecutive month. Tech stocks drove the Nasdaq to a 6.8% gain, followed by the S&P 500 (5.5%), the Global Dow (3.5%), the small caps of the Russell 2000 (2.7%), and the Dow (2.4%). Treasury bond prices climbed, sending yields lower in July. Crude oil prices settled at \$40.40 per barrel, nearly \$1.00 ahead of their June closing values. Gold prices closed July at \$1,990.00, about 11% higher than June's closing price.

The positive run for stocks continued in August, as each of the benchmark

Key Dates/Data Releases

10/1: ISM Manufacturing Index

10/2: Employment situation

10/5: ISM Non-Manufacturing Index

10/6:
International trade in goods and services, JOLTS

10/13:
Consumer Price Index, Treasury budget

10/14:
Producer Price Index

10/15: Import and export prices

10/16: Retail sales, industrial production

10/20: Housing starts

10/22: Existing home sales

10/26: New home sales

10/27: Durable goods orders

10/28:
International trade in goods

10/29: GDP

10/30: Personal income and outlays

indexes listed here advanced notably. The Nasdaq climbed nearly 9.6%, the Dow rose 7.6%, the S&P 500 advanced 7.0%, the Global Dow vaulted 6.0%, and the Russell 2000 gained 5.5%. Crude oil and gas prices rose marginally, while the price of gold fell. Throughout the month, states struggled to settle on appropriate protocols for reopening schools. Testing for the virus increased, and the number of reported COVID-19 cases and deaths rose.

September saw stocks fall on waning hopes of a second round of stimulus. Also, discord between the United States and China ramped up following President Trump's threatened recourse against American companies that create jobs overseas or that do business with China. Technology shares took a sizable hit, particularly early in the month. September saw several days of favorable returns, likely due to bargain hunters. Unfortunately, there wasn't enough buyers to prevent the benchmark indexes from falling lower by the end of each week of the month. September saw each of the indexes fall, led by the Nasdaq (-5.2%), followed by the Global Dow (-4.3%), the S&P 500 (-3.92%), the Russell 2000 (-3.45%), and the Dow (-2.28%).

Overall, the third quarter of 2020 produced the second consecutive quarter of notable market gains. Of the benchmark indexes listed here, the Nasdaq again proved the strongest, climbing more than 11.0% for the quarter, followed by the large caps of the S&P 500 and the Dow, which gained 8.5% and 7.6%, respectively. The Global Dow advanced 5.0% for the quarter, and the small caps of the Russell 2000 ended the quarter up 4.6%.

Year to date, the Nasdaq remains well ahead of its 2019 year-end closing value, while the S&P 500 is more than 4.0% over last year's closing mark. The remaining benchmarks continue to gain ground, with the closest to its year-end value being the Dow, followed by the Global Dow and the Russell 2000.

By the close of trading on September 30, the price of crude oil (CL=F) closed at \$39.64 per barrel, below the August 31 price of \$42.81 per barrel and slightly higher than the June 30 price of \$39.35. The national average retail regular gasoline price was \$2.169 per gallon on September 28, down from the August 31 price of \$2.222 and lower than the June 28 selling price of \$2.174. The price of gold finished September at \$1,891.80 per ounce, lower than the August 31 price of \$1,940.60 per ounce but higher than its June 30 closing value of \$1,798.80 per ounce.

Stock Market Indexes

Market/Index	2019 Close	As of September 30	Monthly Change	Quarterly Change	YTD Change
DJIA	28,538.44	27,781.70	-2.28%	7.63%	-2.65%
Nasdaq	8,972.60	11,167.51	-5.16%	11.02%	24.46%
S&P 500	3,230.78	3,363.00	-3.92%	8.47%	4.09%
Russell 2000	1,668.47	1,507.69	-3.47%	4.60%	-9.64%
Global Dow	3,251.24	2,960.93	-4.31%	4.96%	-8.93%
Fed. Funds	1.50%-1.75%	0.00%-0.25%	0 bps	0 bps	-150 bps
10-year Treasuries	1.91%	0.67%	-2 bps	1 bps	-124 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- **Employment:** Employment increased by 1.4 million in August after adding 1.8 million jobs in July. These improvements in the labor market reflected the continued resumption of economic activity that had been curtailed due to the COVID-19 pandemic and efforts to contain it. Nevertheless, the number of job gains in August is 7.6% below the pre-pandemic level of February, which saw

11.5 million new jobs added. In August, notable job gains occurred in leisure and hospitality, government, retail trade, professional and business services, and education and health services. The unemployment rate dropped 1.8 percentage points to 8.4% for August as the number of unemployed persons dropped by 2.8 million to 13.6 million. These measures remain well above their pre-pandemic February figures of 4.9% and 7.8 million, respectively. In August, average hourly earnings rose by \$0.11 to \$29.47. Average hourly earnings increased by 4.7% over the last 12 months ended in August. The average workweek increased by 0.1 hour to 34.6 hours in August. The labor participation rate increased 0.3 percentage point to 61.7%. The employment-population ratio rose by 1.4 percentage points to 56.5%.

- **Claims for unemployment insurance** continue to drop in September. According to the latest weekly totals, as of September 19 there were nearly 11.8 million workers still receiving unemployment insurance. The insured unemployment rate was 8.1% (9.9% as of August 15). The highest insured unemployment rates in the week ended September 12 compared to their respective rates on August 8 were in Hawaii (21.3% vs 19.8%), California (16.1%, unchanged), Nevada (14.7% vs 17.3%), New York (13.7% vs 15.4%), Puerto Rico (12.8% vs 19.2%), Louisiana (12.6% vs 13.5%), Georgia (12.2% vs 12.6%), and the Virgin Islands (11.9% vs 12.8%). During the week ended September 12, 50 states reported 11.8 million individuals claiming Pandemic Unemployment Assistance benefits and 50 states reported 1.8 million individuals claiming Pandemic Emergency Unemployment Compensation benefits.
- **FOMC/interest rates:** The Federal Open Market Committee (FOMC) voted to maintain the federal funds rate range at 0.00%-0.25% following the Committee's September meeting. The FOMC expects to maintain this target range until labor market conditions have reached maximum employment and inflation has risen to at least 2.0%, or exceeds 2.0% for some time. The Committee noted that, although economic activity and employment have picked up in recent months, they remain well below their levels at the beginning of the year. The FOMC predicted that the path of the economy will depend on the course of COVID-19, which will continue to weigh on economic activity, employment, and inflation in the near term, while posing considerable risks to the economic outlook over the medium term.
- **GDP/budget:** According to the third and final estimate for second-quarter gross domestic product, the economy decelerated at an annualized rate of 31.4%. GDP decreased 5.0% in the first quarter. Stay-at-home orders issued in March and April in response to the COVID-19 pandemic greatly impacted the economy. Consumer spending was a big drag, falling 33.2%, reeling from the initial effects of the pandemic. Fixed investment fell 29.2% in the second quarter (-1.4% in the first quarter), and nonresidential fixed investment dropped 27.2% in the second quarter, compared to a 6.7% decline in the prior quarter. Exports were down 64.4%, and imports sank 51.1%. Nondefense government expenditures increased 37.6% due to stimulus spending programs initiated in response to the pandemic.
- The monthly Treasury budget deficit for August was \$200 billion, essentially equal to the August 2019 monthly deficit. Through 11 months of the fiscal year, the government deficit sits at \$3.007 trillion, a 182% increase over the same period from the previous fiscal year. Government outlays for the current fiscal year are 46% greater than expenditures for fiscal year 2019.
- **Inflation/consumer spending:** According to the Personal Income and Outlays report for August, personal income decreased 2.7% and disposable (after-tax) personal income dropped 3.2% after advancing 0.4% and 0.2%, respectively, in July. Consumer spending increased in August, climbing 1.0% for the month, well short of July's 6.2% advance. Inflation remained somewhat muted as consumer prices inched ahead by 0.3% in August after increasing 0.4% in July. Consumer prices have increased by a mere 1.4% over the last 12 months.
- Consumer prices continued to slowly increase in August. Prices for goods and services rose 0.4% in August, marking the third consecutive monthly increase. Over the last 12 months ended in August, consumer prices are up 1.3%. Contributing to August's increase in consumer prices was a sharp rise in prices

for used cars and trucks, which climbed 5.4%. Also increasing were prices for fuel oil (3.9%), gasoline (2.0%), and energy (0.9%). Food prices rose 0.1%.

- Prices that producers receive for goods and services rose 0.3% in August after climbing 0.6% in July. Producer prices are down 0.2% over the last 12 months ended in August. A 0.5% spike in prices for services pushed producer prices higher. Prices for goods inched up 0.1%.
- **Housing:** The housing sector continued to post strong sales numbers in August. Sales of existing homes jumped 2.4% last month after climbing 24.7% in July. Over the 12 months ended in August, existing home sales are up 10.5%. The median existing-home price in August was \$310,600 (\$304,100 in July). Unsold inventory of existing homes represents a 3.0-month supply at the current sales pace, down slightly from 3.1 months in July. Sales of existing single-family homes increased 1.7% in August following a 23.9% jump in July. Over the last 12 months, sales of existing single-family homes are up 11.0%. The median existing single-family home price was \$315,000 in August, up from \$307,800 in July.
- After climbing 13.9% in July, sales of new single-family homes surged again in August, increasing 4.8% for the month. The median sales price of new houses sold in August was \$312,800 (\$330,600 in July). The August average sales price was \$369,000 (\$391,300 in July). August's inventory of new single-family homes for sale represents a supply of 3.3 months at the current sales pace, down from July's estimate of 4.0 months.
- **Manufacturing:** Total industrial production rose 0.4% in August after increasing 3.0% in July. Although industrial production has risen in each of the past four months, it has remained 7.3% below its pre-pandemic February level. Manufacturing output continued to improve in August, rising 1.0% (3.4% advance in July). Most major industries posted increases, but gains have gradually slowed since June. Mining production fell 2.5% in August, as Tropical Storm Marco and Hurricane Laura caused sharp but temporary drops in oil and gas extraction and well drilling. The output of utilities moved down 0.4%. Overall, the level of total industrial production was 7.7% lower in August than it was a year earlier.
- For the fourth consecutive month, new orders for durable goods increased in August, climbing 0.4% following an 11.7% jump in July. Despite the trend of monthly increases, new orders for manufactured durable goods are 11.3% lower than a year ago. Excluding transportation, new orders increased 0.4% in August. Excluding defense, new orders increased 0.7%. Machinery, also up four consecutive months, led the August increase, advancing 1.5%. Nondefense new orders for capital goods in August increased 7.8%.
- **Imports and exports:** The price index for U.S. imports rose 0.9% in August, following a 0.7% jump in July. Higher prices for both fuel (+3.3%) and nonfuel (+0.7%) imports contributed to the August increase. The rise in nonfuel prices was the largest since April 2011. Driving the nonfuel price increase was a 3.6% rise in prices for industrial supplies and materials. Prices for U.S. exports also rose in August, rising 0.5% after increasing 0.9% in July.
- The international trade in goods deficit was \$82.9 billion in August, up \$2.8 billion, or 3.5% over July. Exports of goods for August were \$118.3 billion, 2.8% more than July exports. Imports of goods for August were \$201.3 billion, or 3.1% more than July imports. Exports of industrial supplies increased 10.6% in August. Imports of consumer goods climbed 7.0% in August.
- The latest information on international trade in goods and services, out September 3, is for July and shows that the goods and services trade deficit was \$63.6 billion, an increase of nearly \$10.0 billion, or 18.9%, over the June deficit. July exports were \$168.1 billion, or 8.1% more than June exports. July imports were \$231.7 billion, or 10.9% more than June imports. Year to date, the goods and services deficit increased \$6.4 billion, or 1.8%, from the same period in 2019. Exports decreased \$257.8 billion, or 17.5%. Imports decreased \$251.3 billion, or 13.8%.
- **International markets:** Europe saw an increase in COVID-19 cases reported, likely impacting stocks. STOXX Europe 600 index lost value by the end of September, Germany's DAX Performance index fell, while the UK's FTSE 100 was flat. France, Spain, and the United Kingdom took steps to stem the latest

wave of virus cases. Stocks in China fell as the Shanghai Composite index and CSI 300 lost value. On the economic front, Japan's purchasing managers index remains in contraction territory as calls increase for new stimulus from the Bank of Japan.

- **Consumer confidence:** The Conference Board Consumer Confidence Index® increased in September after declining in August. The index stands at 101.8, up from 86.3 in August. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, increased from 85.8 to 98.5. The Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, increased from 86.6 in August to 104.0 in September.

Eye on the Month Ahead

The economy is expected to continue its slow, upward trend in October. The market took a hit in September but showed signs of recovering toward the end of the month. Certainly, the run for the presidency will garner increasing attention and influence the economy in general and the stock market in particular.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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